**Application Proof of**

# FIRST MOBILE GROUP HOLDINGS LIMITED
# (第 一 電 訊 集 團 有 限 公 司)*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 865)**

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

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



**This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company and is being provided to you solely for the purposes of considering the resolutions to be voted upon at the EGM to be held on [REDACTED].**

**The issuance of this circular does not necessarily mean that trading in the Shares will be resumed. The Company will make separate announcement in respect of the Resumption.**

# FIRST MOBILE GROUP HOLDINGS LIMITED
# (第一電訊集團有限公司)*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 865)**

## (1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF CHINA GENERAL (HK) COMPANY LIMITED (中總(香港)有限公司); (2) REVERSE TAKEOVER INVOLVING A NEW [REDACTED] APPLICATION; (3) PROPOSED CAPITAL REORGANISATION; (4) CREDITORS SCHEMES; (5) PROPOSED [REDACTED] OF [REDACTED] ON THE BASIS OF TWO [REDACTED] FOR EVERY ONE NEW SHARE HELD ON [REDACTED]; (6) PROPOSED SUBSCRIPTION OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE; (7) APPLICATION FOR WHITEWASH WAIVER; (8) SPECIAL DEAL AND MAJOR AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSAL; (9) PROPOSED ADOPTION OF NEW MEMORANDUM AND ARTICLES; AND (10) PROPOSED APPOINTMENT OF PROPOSED DIRECTORS

**Sponsor to the new [REDACTED] application of the Company**

信達國際融資有限公司
CINDA INTERNATIONAL CAPITAL LIMITED

**Financial adviser to the Company**

ASIAN CAPITAL (CORPORATE FINANCE) LIMITED
卓亞(企業融資)有限公司

**Independent Financial Adviser to the Independent Shareholders**

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

A letter from the Board is set out on pages 39 to 86 of this circular, and a letter from the Independent Financial Adviser containing its advice to the Independent Shareholders is set out on pages 87 to 124 of this circular.

A notice convening the EGM to be held at [●] on [Monday], [REDACTED] at [REDACTED] is set out on pages EGM-1 to EGM-7 of this circular. A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, [REDACTED], at [REDACTED] as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire.

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# CONTENTS

# EXPECTED TIMETABLE

[REDACTED]

# EXPECTED TIMETABLE

[REDACTED]

*This summary aims at giving you an overview of the information contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole circular before making a decision as to how you would cast your votes at the EGM in relation to the transactions and the appropriate course of action for yourself. There are risks associated with any business. You should read the section headed "Risk factors" in this circular carefully before making a decision on the transactions.*

*The Enlarged Group recorded a pro forma net loss for the year ended 31 December 2014. Please refer to the paragraph headed "— Financial information of the Enlarged Group" in this section and the section headed "Financial information of the Group — Further financial information of the Group" in Appendix II to this circular for more details.*

## BACKGROUND

This circular is to provide the Shareholders with further information in connection with the Proposed Restructuring, among other things, (i) the Capital Reorganisation; (ii) the [REDACTED]; (iii) the Acquisition; (iv) the Whitewash Waiver; (v) the Subscription; (vi) the Special Deal; (vii) the adoption of the New Memorandum and Articles; and (viii) the proposed appointment of proposed Directors, and to give a notice to the Shareholders of the EGM. This circular also provides additional information on the Creditors' Scheme and the Target Group as required under the Listing Rules in connection with the New [REDACTED] Application. Please refer to the section headed "Letter from the Board" in this circular for more details.

Trading in the Shares on the Stock Exchange has been suspended since 27 November 2009. The Acquisition forms part of the Resumption Proposal seeking the resumption of trading in the New Shares. Upon completion of the Acquisition, the Group will have a sufficient level of operation while the proceeds from the [REDACTED] will improve the financial and liquidity position of the Group based on the financial effect of the Proposed Restructuring, details of which are set out in the section headed "Letter from the Board — Financial effects of the Proposed Restructuring" in this circular. The Directors believe that the terms of the Acquisition Agreement are fair and reasonable and in the best interests of the Company and its Shareholders as a whole. The Company entered into the Acquisition Agreement on 31 March 2014 with the Vendors, pursuant to which the Company will acquire the Sale Equity Interest. Under the Acquisition Agreement, the Company shall purchase from the Vendors the Sale Equity Interest, being the entire equity interest in the Target Company. The entire issued share capital of the Target Company is owned as to 50% by Mr. Shie and 50% by Mr. Tsoi. Upon completion of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company and the Enlarged Group will hold 98.387% interest in certain real estate projects in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province in the PRC. The Vendors will become the Controlling Shareholders holding 70% of the enlarged issued share capital of the Company.

## CHANGE OF PRINCIPAL BUSINESS ACTIVITIES OF THE ENLARGED GROUP AFTER RESUMPTION

The Vendors do not intend to continue the existing businesses of the Group. After completion of the Acquisition and the Disposal, the Enlarged Group will primarily focus on the development and sale of residential properties in the PRC after Resumption. Other than the introduction of the business of the Target Group and the Disposal, the Vendors do not intend to introduce any major change to the Enlarged Group's business (including any re-deployment of the Enlarged Group's fixed assets) nor does it intend to discontinue the employment of any of the Group's employees after Resumption. Please refer to the section headed "Letter from the Board" in this circular for further details.

## BUSINESS OF THE TARGET GROUP

The Target Group is a residential property developer primarily focusing on the development and sale of residential properties in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province of the PRC through its two project companies, namely Hui An China General and Yangzhou Dehui. The Target Group devotes its operational focus on identifying and acquiring suitable locations and sites for development, planning and design of property development projects and formulating sales and marketing strategy. The Target Group engages qualified contractors, construction supervision companies, sales agencies and property management companies to provide design, construction, sales and marketing and property management services and supervises their performance. As at 31 July 2015, the property portfolio of the Target Group comprises two property development projects in Quanzhou and Yangzhou, namely (i) the Binjiang International Project (濱江國際項目) and (ii) The Cullinan Bay Project (天璽灣項目). The Target Group only completed and generated revenue from the sales of properties of the Binjiang International Project during the Track Record Period. The summary of the portfolios of both projects is as follows:

| **Project name and development phase** | **Status of construction** | **GFA completed** *(sq.m.)* | **GFA under development** *(sq.m.)* | **Planned GFA for future development** *(sq.m.)* |
|---|---|---|---|---|
| Binjiang International Project | | | | |
| — Phases 1–4 | Completed | 394,701.13 | — | — |
| The Cullinan Bay Project | | | | |
| — Stage 1 of Phase 1 | Completed | 40,294.94 | — | — |
| — Stage 2 of Phase 1 | Under development | — | 112,213.55 | — |
| — Phase 2 | Held for future development | — | — | 105,890.00 |

The table below sets out a summary of the Binjiang International Project and The Cullinan Bay Project as at 31 July 2015:

| **PROJECTS** | **CONSTRUCTION SITE AREAS** | **COMPLETED** | | | | **UNDER DEVELOPMENT** | | | | **FUTURE DEVELOPMENT** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | **GFA completed** *(Note 1)* | **GFA sold** | **Saleable GFA remaining unsold** | **Saleable GFA** | **GFA under development** *(Note 1)* | **GFA pre-sold** | **Saleable GFA remaining unsold** | **Saleable GFA** | **Planned GFA** *(Note 1)* |
| | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* |
| **Binjiang International Project** | 83,399.00 | 394,701.13 | 305,459.19 | 19,655.74 | 325,114.93 | — | — | — | — | — |
| **The Cullinan Bay Project** | 81,749.27 | 40,294.94 | 17,524.66 | 7,783.54 | 25,308.20 | 112,213.55 | — | — | 19,656.51 | 105,890.00 *(Note 2)* |
| **Total GFA** | 165,148.27 | 434,996.07 | 322,983.85 | 27,439.28 | 350,423.13 | 112,213.55 | — | — | 19,656.51 | 105,890.00 |

*Notes:*

1. Comprised the portion of GFA held by the Target Group as amenities not saleable.
2. It is planned that Phase 2 of The Cullinan Bay Project would comprise residential properties of 80,151.00 sq.m. which will become saleable after the Target Group obtains the relevant pre-sale permits.

### Description of the projects

*Binjiang International Project*

The Binjiang International Project is a residential project located in the intersection of 324 National Highway and Xibin Park (溪濱公園) in Huian County, Quanzhou, Fujian Province, the PRC with a completed GFA of approximately 394,701 sq.m.. It consists primarily of high-rise residential buildings and includes ancillary retail shops, kindergarten, clubhouse, swimming pool and car parking spaces. The greening rate and plot ratio of the properties are 43% and 3.89 respectively. The Target Group developed the project in four phases comprising 18 blocks of high-rise residential buildings with an aggregate GFA of approximately 394,701 sq.m.. It comprises a residential area of approximately 308,781 sq.m., retail shops area of approximately 16,334 sq.m., kindergarten of approximately 2,833 sq.m., clubhouse of approximately 1,121 sq.m. and aboveground and underground ancillary area (comprising car parking space and area for ancillary facilities) of approximately 65,631 sq.m..

*The Cullinan Bay Project*

The Cullinan Bay Project is a residential project located in the west of Wangjiang Road, north of Dingxing Road and east of Linjiang Road in Yangzhou, Jiangsu Province, the PRC. It consists primarily of high-rise residential buildings and ancillary retail shops and clubhouse facilities. The planned greening rate and plot ratio of the properties are 35% and 2.30 respectively. The Target Group is developing the project in two phases comprising 15 blocks of high-rise residential buildings with an aggregate GFA of approximately 40,295 sq.m. of completed properties, an aggregate GFA of approximately 112,214 sq.m. held under development and an aggregate planned GFA of approximately 105,890 sq.m. held for future development. It will comprise residential area of approximately 181,255 sq.m., retail shops of approximately 3,843 sq.m. and above-ground and underground ancillary area (comprising car parking space, clubhouse and area for ancillary facilities) of approximately 73,301 sq.m..

## COMPETITIVE STRENGTHS OF THE TARGET GROUP

The proposed Directors believe that the Target Group has the following competitive strengths: (i) geographical and market advantages of Quanzhou and Yangzhou; (ii) an experienced management team; (iii) high quality residential properties accompanied with a living community; and (iv) established reputation and corporate recognition. The proposed Directors believe that the success of the Target Group is attributable to their commitment to high quality residential properties and their attention to details. The Binjiang International Project was accredited the "Top Ten Model Residence Park in the PRC 2006* (2006中國十大典範公園住宅)" and "The Best Supreme Model Residence in the PRC 2006* (2006中國最佳超級戶型典範住宅)" and The Cullinan Bay Project received the awards of "Property with Best Potential in Yangzhou 2014* (2014年度揚州最具潛力樓盤)" and the "Model Property of Yangzhou — Property Brand Value Ranking 2014* (2014房地產品牌價值榜城市典範名盤)".

## BUSINESS STRATEGIES OF THE TARGET GROUP

The business strategies of the Target Group is to focus on developing quality residential properties accompanied with a living community to customers in cities with high growth potential, in particular the third and fourth tier cities in the PRC. To implement its strategy and achieve its goal, the Target Group engages qualified contractors, construction supervision company, agencies and property management companies to provide design, construction, sales and marketing and property management services and supervises their performance and manages the overall project development process.

Further, the proposed Directors also implement the following business strategies in order to seek sustainable growth: (i) continue to acquire land for residential property development in prime locations in cities with high economic growth potential, in particular the third and fourth tier cities in the PRC; (ii) continue to focus on providing quality residential properties with a living community to customers; (iii) strengthen its corporate recognition and presence in the property market; (iv) continue to develop existing property development projects and acquire land reserves to sustain future growth; (v) continue to exercise prudent financial control in order to ensure sustainable growth and sufficient financial resources; and (vi) attract, retain and motivate talented personnel through training program and competitive remuneration packages. For more information, please refer to the section headed "Business of the Target Group" in this circular.

## COMPETITIVE LANDSCAPE

The PRC real estate market has been highly competitive in recent years. The projects of Target Group are located in either Quanzhou or Yangzhou. Due to the regional nature of the real estate industry, the Target Group's major competitors consist of property developers developing residential properties in Quanzhou or Yangzhou. Some of the Target Group's competitors may have better track record, better financial, marketing and land resources, more extensive sales networks and stronger brand. Increasing competition in these cities may lead to an increase in competition for quality sites, land acquisition costs, intensified price competition and delay in the new property developments review and approval by the governmental authorities. The proposed Directors believe that the major entry barriers of other new incoming property developers to the property market in Quanzhou and Yangzhou include limited knowledge of the local property market conditions and limited brand recognition. For more information, please refer to the section headed "Industry overview" in this circular.

## LATEST DEVELOPMENT OF THE PRC PROPERTY MARKET

According to the Market Research Report, under the effects of domestic investment, consumption and rapid growth of the PRC economy, the PRC property market has been growing rapidly. The total investment in real estate development projects in the PRC increased from approximately RMB3,120 billion in 2008 to approximately RMB9,504 billion in 2014, representing a CAGR of approximately 20.4%. According to the Market Research Report, in 2014, the total GFA of residential properties completed was approximately 1,075 million sq.m., the GFA of residential properties under construction was approximately 5,936 million sq.m. and the GFA of residential properties sold was approximately 1,052 million sq.m.. Both the GFA of residential properties under construction and residential properties sold show a significant increase when compared to those in 2008. Meanwhile, due to the increase of demand in the residential property market by investors and end-users, both the transaction volume and price of residential properties increased.

Also, the official borrowing and saving rates of the People's Bank of China reached the peak in July 2011 and it was adjusted downward twice in 2012, once in 2014 and four times in 2015. As a result of this change in monetary policy, the financing costs to purchase properties are lowered. It is expected to improve the liquidity and stimulate the demand of the property market and to maintain the market to grow at a steady rate.

For details, please refer to the section headed "Industry overview" in this circular.

## THE PRC GOVERNMENT AUSTERITY MEASURES IN PROPERTY MARKET

According to the Market Research Report, the PRC government has put in place certain policies which are intended to stabilise the real estate prices and control the real estate loan in the PRC. These policies primarily relate to, among others, control over purchasing properties for speculation and adjustment of the minimum capital ratio of fixed asset investment projects according to the economic situations and the necessity of macro-economic control. For details of the aforesaid regulations, please refer to "Summary of Principal PRC Legal and Regulatory Provisions" in Appendix V to this circular.

The proposed Directors are of the view that, based on (i) the results of operations of the Target Group during the Track Record Period and up to the Latest Practicable Date and (ii) the fact that the Target Group had no material obstacles in obtaining bank borrowings during the Track Record Period, these austerity measures did not and would not have any material adverse impact on the business operations of the Target Group.

## FUTURE DEVELOPMENT AND PLAN OF THE TARGET GROUP

Set out below is an actual/planned development schedule of The Cullinan Bay Project:

| | Actual/Planned commencement date of construction | Actual/Planned pre-sale commencement date | Actual/Planned completion date of construction | Planned delivery date of properties |
|---|---|---|---|---|
| The Cullinan Bay Project | | | | |
| — Stage 1 of Phase 1 | October 2013 | May 2014 | May 2015 | June 2016 |
| — Stage 2 of Phase 1 | May 2014 | July 2015 | December 2016 | June 2017 |
| — Phase 2 | March 2016 | November 2016 | December 2017 | June 2018 |

The following table sets out details of the development costs and source of funds of the Binjiang International Project and The Cullinan Bay Project incurred or estimated to be incurred as at 30 June 2015:

| | **Development costs incurred** *(RMB million)* | | | | |
|---|---|---|---|---|---|
| **Project phases** | **Land acquisition costs paid** | **Construction and development costs and capitalised finance costs paid** | **Construction and development costs and capitalised finance costs to be paid** | **Estimated further development costs to complete the relevant phase** *(RMB million)* | **Total development costs** *(RMB million)* |
| **The Binjiang International Project** | | | | | |
| Phase 1 | 13.4 | 201.0 | 1.3 | — | 215.7 |
| Phase 2 | 9.0 | 176.0 | 2.5 | — | 187.5 |
| Phase 3 | 18.0 | 223.9 | 1.4 | — | 243.3 |
| Stage 1 of Phase 4 | 7.2 | 179.2 | 1.2 | — | 187.6 |
| Stage 2 of Phase 4 | 4.2 | 107.5 | 3.6 | — | 115.3 |
| **Sub-total** | **51.8** | **887.6** | **10.0** | **—** | **949.4** |
| **The Cullinan Bay Project** | | | | | |
| Stage 1 of Phase 1 | 50.8 | 122.4 | 18.7 | 31.3 | 223.2 |
| Stage 2 of Phase 1 | 150.3 | 71.7 | 50.6 | 345.4 | 618.0 |
| Phase 2 | 135.8 | 14.0 | 1.6 | 431.8 | 583.2 |
| **Sub-total** | **336.9** | **208.1** | **70.9** | **808.5** | **1,424.4** |
| **Total** | **388.7** | **1,095.7** | **80.9** | **808.5** | **2,373.8** |

The Target Group financed the development costs by bank borrowings, capital contribution advanced by the shareholders of the Target Group and internally generated funds. The Target Group intends to finance the future development costs by bank borrowings and internally generated funds. For more information, please refer to the section headed "Business of the Target Group" in this circular.

The proposed Directors intend to implement a prudent and disciplined corporate strategy to promote steady and sustainable growth of the Target Group. The Target Group will continue to identify potential land parcels suitable for its development projects and expand its land reserves in Fujian Province and Jiangsu Province and other cities with high economic growth potential, in particular the third and fourth tier cities in the PRC in order to sustain its growth. It will also continue to acquire land through various means, such as public tender, auction and listing-for-sale organised by the relevant PRC governmental authorities or acquisitions of controlling equity interests in entities that hold land use rights. As at the Latest Practicable Date, the Target Group had yet to identify land for extending its market foothold but will strive to look for suitable land in cities with high economic growth potential at a competitive cost to sustain its long-term growth. The proposed Directors expect to fund its expansion plans with internal resources and bank borrowings.

## RISK FACTORS

There are certain risks involved in the business and operations of the Enlarged Group and in connection with the Acquisition. The risks can be categorised into: (i) risks relating to the Acquisition, the [REDACTED] and the Subscription Agreements; (ii) risks relating to the Enlarged Group; (iii) risks relating to the PRC in general; and (iv) risks relating to this circular.

These risk factors are further described in the section headed "Risk factors" in this circular. Set forth below are some of the major risks that may materially and adversely affect the Enlarged Group: (i) completion of the Acquisition is subject to the fulfilment of the conditions precedent and there is no assurance that they can be fulfilled and/or the Acquisition will be completed as contemplated; (ii) the shareholding percentages of the existing Shareholders in the Company will be substantially diluted immediately following the completion of the [REDACTED] and the transactions contemplated under the terms of the Subscription Agreements and the Acquisition Agreement; (iii) the Company may not be able to attain the Public Float immediately following the completion of the [REDACTED]; (iv) the growth prospects of the Enlarged Group depend on continual and successful operation and growth of the Target Group; (v) the Target Group's historical sales performance may not be taken as an indication of future prospects and results of operations; and (vi) the Target Group's operating results are dependent on the sale of properties, which in turn depends on a number of factors including schedule of property development and delivery, and timing of property sales.

## CUSTOMERS AND SUPPLIERS

The customers of the Target Group are primarily individual purchasers in the PRC. In general, the Target Group enters into a standard sale and purchase agreement with its customers, which specifies information such as the property units to be sold, GFA of the property to be sold, purchase price, method of payment and expected date of delivery of the completed property. A customer may purchase the property either by a lump sum payment, instalments, with mortgage loan financing or payment via housing provident fund accounts.

The Target Group engages qualified contractors, construction supervision companies, sales agencies and property management companies to provide design, construction, sales and marketing and property management services and supervises their performance. The overall project development process is comprehensively managed and monitored by the Target Group. The major suppliers of the Target Group consist of (i) construction contractors which include qualified building construction contractors, telecommunications network construction contractors and lift installation contractors; (ii) suppliers of construction materials (such as steel and concrete mix); and (iii) external design firms which are responsible for property design of the Target Group's project.

## SUMMARY OF FINANCIAL INFORMATION OF THE TARGET GROUP

The following is a summary of the Target Group's combined results for the Track Record Period, which was extracted from the Accountants' Report on the Target Group in Appendix I to this circular.

### Highlights of consolidated statements of profit or loss and other comprehensive income

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Revenue | 90,603 | 203,689 | 256,532 | 130,109 | 61,310 |
| Gross profit | 26,801 | 47,682 | 69,827 | 31,834 | 33,284 |
| Profit before tax | 22,447 | 39,736 | 53,661 | 22,989 | 29,482 |
| Profit and total comprehensive income for the year/period | 15,295 | 27,372 | 35,813 | 13,985 | 16,007 |
| Profit and total comprehensive income for the year/period attributable to owners of the Target Company | 15,031 | 26,836 | 35,094 | 13,650 | 15,726 |

### Highlights of consolidated statements of financial position

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Non-current assets | 103,748 | 116,315 | 123,185 | 125,052 |
| Current assets | 736,471 | 852,681 | 809,233 | 863,524 |
| Current liabilities | 757,323 | 848,575 | 244,668 | 288,051 |
| Non-current liabilities | 13,282 | 23,435 | 186,850 | 183,618 |
| Net current (liabilities) assets | (20,852) | 4,106 | 564,565 | 575,473 |
| Net assets | 69,614 | 96,986 | 500,900 | 516,907 |

### Highlights of consolidated statements of cash flows

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Net cash (used in) from operating activities | (157,819) | 4,159 | (58,001) | (41,430) | 38,254 |
| Net cash (used in) from investing activities | (15,624) | (58,031) | 53,861 | 33,604 | (18,931) |
| Net cash from (used in) financing activities | 167,553 | 61,420 | 100,225 | 38,554 | (20,055) |
| Net (decrease) increase in cash and cash equivalents | (5,890) | 7,548 | 96,085 | 30,728 | (732) |
| Cash and cash equivalents at beginning of year/period | 27,864 | 21,974 | 29,522 | 29,522 | 125,607 |
| Cash and cash equivalents at end of year/period | 21,974 | 29,522 | 125,607 | 60,250 | 124,875 |

### Revenue by phases of the Binjiang International Project

The Target Group's revenue was recognised upon completion and delivery of the properties to the customers. The following table shows the breakdown of the Target Group's revenue by different phases of the Binjiang International Project for the periods indicated:

| | Years ended 31 December | | | | | | | | | Six months ended 30 June 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2013 | | | 2014 | | | | | |
| | Revenue | Total saleable GFA delivered | ASP | Revenue | Total saleable GFA delivered | ASP | Revenue | Total saleable GFA delivered | ASP | Revenue | Total saleable GFA delivered | ASP |
| | *RMB'000* | *sq.m.* | *RMB per sq.m.* | *RMB'000* | *sq.m.* | *RMB per sq.m.* | *RMB'000* | *sq.m.* | *RMB per sq.m.* | *RMB'000* | *sq.m.* | *RMB per sq.m.* |
| Phase 1 | 16,748 | 4,876.76 | 3,434 | 29,444 | 9,051.32 | 3,253 | 12,663 | 2,580.06 | 4,908 | 1,381 | 443.17 | 3,116 |
| Phase 2 | 44,110 | 11,362.94 | 3,882 | 45,473 | 11,790.00 | 3,857 | 20,646 | 3,917.15 | 5,271 | 7,111 | 1,200.41 | 5,924 |
| Phase 3 | 29,745 | 8,203.62 | 3,626 | 42,163 | 11,107.70 | 3,796 | 2,885 | 555.39 | 5,193 | 944 | 310.33 | 3,042 |
| Stage 1 of Phase 4 | — | — | — | 86,609 | 22,131.04 | 3,913 | 112,787 | 26,858.16 | 4,199 | 3,690 | 675.51 | 5,463 |
| Stage 2 of Phase 4 | — | — | — | — | — | — | 107,551 | 21,920.19 | 4,906 | 48,184 | 5,748.00 | 8,383 |
| Total | 90,603 | 24,443.32 | 3,707 | 203,689 | 54,080.06 | 3,766 | 256,532 | 55,830.95 | 4,595 | 61,310 | 8,377.42 | 7,318 |

### Fair value change of investment properties

The kindergarten and car parking spaces of the Binjiang International Project, which were held by the Target Group during the Track Record Period for rental income and/or for capital appreciation, were classified and accounted for as investment properties at their fair values in the consolidated statements of financial position in accordance with HKFRSs. The fair values of the Target Group's investment properties, which was valued by DTZ, was approximately RMB101.5 million, RMB112.8 million, RMB117.2 million and RMB118.3 million for the Track Record Period respectively. The changes in fair values of investment properties would be recognised in the consolidated statements of profit or loss and other comprehensive income in the corresponding periods. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, gains from fair value changes in investment properties were approximately RMB5.9 million, RMB7.9 million, RMB4.4 million and RMB1.1 million respectively, accounting for approximately 26.3%, 19.9%, 8.2% and 3.7% of the Target Group's profit before tax respectively, or approximately 39.3%, 29.5%, 12.5% and 7.0% of the profit attributable to owners of the Target Group respectively. If the gains from fair value changes in investment properties were excluded, the Target Group's profit before tax for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 would have been approximately RMB16.5 million, RMB31.9 million, RMB49.3 million and RMB28.4 million respectively.

## KEY FINANCIAL RATIOS OF THE TARGET GROUP

The following table sets forth the key financial ratios of the Target Group as at/for the periods indicated. For more details, please see the section headed "Financial information of the Target Group — Key financial ratio analysis" in this circular.

| | Years ended 31 December/ As at 31 December | | | Six months ended 30 June 2015/ As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| Return on equity (%) | 26.8% | 32.9% | 12.0% | 6.3% |
| Return on total assets (%) | 2.4% | 3.0% | 3.8% | 3.3% |
| Current ratio (times) | 1.0 | 1.0 | 3.3 | 3.0 |
| Quick ratio (times) | 0.1 | 0.2 | 0.7 | 0.6 |
| Gearing ratio (%) | 614.8% | 508.0% | 48.2% | 44.4% |
| Net debt to equity ratio (%) | 583.3% | 477.5% | 23.1% | 20.3% |
| Interest coverage | N/A | 25.1 | 28.1 | 143.4 |

## RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

The Target Group's business model, revenue and cost structure remained unchanged since 30 June 2015. Based on its unaudited management accounts for the two months ended 31 August 2015, its unaudited average monthly revenue for the two months ended 31 August 2015 was comparatively lower than the average monthly revenue for the six months ended 30 June 2015 primarily due to the lack of delivery of retail shops in July and August 2015 and all revenue for the month represented the sales of residential properties of the Binjiang International Project as compared to the six months ended 30 June 2015 when the delivery of retail shops constituted approximately 58.7% of total sales during the period. As at 31 August 2015, the total indebtedness of the Target Group amounted to approximately RMB231.2 million.

As far as the proposed Directors are aware, there have been no material changes in the general economic and market conditions in the PRC or the property market in which the Target Group operates that would materially and adversely affected its business operations or financial condition since 30 June 2015 and up to the date of this circular. The proposed Directors confirm that there had not been any material adverse change in the financial or trading position or the prospects of the Target Group since 30 June 2015 and up to the date of this circular.

Upon completion of the Acquisition and the Resumption, the Enlarged Group expects to record a net loss for the year ending 31 December 2016. Major items causing the loss for the year ending 31 December 2016 will be the Deemed [REDACTED] expenses of the Proposed Restructuring. Assuming the completion of the Proposed Restructuring takes place in 2016, it is expected that the Deemed [REDACTED] expenses will be charged to the profit or loss for the year ending 31 December 2016. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group which is set out in Appendix III to this circular, the Proposed Restructuring was assumed to have taken place on 30 June 2015, and Deemed [REDACTED] expenses of approximately HK$466.9 million are charged to the profit or loss for the period ended 30 June 2015. Details of the Deemed [REDACTED] expenses are set out in note 12(a) of Appendix III to this circular.

## NON-COMPLIANCE INCIDENTS

During the Track Record Period, the Target Group was involved in certain material non-compliance incidents including failure to make social insurance and housing provident fund contribution in full and open accounts within the prescribed time limit, and use of personal bank accounts for settlement of corporate funds including receipt of pre-sale proceeds for the purchase of properties from customers. Each of the Controlling Shareholders have given the Company an indemnity covering the liabilities arising from the non-compliance incidents. For details, please refer to the section headed "Business of the Target Group — Legal proceedings and compliance — Compliance".

## CONTROLLING SHAREHOLDERS

Immediately following the Completion, Mr. Shie, Mr. Tsoi, Fame Build and Talent Connect will collectively be beneficially interested in 70% of the issued share capital of the Company. Accordingly, Mr. Shie, Mr. Tsoi, Fame Build and Talent Connect are the Controlling Shareholders for the purpose of the Listing Rules.

Apart from the Target Group, during the Track Record Period and as at the Latest Practicable Date, Mr. Shie and Mr. Tsoi held interests in companies that have the business scope of property development in the PRC. To ensure that competition will not exist in the future, the Controlling Shareholders will enter into the Deed of Non-Competition with the Company to the effect that each of them will not, and will procure each of their respective associates not to, directly or indirectly, participate in, engage in, or conduct any business which may be in competition with the business of the Enlarged Group. For further details of the Controlling Shareholders, please refer to the section headed "Relationship with Controlling Shareholders" in this circular.

## [REDACTED]

The Company proposes to undertake the [REDACTED] on the basis of two (2) [REDACTED] for every one (1) New Share held by the Qualifying Shareholders on the [REDACTED]. A total of [REDACTED] [REDACTED] will be allotted and issued by the Company to the Qualifying Shareholders and/or the [REDACTED] at the [REDACTED] of [REDACTED] for each [REDACTED]. The [REDACTED] will be conditional upon Completion. For details, please refer to the section headed "Letter from the Board — 4. The [REDACTED]".

## PROPERTY VALUATION OF THE ENLARGED GROUP AS AT 31 JULY 2015

As at 31 July 2015, the aggregate appraised market value attributable to the Target Group of properties held for sale, properties held for investment and properties held under development were approximately RMB212.3 million, RMB82.9 million and RMB629.7 million, respectively. The valuation method adopted by DTZ was based on the investment approach by considering the capitalised rental incomes derived from the existing tenancies with due provision for any reversionary income potential of the property interests or, wherever appropriate, the direct comparison approach by making reference to comparable sales evidence as available in the relevant market subject to suitable adjustments between the subject properties and the comparable properties. In valuing the properties held for future use in the PRC, DTZ conducted the valuation on the basis that the property will be developed and completed in accordance with the Target Group's latest development proposal provided to DTZ. In the course of valuation of the properties, DTZ has assumed that (i) transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid; (ii) the owners have the enforceable title to the properties and free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired term as granted; and (iii) the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their value. The Directors cannot assure that the assumptions used by DTZ will be realised. For further details of the assumptions and valuation basis, please refer to the Property Valuation Report.

## FINANCIAL INFORMATION OF THE ENLARGED GROUP

Assuming that completion of the Acquisition would take place in 2016, the Enlarged Group is expected to record a net loss for the year ending 31 December 2016, mainly attributable to the Deemed [REDACTED] expenses as detailed in note 12 to the unaudited pro forma financial information of the Enlarged Group under Appendix III of this circular, and partially offset by the gain on disposal of Retained Subsidiaries, all of which are not expected to recur.

## SELECTED UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The table below sets out selected unaudited pro forma financial information of the Enlarged Group. For more details, please refer to the section headed "Unaudited Pro Forma Financial Information of the Enlarged Group" set out in Appendix III to this circular.

| | **Unaudited consolidated net tangible assets of the Group** | **Unaudited consolidated net tangible assets of the Group per share** | **Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group** | **Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group per share** |
|---|---|---|---|---|
| | *HK$'000* | *HK$* | *HK$'000* | *HK$* |
| Consolidated net tangible assets attributable to owners of the Company | (2,063,694) | (1.06) | [REDACTED] | [REDACTED] |

## TRANSACTION EXPENSES

The aggregate fees, together with the Stock Exchange [REDACTED] fee, legal and other professional fees, printing and other expenses relating to the Acquisition, the [REDACTED] and the Subscription, are estimated to be approximately HK$40.2 million. Among the estimated total transaction expenses of approximately HK$40.2 million, approximately HK$0.6 million of which is directly attributable to the issue of [REDACTED] that will be accounted for as a deduction from equity upon issuance of the [REDACTED] as it incurred. Transaction expenses of approximately HK$14.6 million and HK$5.1 million had been charged to the profit or loss for the year ended 31 December 2014 and for the six months ended 30 June 2015, respectively, and it is expected that an additional amount of approximately HK$19.9 million will be charged to the profit or loss for the six months ending [REDACTED]. The substantial portion of the estimated total transaction expenses is non-recurring in nature.

## PROFIT WARNING

In light of the abovementioned substantial loss arising from the Proposed Restructuring and the transaction expenses, the Company expect to issue a profit warning announcement as soon as practicable after Resumption.

## DIVIDEND POLICY

During the Track Record Period, the Company and the Target Group did not declare or pay any dividend, which may not reflect the Company's future intention to declare dividends. The Company currently does not have a fixed dividend policy. The Board has the discretion to determine whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. The Company will evaluate its dividend policy from time to time in light of its financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of the Board and will be based upon the Company's earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that the Board deems relevant.

## RECOMMENDATIONS AND THE EGM

The Board has appointed the Independent Financial Adviser to advise the Independent Shareholders in relation to the [REDACTED], the Subscription, the Acquisition, the application for Whitewash Waiver, the Special Deal and the transactions contemplated thereunder. The Independent Financial Adviser is of the view that the terms and conditions of the Proposed Restructuring including but not limited to the [REDACTED], the Subscription, the Acquisition, the Whitewash Waiver, the Disposal and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, the Independent Financial Adviser recommends the Independent Shareholders to vote in favour of the resolutions in relation to the Capital Reorganisation, the [REDACTED], the Subscription, the Acquisition, the Whitewash Waiver and the Special Deal to be proposed at the EGM.

A notice of the EGM to be held at [●] on [REDACTED], [REDACTED] at [REDACTED] is set out on pages EGM-1 to EGM-7 of this circular for the purpose of considering and, if thought fit, approving the Capital Reorganisation, the [REDACTED], the Acquisition, the Whitewash Waiver, the Subscription, the Special Deal, the adoption of the New Memorandum and Articles and the proposed appointment of the proposed Directors. Voting on the resolutions at the EGM will be taken by poll.

*In this circular, unless the context otherwise requires, the capitalised terms used herein shall have the following meanings:—*

| | |
|---|---|
| "Accountants' Report" | the accountants' report on the Target Group set out in Appendix I to this circular |
| "Acquisition" | the sale and purchase of the Sale Equity Interest pursuant to the Acquisition Agreement |
| "Acquisition Agreement" | the acquisition agreement dated 31 March 2014 (as supplemented by a supplemental agreement dated 27 October 2014 and a second supplemental agreement dated 30 April 2015) entered into between, inter alia, the Company and the Vendors in respect of the sale and purchase of the Sale Equity Interest |
| "acting in concert" | has the meaning given to it under the Takeovers Code |
| "Acting in Concert Confirmation" | a deed of confirmation dated 23 October 2014 executed by the Vendors, whereby they confirmed the existence of their acting in concert arrangement, a summary of which is set out in the section headed "Relationship with Controlling Shareholders — Acting in Concert Confirmation" in this circular |
| "Amended Subscription Agreement" | the Original Subscription Agreement as supplemented by a second supplemental agreement dated 27 October 2014 and a third supplemental agreement dated 30 April 2015 |
| "Amended TB Option Agreement" | the TB Option Agreement as supplemented by a supplemental option deed dated 27 October 2014 and a second supplemental option deed dated 30 April 2015 |
| "Announcements" | the announcements of the Company dated 22 August 2014, 31 October 2014 and 3 November 2014 in relation to, among other things, the Acquisition, the Capital Reorganisation, the [REDACTED], the Subscription, the Whitewash Waiver and the Special Deal |
| "Asian Capital" | Asian Capital (Corporate Finance) Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities for the purposes of the SFO, the financial adviser to the Company in relation to the application of Resumption |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |

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| "Authorised Share Capital Cancellation" | the proposed cancellation of the authorised but un-issued share capital of the Company in its entirety immediately upon the Share Consolidation becoming effective |
| "Authorised Share Capital Increase" | the proposed increase of the authorised share capital of the Company to HK$500,000,000 immediately following the Authorised Share Capital Cancellation becoming effective |
| "Binjiang International Project" | 濱江國際項目, being the residential property development project located in Quanzhou, Fujian Province currently held by the Target Group |
| "Board" | the board of Directors |
| "business day(s)" | a day (other than a Saturday, a Sunday or public holidays) on which banks are generally open for business in Hong Kong |
| "CAGR(s)" | compound annual growth rate(s) |
| "Capital Reduction" | the proposed reduction of the nominal value of each existing issued Share from HK$0.10 to HK$0.0005 |
| "Capital Reorganisation" | the proposed restructuring of the capital of the Company comprising, inter alia, the Capital Reduction, the Share Premium Cancellation, the Share Consolidation, the Authorised Share Capital Cancellation and the Authorised Share Capital Increase |
| "CCASS" | the Central Clearing and Settlement System established and carried on by HKSCC |
| "China" or "PRC" | the People's Republic of China, which shall, for the purposes of this circular, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "China General" or "Target Company" | China General (HK) Company Limited (中總(香港)有限公司), a company incorporated under the laws of Hong Kong on 1 September 1992, which is owned as to 50% each by Mr. Shie and Mr. Tsoi |
| "China General Group" or "Target Group" | China General and its subsidiaries, including Hui An China General, Houde Enterprise, Hengde, Yangzhou Dehui and Yangzhou Detai |
| "close associate(s)" | has the meaning ascribed to it under the Listing Rules |

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| "Companies Law" | Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands |
| "Company" | First Mobile Group Holdings Limited, a company incorporated in the Cayman Islands whose issued Shares are listed on the Stock Exchange (Stock Code: 865) |
| "Completion" | completion of the Proposed Restructuring |
| "Concert Group" | Fame Build, Talent Connect, the Vendors and any parties acting in concert with any of them |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Consideration" | the amount of approximately HK$817.0 million, being the consideration for the Sale Equity Interest |
| "Consideration Price" | HK$0.20, the price at which the Consideration Shares are to be issued under the Acquisition Agreement |
| "Consideration Shares" | 4,086,592,787 New Shares to be allotted and issued as fully paid by the Company to the Vendors under the Acquisition Agreement |
| "Controlling Shareholder(s)" | Mr. Shie, Mr. Tsoi, Fame Build and Talent Connect, who will become the controlling Shareholders upon completion of the Acquisition |
| "core connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Creditors Schemes" | the schemes of arrangement entered into between the Company and its creditors pursuant to Section 166 of the Predecessor Hong Kong Companies Ordinance and Section 86 of the Companies Law with, or subject to, any modification, addition or conditions approved or imposed by the High Court and the Grand Court |
| "CSRC" | China Securities Regulatory Commission of the PRC (中國證券監督管理委員會) |
| "Deed of Indemnity" | the deed of indemnity dated [●] entered into by the Controlling Shareholders in favour of the Company (for itself and as trustee for the subsidiaries of the Enlarged Group), see "K. Deed of Indemnity" in Appendix VII to this circular |
| "Deemed [REDACTED] expenses" | the expenses as represented by the Company's [REDACTED] status |

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| "Deed of Non-Competition" | the deed of non-competition dated [●] executed by the Controlling Shareholders (as covenantors) in favour of the Company, particulars of which are set out in the section headed "Relationship with Controlling Shareholders — Non-competition Undertakings" in this circular |
| "Directors" | directors of the Company |
| "Disposal" | the disposal of the Disposed Companies to the Purchaser at a nominal consideration of HK$1.00 pursuant to the Disposal Agreement |
| "Disposal Agreement" | the sale and purchase agreement dated 27 October 2014 (as supplemented by a supplemental agreement dated 30 April 2015) entered into between the Company and the Purchaser in relation to the Disposal |
| "Disposed Companies" | Marzo Holdings, Value Day and MDL |
| "DTZ" | DTZ Debenham Tie Leung Limited, the independent property valuer, independent market consultant and industry research consultant of the Company and an Independent Third Party |
| "EGM" | the extraordinary general meeting of the Company to be convened for the purposes of considering, and if thought fit, approving, among other matters, the Capital Reorganisation, the [REDACTED], the Subscription, the Acquisition, the Special Deal, the appointment of the proposed Directors, the New Memorandum and Articles and the Whitewash Waiver |
| "Energy Industry" | 重慶涪陵能源實業集團有限公司 (Chongqing Fuling Energy Industry Group Co., Ltd.*), a company established in the PRC on 18 January 2013 |
| "Enlarged Group" | the Group upon Completion |
| "Exclusivity Agreement" | the agreement dated 25 June 2010 entered into among the Company, Jinwu, Asia Debt Management Hong Kong Limited, Mr. Ng, Ms. Tan Sook Kiang, NKT Holdings Sdn. Bhd., Mr. Ng Kok Yang and Deloitte Touche Tohmatsu in relation to the proposed restructuring of the Company |
| "Executive" | the Executive Director of the Corporate Finance Division of the SFC or any of his delegate |

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| "Existing Controlling Shareholders" | Mr. Ng, Ms. Tan Sook Kiang, Mr. Ng Kok Tai, Md. Siew Ai Lian, NKT Holdings Sdn. Bhd. and Mr. Ng Kok Yang, collectively interested in 1,349,566,292 Shares, representing approximately 69.4% of the issued share capital of the Company as at the date of this circular |
| "Existing Memorandum and Articles" | the existing memorandum of association and articles of association of the Company |
| "Existing Shareholders" | Shareholders as at the date of this circular |
| "FA Loan Agreement" | the loan agreement dated 3 February 2012 (as supplemented by a deed of variation dated 3 February 2012, side letters dated 4 December 2012, 5 February 2013 and 30 September 2013 respectively, a supplemental loan agreement dated 27 October 2014 and a second supplemental loan agreement dated 30 April 2015) entered into between First Apex and MDL |
| "FA Option" | the option granted by the Company to First Apex under the FA Option Agreement to subscribe for convertible preference shares convertible into ordinary shares of HK$0.01 each in the capital of the Company |
| "FA Option Agreement" | the option deed dated 3 February 2012 entered into between First Apex and the Company in relation to the issue of the FA Option and as terminated by a termination deed entered into between the Company and First Apex dated 27 October 2014 |
| "Fame Build" | Fame Build Holdings Limited, a company incorporated in the British Virgin Islands with limited liability on 16 June 2014 and is solely and beneficially owned by Mr. Shie |
| "First Apex" | First Apex Investments Limited, a limited liability company incorporated in Hong Kong on 11 March 2010 and is wholly and beneficially owned by Mr. Benjamin Kumar Sharma, which will become one of the Shareholders upon completion of the Subscription |
| "Fuling Water Resources" | 重慶涪陵水資源開發有限責任公司 (Chongqing Fuling Water Resources Development Company Limited), a 52.5% owned subsidiary of Julong, a company established in the PRC on 5 August 1993 and an Independent Third Party |
| "Grand Court" | the Grand Court of the Cayman Islands |
| "Group" | the Company and its subsidiaries from time to time |

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| "Group Reorganisation" | the transfer of the Scheme Subsidiaries to the Scheme Company or the Scheme Administrators (or their nominees) for the benefit of the Scheme Creditors and, if applicable, creditors of the Scheme Subsidiaries upon the Creditor Schemes becoming effective |
| "Hengde" | 恒德(石獅)投資有限公司 (Hengde (Shishi) Investment Company Limited*), a company established under the laws of the PRC on 2 July 2012 and directly wholly-owned by Houde Enterprise |
| "High Court" | High Court of Hong Kong |
| "HK$" or "HKD" | Hong Kong dollars, the lawful currency of Hong Kong |
| "HKFRSs" | Hong Kong Financial Reporting Standards |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Hong Kong Companies Ordinance" | Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Hong Kong Scheme" | the scheme of arrangement approved by the High Court |
| "Houde Enterprise" | 福建省厚德企業管理有限公司 (Fujian Province Houde Enterprise Management Company Limited*), a company established under the laws of the PRC on 20 August 2014 and directly wholly-owned by Hui An China General |
| "Hui An China General" | 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited*), a company established under the laws of the PRC on 22 February 2006 and owned as to 98.387% by China General, 0.726% by Mr. Hong Lianji (洪聯積) (an Independent Third Party) and 0.887% by Mr. Cai Jianliu (蔡建六) (who is the younger brother of Mr. Tsoi) |
| "Independent Financial Adviser" | Goldin Financial Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity for the purposes of the SFO, the independent financial adviser to the Independent Shareholders in relation to the [REDACTED], the Subscription, the Acquisition, the Whitewash Waiver and the Special Deal and an Independent Third Party |

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| "Independent Shareholder(s)" | the Shareholder(s) who are not members of the Concert Group and/or not involved or interested in (other than solely as a Shareholder) the Capital Reorganisation, the transactions contemplated under the Subscription Agreements, the Acquisition Agreement, the [REDACTED], the Disposal Agreement and/or the Whitewash Waiver and therefore permitted to vote in respect of the resolution(s) to approve the Capital Reorganisation, the Subscription, the Acquisition, the [REDACTED], the Whitewash Waiver and/or the Special Deal at the EGM |
| "Independent Third Party" | a party that is independent of the Company or of the Target Company or any of their respective connected persons, as the case may be |
| "Jinwu" | Jinwu Limited, a special purpose investment company owned by Daxin Investment Fund, being an investment fund established under the laws of the Cayman Islands on 26 May 2010, managed by Greater China Capital Limited, which will become one of the Shareholders upon completion of the Subscription |
| "Julong" | 重慶涪陵聚龍電力有限公司 (Chongqing Fuling Julong Electric Power Company Limited*), a company established in the PRC on 23 May 2007 and an Independent Third Party |
| "Julong Group" | Julong, Fuling Water Resources and Julong's associate companies collectively, which are principally engaged in power generation, power supply and sale and distribution of electricity within various regions in Chongqing in the PRC |
| "Julong Management Shareholders" | the management shareholders of Julong, who shall, subject to registration with the local Administration for Industry and Commerce in the PRC, own in aggregate 10% of the equity interest in Julong |
| "Last Trading Date" | 27 November 2009, the last trading date before the Suspension |
| "LAT" | Land Appreciation Tax as defined in the Interim Ordinance on on Land Appreciation Tax of the PRC (《中華人民共和國土地增值稅暫行條例》) and the Implementation Rules of Interim Ordinance on Land Appreciation Tax of the PRC (《中華人民共和國土地增值稅暫行條例實施細則》) |

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| "Latest Practicable Date" | 22 October 2015, being the latest practicable date prior to the date of this circular for the purpose of ascertaining certain information contained in this circular |
| "Listing Appeals Committee" | has the meaning ascribed to it under the Listing Rules |
| "Listing Committee" | has the meaning ascribed to it under the Listing Rules |
| "Listing Committee Decision" | the decision of the Listing Committee to cancel the listing of the Shares on the Stock Exchange under Practice Note 17 to the Listing Rules as set out in its letter dated 11 April 2014 |
| "Listing (Review) Committee" | has the meaning ascribed to it under the Listing Rules |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Market Research Report" | a commissioned research report from DTZ for use in part in this circular to provide the Shareholders with information relating to the economy of the PRC, the residential property market in Yangzhou and Quanzhou, and the industry in which the Target Group operates. See the section headed "Industry overview" in this circular |
| "Marzo Holdings" | Marzo Holdings Limited, a direct wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 31 January 2011 |
| "MDL" | Mobile Distribution Limited, an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong on 29 August 2008 |
| "MOFCOM" | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| "Mr. Ng" | Mr. Ng Kok Hong, a Director and a substantial Shareholder and the sole shareholder of the Purchaser |
| "Mr. Shie" | Mr. Shie Tak Chung, being one of the Vendors, who is interested in 50% of equity interest of China General |
| "Mr. Tsoi" | Mr. Tsoi Kin Sze, being one of the Vendors, who is interested in 50% of equity interest of China General |

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| "New FA Option" | the option granted by the Company to First Apex under the New FA Option Agreement (as amended by a supplemental option deed dated 30 April 2015) to subscribe for the New FA Subscription Shares, further details of which are set out in the section headed "Letter from the Board — The Subscription" in this circular |
| "New FA Option Agreement" | the option deed dated 27 October 2014 (as supplemented by a supplemental option deed dated 30 April 2015) entered into between First Apex and the Company in relation to the issue of the New FA Option |
| "New FA Subscription Shares" | 129,032,258 New Shares to be allotted and issued as fully paid by the Company to First Apex under the New FA Option Agreement |
| "New [REDACTED] Application" | the new [REDACTED] application submitted by the Company on 30 October 2014 to the Stock Exchange relating to the transactions contemplated under the Resumption Proposal (and the revision thereof) pursuant to the requirements and procedures set out in Chapters 8 and 9 of the Listing Rules |
| "New Memorandum and Articles" | the new set of memorandum of association and articles of association of the Company to be considered and approved by the Shareholders at the EGM |
| "New Share(s)" | the ordinary share(s) of HK$0.005 each in the capital of the Company immediately following the Capital Reorganisation becoming effective |
| "New TB Option" | the option granted by the Company to Time Boomer under the Amended TB Option Agreement to subscribe for the New TB Subscription Shares, further details of which are set out in the section headed "Letter from the Board — The Subscription" in this circular |
| "New TB Subscription Shares" | 83,870,968 New Shares to be allotted and issued as fully paid by the Company to Time Boomer under the Amended TB Option Agreement |

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| "Non-qualifying Shareholder(s)" | the Shareholder(s), whose addresses as shown on the register of members of the Company on the [REDACTED] are in places outside Hong Kong where based on the legal opinions provided by the relevant overseas legal advisors to the Company, the Directors are of the opinion that it is necessary or expedient to exclude such Shareholder(s) from the [REDACTED] on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in such places |
| "[REDACTED]" | New Shares to be allotted and issued under the [REDACTED], being 389,199,312 New Shares |
| "[REDACTED]" | the proposed issue of the [REDACTED] on the basis of two (2) [REDACTED] for every one (1) New Share held by that Qualifying Shareholder on the [REDACTED] at the [REDACTED] |
| "[REDACTED]" | [REDACTED], the price at which the [REDACTED] are offered to the Qualifying Shareholders |
| "[REDACTED]" | the date by reference to which entitlements under the [REDACTED] are to be determined |
| "Original Acquisition" | the proposed acquisition by the Company of the entire issued and paid-up share capital of Julong |
| "Original Subscription Agreement" | the subscription agreement dated 27 August 2010 (as supplemented by side letters dated 15 September 2010, 23 December 2010, 31 March 2011, 7 July 2011, 2 November 2011, 30 March 2012, 4 December 2012 and 6 February 2013 respectively and supplemented by a supplemental agreement dated 28 September 2010) entered into between the Company (as issuer) and Jinwu (as subscriber) in relation to the subscription of ordinary shares of HK$0.01 each in the capital of the Company |
| "PRC EIT" | PRC Enterprise Income Tax |
| "PRC Legal Advisers" | Dacheng Law Offices (大成律師事務所), the Company's legal advisers as to PRC law |
| "Predecessor Hong Kong Companies Ordinance" | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014 |
| "Property Valuation Report" | the property valuation report on the properties of the Enlarged Group set out in Appendix IV to this circular |

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| "Proposed Restructuring" | the proposed restructuring of the Group, involving, among other things, the Capital Reorganisation, the Creditors Schemes, the Subscription, the [REDACTED], the Acquisition and the Disposal |
| "[REDACTED]" | the [REDACTED] under the [REDACTED] |
| "[REDACTED]" | the [REDACTED] and the [REDACTED] in respect of the assured entitlement under the [REDACTED] |
| "[REDACTED]" | [REDACTED] (or such other date as agreed between the Company and the [REDACTED] in writing), the date on which the [REDACTED] will be despatched |
| "Purchaser" | Simply Divine Global Limited, a company incorporated in the British Virgin Islands on 4 September 2014, which is solely and beneficially owned by Mr. Ng |
| "Qualifying Shareholder(s)" | the Shareholders, other than the Non-qualifying Shareholders, whose names appear on the register of members of the Company as at the close of business on the [REDACTED] |
| "Resumption" | resumption of trading in the New Shares on the Stock Exchange |
| "Resumption Proposal" | the resumption proposal dated 4 December 2012 (as supplemented by subsequent submissions by the Company) which includes, among other things, the Capital Reorganisation, the Creditors Schemes, the Subscription, the [REDACTED] and the Original Acquisition, submitted by the Company to the Stock Exchange |
| "Retained Subsidiaries" | Marzo Holdings, MDL, eTouch Mobile Private Limited, PT Comworks Indonesia, Multi Brand Telecom Services Trade Company Limited, Value Day, Calibro Global Limited, Distinct Elite Limited and Matrix Star Limited |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "SAFE" | State Administration of Foreign Exchange of the PRC（中國國家外匯管理局） |
| "Sale Equity Interest" | the entire issued share capital of China General |
| "Scheme Administrators" | the administrators sanctioned by the High Court in respect of the Creditors Schemes |

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| "Scheme Company" | a company to be incorporated and to be held and controlled by the Scheme Administrators for the purpose of holding the Scheme Subsidiaries |
| "Scheme Creditors" | the creditors under the Creditors Schemes |
| "Scheme Subsidiaries" | the subsidiaries of the Company other than the Retained Subsidiaries |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) of HK$0.10 each in the share capital of the Company prior to the Capital Reorganisation becoming effective |
| "Share Consolidation" | the proposed consolidation of ten (10) issued Shares of HK$0.0005 each into one (1) New Share of HK$0.005 |
| "Share Premium Cancellation" | the proposed share premium cancellation of the Company upon the Capital Reduction becoming effective |
| "Shareholders" | holders of the Shares |
| "Special Deal" | the Disposal, which constitutes a special deal under Note 4 to Rule 25 of the Takeovers Code |
| "[REDACTED]" | Cinda International Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities for the purposes of the SFO, the sponsor to the Company |
| "Stand-by Facility" | the stand-by working capital facility for an amount of not less than HK$50 million to be provided by Jinwu pursuant to the Exclusivity Agreement |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subscribers" | Jinwu, Time Boomer and First Apex |
| "Subscription" | the allotment and issue of the Subscription Shares to the Subscribers pursuant to the Subscription Agreements |

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| "Subscription Agreements" | the Amended Subscription Agreement, the Amended TB Option Agreement and the New FA Option Agreement, further details of which are set out in the section headed "Letter from the Board — The Subscription" in this circular |
| "Subscription Price" | HK$0.155, the price at which the Subscription Shares are to be allotted and issued to the Subscribers pursuant to the Subscription Agreements |
| "Subscription Shares" | the 1,167,597,940 New Shares to be allotted and issued by the Company to the Subscribers under the Subscription Agreements |
| "substantial shareholder" | has the meaning ascribed to it under the Listing Rules |
| "Suspension" | the suspension of trading in the Shares at the request of the Company since 9:30 a.m. on 27 November 2009 |
| "Takeovers Code" | the Hong Kong Code on Takeovers and Mergers |
| "Talent Connect" | Talent Connect Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 13 June 2014 and is solely and beneficially owned by Mr. Tsoi |
| "Target Cities" | Quanzhou of Fujian Province and Yangzhou of Jiangsu Province of the PRC |
| "TB Loan Agreement" | the loan agreement dated 7 July 2011 (as supplemented by a deed of variation dated 3 February 2012, side letters dated 4 December 2012, 5 February 2013 and 30 September 2013 respectively, a supplemental loan agreement dated 27 October 2014 and a second supplemental loan agreement dated 30 April 2015) entered into between Time Boomer and MDL |
| "TB Option" | the option granted by the Company to Time Boomer under the TB Option Agreement to subscribe for ordinary shares of HK$0.01 each in the capital of the Company |
| "TB Option Agreement" | the option deed dated 7 July 2011 (as supplemented and amended by the supplemental option deed dated 27 October 2014 and the second supplemental option deed dated 30 April 2015) entered into between Time Boomer and the Company in relation to the issue of the New TB Option |

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| "The Cullinan Bay Project" | 天璽灣項目, being the residential property development project located in Yangzhou, Jiangsu Province currently held by the Target Group |
| "Time Boomer" | Time Boomer Limited, a limited liability company incorporated in the British Virgin Islands on 26 May 2011 and is wholly and beneficially owned by Mr. Tai Kai Hing, which will become one of the Shareholders upon completion of the Subscription |
| "Track Record Period" | the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 |
| "[REDACTED]" | [●] |
| "[REDACTED] Agreement" | the [REDACTED] agreement dated [●] entered into between the Company and the [REDACTED] in relation to the [REDACTED] |
| "US$" or "US dollar" | United States dollars, the lawful currency of the United States |
| "Value Day" | Value Day Limited, a direct wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on 23 February 2011 |
| "Vendors" | Mr. Shie and Mr. Tsoi |
| "Whitewash Waiver" | a whitewash waiver pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code granted or to be granted by the Executive in respect of the obligations of Fame Build and Talent Connect to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by the Concert Group which may arise as a result of the transaction(s) contemplated under the Acquisition Agreement |
| "Working Facility Capitalisation" | the capitalisation of the amounts due under the FA Loan Agreement and the TB Loan Agreement pursuant to the exercise of the options under the New FA Option and the New TB Option |
| "Yangzhou Dehui" | 揚州德輝房地產開發有限公司 (Yangzhou Dehui Real Estate Development Company Limited*), a company established under the laws of the PRC on 17 August 2012 and directly wholly-owned by Hengde |

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| "Yangzhou Detai" | 揚州德泰物業服務有限公司 (Yangzhou Detai Property Services Company Limited*), a company established under the laws of the PRC on 2 September 2013 and directly wholly-owned by Yangzhou Dehui |
| "%" | per cent. |

*For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1=HK$1.2625. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or RMB have been, could have been or may be converted at such or any other rate or at all.*

*Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.*

*The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails. English translation of company names in Chinese or another language which are marked with "*" are for identification purpose only.*

*The English language version of this circular has been translated into the Chinese language and English and Chinese versions of this circular are being published separately. If there should be any inconsistency between the English and Chinese versions, the English version shall prevail.*

# GLOSSARY OF TECHNICAL TERMS

*The glossary contains explanations and definitions of certain terms used in this circular in connection with the Target Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.*

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| "ASP" | average selling price |
| "building ownership certificate" | 房屋所有權證, real estate title proof or other names as the case maybe, a certificate, record or filing issued by the relevant PRC governmental authority responsible for real estate and land resources with respect to building ownership |
| "completion certificate" | 竣工備案表証明書, issued by local urban construction bureaus or equivalent authorities in the PRC with respect to the completion of properties subsequent to their examination and inspection before the application for building ownership certificate |
| "completion filing" | 竣工驗收備案, construction works completion inspection acceptance certificate or record issued by or filing with local urban construction authorities or equivalent authorities in the PRC with respect to the completion of property projects |
| "construction land planning permit" | 建設用地規劃許可證, issued by local urban zoning and planning bureaux or equivalent authorities in the PRC |
| "construction work commencement permit" | 建築工程施工許可證, issued by local construction committees or equivalent authorities in the PRC |
| "construction work planning permit" | 建設工程規劃許可證, issued by local urban zoning and planning bureaux or equivalent authorities in the PRC |
| "contracted ASP" | average selling price under contracted sales |
| "contracted GFA" | gross floor area under contracted sales |
| "contracted sales" | contracted sales are made when the property developer enters into a property sale and purchase agreement with a customer for the sale of property, regardless of whether the property is delivered to the customer or not |
| "GFA" | gross floor area |
| "land use rights certificate" | 國有土地使用證, a certificate (or certificates as the case may be) of the right of a party to use a parcel of land |

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| "land use rights grant contract" | 國有土地使用權出讓合同, an agreement the Target Group and the relevant local government authority enter into after the public tender, auction or listing-for-sale (as applicable), which provides for, among other things, the amount of land grant premium that the Target Group should pay for acquiring the land use rights of the relevant land parcel. After the Target Group has paid the land grant premium and satisfied any other conditions as set forth in the land use rights grant contract, the Target Group will obtain a land use rights certificate for the relevant land parcel |
| "pre-sale permit" | 預售許可證, authorising a property developer to commence the pre-sale of property under construction |
| "pre-sold" | a property is deemed as pre-sold when the sale and purchase agreement is executed but the construction of the property has not been completed and the property has not been delivered to the customer |
| "project approval from government" | 立項批覆, issued by local urban zoning and planning bureaux or equivalent authorities in the PRC for approving the project construction |
| "public tender", "auction" or "listing-for-sale" | public tender, auction or listing at a land exchange administered by the local government, each of which is a competitive bidding process through which a purchaser acquires land use rights directly from the PRC government |
| "report on examination of completed construction" | 建築工程竣工驗收報告, a report which is jointly issued by, among others, the main construction contractor, the construction supervisor and the design firm upon completion and examination of the properties for submission to the local urban construction bureaus or equivalent authorities in the PRC prior to the issuance of the completion certificate |
| "sold" | properties are considered sold when the construction of the properties have been completed and the property is delivered to the customer. Delivery takes place on the date when the customers sign the delivery documents or is deemed to take place on a date that is specified in the final collection notice sent by the Target Group to the customers |
| "sq.m." | square metre |

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| "total GFA" or "total gross floor area" | the above-ground and underground saleable and/or leasable area contained within the external walls of any building at each floor level and the whole thickness of the external walls of the relevant project together with other non-leasable and non-saleable area. In general, this includes mechanical and electrical services rooms, refuse rooms, water tanks, car parking floors, lifts and staircases |

The following were the Directors as at the Latest Practicable Date who will resign as the Directors immediately following completion of the Acquisition:

**Existing executive Directors**

| Name | Address | Nationality |
|---|---|---|
| Mr. Ng Kok Hong (黄國煌) | No. 72<br>Boulevard Du Palais<br>The Beverly Hills, Tai Po<br>New Territories<br>Hong Kong | Malaysian |
| Mr. Ng Kok Tai | 7B-01-01 Bungaraya Condominium<br>Persiaran Golf Saujana Subang<br>40150 Shah Alam, Selangor<br>Malaysia | Malaysian |
| Mr. Ng Kok Yang (黄國揚) | Duplex Flat B, 12/F & 13/F, Block 16<br>Villa Rhapsody, Symphony Bay<br>533 Sai Sha Road<br>New Territories<br>Hong Kong | Malaysian |

The following are the proposed Directors immediately following completion of the Acquisition:

**Proposed executive Directors**

| Name | Address | Nationality |
|---|---|---|
| Mr. Shie Tak Chung (佘德聰) | Block B7, Springfield Gardens<br>5–9 Shouson Hill Road West<br>Hong Kong | Chinese |
| Mr. Tsoi Kin Sze (蔡建四) | Flat A, 35/F, Tower 3<br>Grand Promenade<br>38 Tai Hong Street<br>Hong Kong | Chinese |
| Mr. Wu Zhisong (吳志松) | Room 1009, 2/F<br>38 Fuhui Road<br>Shishi City<br>Fujian Province<br>PRC | Chinese |

| Name | Address | Nationality |
|---|---|---|
| Mr. Lee Lit Mo Johnny (李烈武) | Flat B, 6/F, Block 10<br>Provident Centre<br>39 Wharf Road<br>North Point<br>Hong Kong | Chinese |

**Proposed independent non-executive Directors**

| | | |
|---|---|---|
| Mr. Ma Sai Yam (馬世欽) | Flat D, 51/F., Tower 2<br>The Victoria Towers<br>Tsim Sha Tsui, Kowloon<br>Hong Kong | Chinese |
| Mr. Zhang Senquan (張森泉) | Room 702, No. 36<br>Lane 100, Shunyi Road<br>Putuo District<br>Shanghai<br>PRC | Chinese |
| Mr. Wang Yiming (王藝明) | Room 803, Block A<br>138 Xiaoxue Road<br>Siming District<br>Xiamen, Fujian Province<br>PRC | Chinese |

Please refer to the section headed "Directors and senior management of the Enlarged Group" in this circular for further details of the proposed Directors.

# CORPORATE INFORMATION

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| **Registered office** | P.O. Box 472, 2/F, Harbour Place<br>103 South Church Street<br>George Town, KY1-1106<br>Grand Cayman, Cayman Islands |
| **Headquarters and principal place of business in Hong Kong** | Workshop 6, Level 1, Wah Yiu Industrial Centre<br>30–32 Au Pui Wan Street, Fotan<br>Shatin, New Territories<br>Hong Kong |
| **Authorised representatives (Upon Resumption)** | Mr. Lee Lit Mo Johnny<br>Flat B, 6/F, Block 10<br>Provident Centre<br>39 Wharf Road<br>North Point<br>Hong Kong<br><br>Mr. Wong Kin Tak<br>Flat B, 23/F, Block 5<br>Scenic View<br>63 Fung Shing Street<br>Ngau Chi Wan<br>Kowloon<br>Hong Kong |
| **Company secretary (upon Completion of the Acquisition)** | Mr. Wong Kin Tak *(ACCA, HKICPA)*<br>Flat B, 23/F, Block 5<br>Scenic View<br>63 Fung Shing Street<br>Ngau Chi Wan<br>Kowloon<br>Hong Kong |
| **Auditor** | ZHONGHUI ANDA CPA Limited<br>(formerly known as ANDA CPA Limited)<br>*Certified Public Accountants*<br>Unit 701, 7/F<br>Citicorp Centre<br>18 Whitfield Road<br>Causeway Bay<br>Hong Kong |
| **[REDACTED] (upon Resumption)** | [REDACTED] |

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|---|---|
| **Principal share registrar and transfer office** | [REDACTED] |
| **Hong Kong branch share registrar and transfer office** | [REDACTED] |
| **Principal banker** | Public Bank<br>Public Bank Centre<br>120 Des Voeux Road<br>Central<br>Hong Kong |
| **Company's website** | www.firstmobile.com.hk *(information contained in this website does not form part of this circular)* |
| **Audit committee (Upon completion of the Acquisition)** | Mr. Zhang Senquan 張森泉 *(Committee chairman)*<br>Mr. Ma Sai Yam 馬世欽<br>Mr. Wang Yiming 王藝明 |
| **Nomination committee (Upon completion of the Acquisition)** | Mr. Shie Tak Chung 佘德聰 *(Committee chairman)*<br>Mr. Zhang Senquan 張森泉<br>Mr. Ma Sai Yam 馬世欽 |
| **Remuneration committee (Upon completion of the Acquisition)** | Mr. Ma Sai Yam 馬世欽 *(Committee chairman)*<br>Mr. Shie Tak Chung 佘德聰<br>Mr. Zhang Senquan 張森泉 |
| **Compliance committee (Upon completion of the Acquisition)** | Mr. Ma Sai Yam 馬世欽 *(Committee chairman)*<br>Mr. Zhang Senquan 張森泉<br>Mr. Lee Lit Mo Johnny 李烈武 |

# PARTIES INVOLVED

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| **Sponsor to the Company** | Cinda International Capital Limited<br>45/F, COSCO Tower<br>183 Queen's Road Central<br>Hong Kong |
| **Financial adviser to the Company** | Asian Capital (Corporate Finance) Limited<br>Suite 601, Bank of America Tower<br>12 Harcourt Road<br>Central<br>Hong Kong |
| **Independent financial adviser to the Independent Shareholders** | Goldin Financial Limited<br>23/F, Two International Finance Centre<br>8 Finance Street<br>Central<br>Hong Kong |
| **Legal advisers to the Company** | *as to Hong Kong Law on Restructuring*<br>Troutman Sanders<br>34/F, Two Exchange Square<br>8 Connaught Place<br>Central<br>Hong Kong<br><br>*as to Hong Kong Law on New [REDACTED]*<br>Deacons<br>5/F, Alexandra House<br>18 Chater Road<br>Central<br>Hong Kong<br><br>*as to PRC Law*<br>Dacheng Law Offices<br>17/F, Gongjiao Building<br>No. 1001, Lianhuazhi Road<br>Futian District<br>Shenzhen 518036<br>PRC<br><br>*as to Cayman Islands Law on Restructuring and New [REDACTED]*<br>Appleby<br>2206–19 Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong |

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| **Legal advisers to the Sponsor** | *as to Hong Kong Law:*<br>Locke Lord<br>21/F Bank of China Tower<br>1 Garden Road<br>Central<br>Hong Kong<br><br>*as to PRC Law:*<br>Jingtian & Gongcheng<br>34/F, Tower 3<br>China Central Place<br>77 Jianguo Road<br>Chaoyang<br>District Beijing<br>PRC |
| **Reporting accountants in relation to the Target Group** | Deloitte Touche Tohmatsu<br>*Certified Public Accountants*<br>35/F One Pacific Place<br>88 Queensway<br>Hong Kong |
| **Reporting accountants in relation to the Company** | ZHONGHUI ANDA CPA Limited<br>*Certified Public Accountants*<br>Unit 701, 7/F<br>Citicorp Centre<br>18 Whitfield Road<br>Causeway Bay<br>Hong Kong |
| **Internal control consultant** | ZHONGHUI ANDA Risk Services Limited<br>Unit 701, 7/F<br>Citicorp Centre<br>18 Whitfield Road<br>Causeway Bay<br>Hong Kong |
| **Property valuer** | DTZ Debenham Tie Leung Limited<br>16/F, Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong |

**FIRST MOBILE GROUP HOLDINGS LIMITED**

**(第一電訊集團有限公司)***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 865)**

*Executive Directors*
Mr. Ng Kok Hong
Mr. Ng Kok Tai
Mr. Ng Kok Yang

*Registered Office*
P.O. Box 472
2nd Floor, Harbour Place
103 South Church Street
George Town, KY1-1106
Grand Cayman
Cayman Islands

*Head Office and Principal Place of Business in Hong Kong*
Workshop 6, Level 1
Wah Yiu Industrial Centre
30–32 Au Pui Wan Street
Fotan, Shatin
New Territories
Hong Kong

[●]

*To the Shareholders*

Dear Sirs or Madams,

**(1) VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE ACQUISITION OF CHINA GENERAL (HK) COMPANY LIMITED (中總(香港)有限公司);**
**(2) REVERSE TAKEOVER INVOLVING A NEW [REDACTED];**
**(3) PROPOSED CAPITAL REORGANISATION;**
**(4) CREDITORS SCHEMES;**
**(5) PROPOSED [REDACTED] OF [REDACTED] ON THE BASIS OF TWO [REDACTED] FOR EVERY ONE NEW SHARE HELD ON [REDACTED];**
**(6) PROPOSED SUBSCRIPTION OF SUBSCRIPTION SHARES UNDER SPECIFIC MANDATE;**
**(7) APPLICATION FOR WHITEWASH WAIVER;**
**(8) SPECIAL DEAL AND MAJOR AND CONNECTED TRANSACTIONS IN RELATION TO THE DISPOSAL;**
**(9) PROPOSED ADOPTION OF NEW MEMORANDUM AND ARTICLES; AND**
**(10) PROPOSED APPOINTMENT OF PROPOSED DIRECTORS**

* *For identification purposes only*

## 1. INTRODUCTION

Reference is made to the Announcements in relation to, among other things, the Proposed Restructuring.

As set out in the Announcements, the Company entered into an acquisition agreement with Energy Industry and the Julong Management Shareholders, and an option agreement with Apex Ocean Holdings Limited (高海集團有限公司) ("**Apex Ocean**"), a company incorporated in Hong Kong on 9 January 2013, pursuant to which the Company agreed to acquire 57.55% equity interest in Julong and a call option to acquire the remaining 42.45% equity interest in Julong respectively. On 30 July 2013, the Company further entered into (i) a deed of termination with Apex Ocean to terminate the option agreement, and (ii) an agreement with Decent Glory Limited in respect of the acquisition of the entire issued share capital of Apex Ocean (instead of acquiring the remaining equity interest of Julong pursuant to the option agreement). The agreement with Energy Industry and the Julong Management Shareholders and the agreement with Decent Glory Limited will result in the Company acquiring the entire equity interest of Julong.

The Listing Committee by its letter dated 27 September 2013 informed the Company that it had decided to grant a final extension to 31 March 2014 for the Company to submit the new [REDACTED] of Julong. The Listing Committee also decided that if the Company fails to submit the new [REDACTED] by 31 March 2014 or the Resumption Proposal fails to proceed for any reasons, the Stock Exchange will cancel the [REDACTED] of the Shares on the Stock Exchange.

Subsequent to the entering into of the agreements and in the course of preparing for the new [REDACTED], certain regulatory issues relating to the Julong Group were identified. As the regulatory issues had yet to be resolved, the Company was not able to submit the new [REDACTED] to the Stock Exchange by 31 March 2014.

Given the substantial effort already spent in resolving those regulatory issues regarding the Original Acquisition and the lack of results so far, the Directors considered that it is not in the interests of the Company and the Shareholders as a whole to continue with the Original Acquisition for the purpose of seeking a resumption of trading of the Shares. Accordingly, on 31 March 2014, the Company terminated the acquisition agreement with Energy Industry and Julong Management Shareholders and the agreement with Decent Glory Limited, the sole shareholder of Apex Ocean with immediate effect. Upon termination of the two agreements, no party shall have any claim against the other parties.

To continue with the Resumption Proposal, the Company has identified a new target company and entered into the Acquisition Agreement on 31 March 2014 with the Vendors, pursuant to which the Company shall purchase from the Vendors, the Sale Equity Interest, being the entire issued share capital of the Target Company. Upon completion of the restructuring of the Target Group, the Target Group holds interest in certain property development projects in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province.

Pursuant to the Acquisition Agreement, the Company will carry out the Proposed Restructuring which will now comprise: (i) the Capital Reorganisation; (ii) the Creditors Schemes; (iii) the [REDACTED]; (iv) the Subscription; (v) the Acquisition; and (vi) the Disposal.

As such, the Company made a submission to the Stock Exchange on 31 March 2014 to seek its permission to proceed with the Proposed Restructuring with the Acquisition in place of the Original Acquisition.

On 11 April 2014, the Listing Committee issued a letter to the Company stating that the third [REDACTED] stage had expired on 19 December 2012 and the Company had failed to submit the application within the final deadline imposed by the Listing Committee. Accordingly, the Listing Committee decided to cancel the [REDACTED] of the Shares on the Stock Exchange under Practice Note 17 to the Listing Rules.

On 24 April 2014, the Company had submitted a request for review of the Listing Committee Decision under Chapter 2B of the Listing Rules. A review hearing by the Listing (Review) Committee was held on 2 September 2014.

The Company received a letter dated 11 September 2014 from the Listing (Review) Committee, which stated that the Listing (Review) Committee decided to grant a final extension to 31 October 2014 for the Company to submit a new [REDACTED] relating to the Target Group, and not any other proposal. The letter from the Listing (Review) Committee also stated that no further extensions of time will be granted to the Company, and the Listing (Review) Committee further decided to cancel the [REDACTED] of the Shares on the Stock Exchange should the Company fail to do the above by 31 October 2014 or the new [REDACTED] relating to the Target Group fails to proceed for any reasons. The Company submitted the [REDACTED] on 30 October 2014.

The purpose of this circular is to provide the Shareholders with further information in connection with the Proposed Restructuring, among other things, (i) the Capital Reorganisation; (ii) the [REDACTED]; (iii) the Acquisition; (iv) the Whitewash Waiver; (v) the Subscription; (vi) the Special Deal; (vii) the adoption of the New Memorandum and Articles; and (viii) the proposed appointment of proposed Directors, and to give a notice to the Shareholders of the EGM. This circular also provides additional information on the Creditors' Scheme and the Target Group as required under the Listing Rules in connection with the New [REDACTED].

## 2. PROPOSED CAPITAL REORGANISATION

The Board proposes to implement, subject to the approval by the Shareholders, the Capital Reorganisation. The Capital Reorganisation comprises:

(i) the Capital Reduction — the par value of the existing issued Shares will be reduced from HK$0.10 to HK$0.0005 each;

(ii) the Share Premium Cancellation — upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company will be cancelled;

(iii) the Share Consolidation — upon the Share Premium Cancellation becoming effective, every ten (10) issued Shares of HK$0.0005 each will be consolidated into one (1) New Share of HK$0.005 each;

(iv) the Authorised Share Capital Cancellation — upon the Share Consolidation becoming effective, all the authorised but un-issued Shares will be cancelled in their entirety; and

(v) the Authorised Share Capital Increase — upon the Authorised Share Capital Cancellation becoming effective, the Company's authorised share capital will be increased to HK$500,000,000, divided into 100,000,000,000 New Shares of HK$0.005 each.

Fractional New Shares will be disregarded and not be issued to the Shareholders but all such fractional New Shares will be aggregated and, if possible, sold for the benefit of the Company.

**Effects of the Capital Reorganisation**

Other than the relevant expenses incurred, the implementation of the Capital Reorganisation will not, by itself, alter the underlying assets, liabilities, businesses, operations, management or financial position of the Company and the Group or the rights of the Shareholders.

The following table sets out the effect of the Capital Reorganisation on the share capital of the Company, that is, before and after completion of the Capital Reorganisation:

| | **Immediately before the Capital Reorganisation** | **Immediately after the Capital Reorganisation** |
|---|---|---|
| **Nominal value** | HK$0.10 | [REDACTED] |
| **Authorised share capital** | HK$300,000,000 divided into 3,000,000,000 Shares | [REDACTED] |
| **Issued and paid-up share capital** | HK$194,599,656.50 divided into 1,945,996,565 Shares | [REDACTED] |

**Status of the New Shares after the Capital Reorganisation**

The New Shares after the Capital Reorganisation will be identical and rank pari passu in all respects with each other.

**Conditions of the Capital Reorganisation**

The implementation of the Capital Reorganisation and the [REDACTED] of the New Shares are conditional upon:

(i) the passing of a special resolution by the Shareholders by way of poll at the EGM to approve the Capital Reorganisation;

(ii) the Grand Court granting an order confirming the Capital Reduction;

(iii) the registration by the Registrar of Companies in the Cayman Islands of a copy of the Grand Court order and the minutes containing the particulars required under the Companies Law;

(iv) compliance with any conditions imposed by the Grand Court; and

(v) the Listing Committee granting the [REDACTED] of, and permission to deal in, the New Shares in issue upon the Capital Reorganisation becoming effective.

As the passing of the special resolution by the Shareholders at the EGM of the Capital Reorganisation is one of the conditions precedent to completion of the Subscription and the Acquisition, Shareholders who are required to abstain from voting on the Subscription and/or the Acquisition are also required to abstain from voting on the resolution to approve the Capital Reorganisation at the EGM.

**[REDACTED] and dealings**

An application will be made by the Company to the Stock Exchange for the [REDACTED] of, and permission to deal in, the New Shares in issue arising from the Capital Reorganisation. Subject to the granting of the [REDACTED] of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

No part of the equity or debt securities of the Company is [REDACTED] or dealt in on any other stock exchanges other than the Stock Exchange and no such [REDACTED] or permission to deal in is being or is currently proposed to be sought from any other stock exchange.

**Expected effective date of the Capital Reorganisation**

Upon the conditions mentioned above being fulfilled, the Capital Reorganisation will become effective immediately after the registration of the Grand Court order and the minutes as referred to in condition (iii) above. An application will be made to the Grand Court for the approval of the Capital Reduction as soon as practicable.

**Reasons for the Capital Reorganisation**

The Board considers that the Capital Reorganisation will give greater flexibility to the Company to raise funds through the issue of New Shares in the future. In addition, the credit arising from the Capital Reduction and Share Premium Cancellation will be used to offset the accumulated losses of the Company and the balance, if any, will be transferred to the distributable reserve of the Company to be applied in such manner as and when the Board considers appropriate.

The Capital Reorganisation is subject to the approval of the Shareholders at the EGM and the Capital Reorganisation becoming effective is one of the conditions precedent under the Acquisition Agreement and the Subscription Agreements. Accordingly, the Directors are of the view that the implementation of the Capital Reorganisation is in the best interests of the Company and the Shareholders as a whole.

**Latest time for lodging transfer of Shares and closure of register of members**

In order to be registered as a member to qualify for the posting of new share certificates for the New Shares, Shareholders must lodge any transfers of Shares (together with the relevant share certificates) with [REDACTED], the branch share registrar and transfer office of the Company in Hong Kong, at [REDACTED], by [REDACTED] on [REDACTED].

Subject to completion of the Capital Reorganisation, the Company's register of members will be closed from [REDACTED] to [REDACTED] (both dates inclusive), for the purpose of, among other things, establishing entitlements for the posting of new share certificates for the New Shares. No transfer of Shares will be registered during this period.

**Posting of new certificates to the Shareholders**

Subject to completion of the Proposed Restructuring, the Company will post the new share certificates in jumbo lot for the New Shares to the Shareholders at the Company's expense. The old share certificates for existing Shares will be void automatically upon the despatch of the new share certificates.

## 3. CREDITORS SCHEMES

As part of the Proposed Restructuring, the Creditors Schemes shall be effected as follows:

(1) part of the [REDACTED] from the [REDACTED] and the Subscription in the amount of [REDACTED] shall be made available to the Creditors Schemes for the benefit of the Scheme Creditors;

(2) the transfer of the Scheme Subsidiaries to the Scheme Company or the Scheme Administrators (or their nominees) for the benefit of the Scheme Creditors and, if applicable, creditors of the Scheme Subsidiaries pursuant to the Group Reorganisation;

(3) all or any claims of the Company in respect of transactions or events incurred up to the date on which the Creditors Schemes become effective against any person (including but not limited to the Scheme Subsidiaries) shall be assigned and/or transferred and/or novated (as the case may be) from the Company to the Scheme Company or the Scheme Administrators (or their nominees) for the benefit of the Scheme Creditors upon the Creditors Schemes becoming effective;

(4) any outstanding claims made or to be made by the Scheme Creditors in respect of transactions or events incurred up to the date on which the Creditors Schemes become effective shall be assigned or transferred to the Scheme Company for settlement;

(5) all or any claims of the Retained Subsidiaries against the Scheme Subsidiaries in respect of transactions or events incurred up to the date on which the Creditors Schemes become effective shall be assigned and/or transferred and/or novated (as the case may be) from the Retained Subsidiaries to the Scheme Company or the Scheme Administrators (or their nominees) for the benefit of the Scheme Creditors upon the Creditors Schemes becoming effective; and

(6) all the indebtedness of the Company as at the date on which the Creditors Schemes become effective shall be compromised and discharged.

The implementation of each of the Creditors Schemes is conditional on Completion. The Company shall be irrevocably released from any indebtedness owing by the Company to its creditors in full on the date on which the Creditors Schemes become effective and, after Completion, no claims shall be made by the Scheme Creditors against the Company in respect of any of the indebtedness of the Company as at the date on which the Creditors Schemes become effective.

The Creditors Schemes have been approved by the creditors at the creditors' meeting held on 21 December 2010 and sanctioned by the High Court on 8 February 2011 and the Grand Court on 28 April 2011 respectively. Subject to any approvals/consents in respect of any modification of the Creditors Schemes (as necessary) having being obtained, the Creditors Schemes will become legally binding on the Company and its creditors upon fulfillment of the conditions set out in the Subscription Agreements and upon the filing of the orders of the High Court and the Grand Court with the relevant companies registries in Hong Kong and the Cayman Islands respectively.

As at the Latest Practicable Date, the Creditors Schemes had not come into effect.

## 4. THE [REDACTED]

To enable the existing Shareholders to participate in the Proposed Restructuring, the Company proposes to undertake the [REDACTED] on the basis of two (2) [REDACTED] for every one (1) New Share held by the Qualifying Shareholders on the [REDACTED]. A total of [REDACTED] will be allotted and issued by the Company to the Qualifying Shareholders and/or the [REDACTED] at the [REDACTED] of [REDACTED] for each [REDACTED]. The [REDACTED] will be conditional upon Completion.

The terms of the proposed [REDACTED] are set out below:

**Issue statistics**

| | | |
|---|---|---|
| Basis of the [REDACTED] | : | Two (2) [REDACTED] for every one (1) New Share held by the Qualifying Shareholders on the [REDACTED] |
| [REDACTED] | : | [REDACTED] per [REDACTED] payable in full upon application |
| Number of New Shares expected to be in issue as at the [REDACTED] | : | [REDACTED] |
| Number of [REDACTED] | : | [REDACTED], representing (i) approximately 20.0% of the issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 66.7% of the issued share capital of the Company immediately after the Capital Reorganisation and upon completion of the [REDACTED]; and (iii) approximately 6.67% of the issued share capital of the Company upon Completion |
| Enlarged issued share capital upon the completion of the Capital Reorganisation and the [REDACTED] and before the Subscription and the Acquisition | : | 583,798,968 New Shares |
| [REDACTED] from the [REDACTED] | : | Approximately [REDACTED] |

Save as disclosed in this circular, the Company had no share options, warrants, derivatives or other securities convertible into or exchangeable for the Shares outstanding as at the Latest Practicable Date.

**Status of the [REDACTED]**

The [REDACTED], when allotted, issued and fully paid, will rank pari passu with the then existing New Shares in issue on the date of allotment of the [REDACTED] in all respects. Holders of such [REDACTED] will be entitled to receive all future dividends and distributions which are declared after the date of allotment and issue of the [REDACTED].

**Qualifying Shareholders**

The [REDACTED] is only available to the Qualifying Shareholders. To qualify for the [REDACTED], a Shareholder must, at the close of business on the [REDACTED]:

(i) be registered as a member of the Company on the register of members of the Company; and

(ii) not be a Non-qualifying Shareholder.

In order to be registered as members of the Company on the [REDACTED], all transfers of New Shares must be lodged (together with the relevant share certificate(s)) with the Company's branch share registrar and transfer office in Hong Kong, [REDACTED], at [REDACTED] by [4:00 p.m.] on [REDACTED]. It is expected that the last day of dealing in the New Shares on a cum-entitlement basis is [REDACTED] and the New Shares will be dealt with on an ex-entitlement basis from [REDACTED].

Subject to the allotment and issue of New Shares otherwise than on a pro rata basis as required under Section 140 of the Hong Kong Companies Ordinance and the [REDACTED] being approved at the EGM, the Company will despatch the [REDACTED] Documents to each of the Qualifying Shareholders and, for information only, the [REDACTED] to each of the Non-qualifying Shareholders (if any) on or about [REDACTED].

The Board has not received any information or irrevocable undertakings from any substantial Shareholders of their intention to take up their respective [REDACTED] under the [REDACTED].

**Non-qualifying Shareholders**

The [REDACTED] Documents will not be registered or filed under the applicable securities legislation of any jurisdiction other than Hong Kong. Overseas Shareholders (as defined below) may not be eligible to take part in the [REDACTED] as explained below.

If, at the close of business on the [REDACTED], any Shareholder whose address as shown on the register of members of the Company is in a place outside of Hong Kong (the "**Overseas Shareholders**"), such Shareholder(s) may not be eligible to take part in the [REDACTED]. The Board will, if necessary, make enquiries with its legal advisers regarding the legal restrictions under the law of the relevant jurisdiction and the requirements of the relevant regulatory body or stock exchange. If, after making such enquiries, the Board is of the opinion that it would be necessary or expedient not to offer the [REDACTED] to such Overseas Shareholders, the [REDACTED] will not be available to such Overseas Shareholders. Accordingly, the [REDACTED] will not be extended to the Non-qualifying Shareholders. The results of the enquiries and the basis of exclusion of the Overseas Shareholders will be included in the [REDACTED].

Based on the register of members of the Company, as at the Latest Practicable Date, there were three Overseas Shareholders (holding in aggregate approximately 250,858 Shares) whose addresses as shown in the register of members of the Company were in Malaysia, which were outside Hong Kong.

In compliance with the necessary requirements of the Listing Rules, the Company [has made] enquiries regarding the feasibility of extending the [REDACTED] to the Overseas Shareholders. [Based on the legal advice provided by the legal advisers in Malaysia, no legal or regulatory compliance is required to be made in Malaysia. Accordingly, the [REDACTED] will be extended to the Shareholders in Malaysia. As such, there will be no Non-qualifying Shareholders under the [REDACTED].]

It is the responsibility of any person (including but not limited to nominee, agent and trustee) outside Hong Kong wishing to apply for the [REDACTED] to satisfy himself or herself or itself as to the full observance of the laws of the relevant places and the requirements of the relevant regulatory bodies, including obtaining any governmental or other consents and paying any taxes, duties and other amounts required to be paid in the relevant places in connection therewith. Shareholders should consult their professional advisers if in doubt.

**Closure of register of members**

The register of members of the Company will be closed from [REDACTED] to [REDACTED], both dates inclusive, to determine the eligibility of the Shareholders to the [REDACTED]. No transfers of New Shares will be registered during this period.

**No application for excess [REDACTED]**

After arm's length negotiation with the [REDACTED], the Company decided that it will not offer the Qualifying Shareholders the entitlement to apply for any [REDACTED] which are in excess of their assured entitlements.

**Fractional entitlements**

Fractions of [REDACTED] will not be allotted to the Qualifying Shareholders and fractional entitlements will be rounded down to the nearest whole number. Any [REDACTED] created from the aggregation of fractions of [REDACTED] will be taken up by the [REDACTED].

**Application for [REDACTED]**

The Company will apply to the Listing Committee of the Stock Exchange for the [REDACTED] of, and permission to deal in, the [REDACTED]. Dealings in the [REDACTED] will be subject to the payment of stamp duty, Stock Exchange trading fee and any other applicable fees and charges in Hong Kong.

Subject to the granting of the approval for the [REDACTED], and permission to deal in, the [REDACTED] on the Stock Exchange, the [REDACTED] will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement date of dealings in the [REDACTED] on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

**Share certificates for the [REDACTED]**

Subject to the fulfillment of the conditions of the [REDACTED], certificates for all fully-paid [REDACTED] are expected to be posted to those entitled thereto by [REDACTED] at their own risk.

**Conditions for the [REDACTED]**

The [REDACTED] is conditional upon, inter alia, the fulfillment of the conditions set out under the paragraph below headed "Conditions of the [REDACTED] Agreement" in this section. Therefore, the [REDACTED] may or may not proceed.

**[REDACTED] Agreement**

| | | |
|---|---|---|
| Issuer | : | the Company |
| [REDACTED] | : | the [REDACTED] |
| Number of [REDACTED] to be [REDACTED] by the [REDACTED] | : | [REDACTED] |
| [REDACTED] | : | [REDACTED] per [REDACTED] |
| [REDACTED] commission | : | [REDACTED] |

Terms of the [REDACTED] Agreement were determined after arm's length negotiations between the Company and the [REDACTED]. The Directors are of the opinion that the terms of the [REDACTED] Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**Conditions of the [REDACTED] Agreement**

The [REDACTED] Agreement is conditional upon the following conditions being fulfilled:

(a) the conditions precedent to the Acquisition Agreement having been fulfilled;

(b) all of the conditions precedent to the Subscription Agreements having been duly satisfied or waived in accordance with the terms set out therein;

(c) the delivery to the Stock Exchange for authorisation, and the registration with the Registrar of Companies in Hong Kong, respectively, not later than the [REDACTED] Posting Date, of one copy of each of the [REDACTED] Documents for use by the Qualifying Shareholders to apply for the [REDACTED] under their entitlements, duly signed by two Directors (or by their agents duly authorised in writing) as having been approved by resolution of the Directors (and all other documents required to be attached to it) and otherwise in compliance with the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the laws of Hong Kong (as amended, supplemented or otherwise modified from time to time);

(d) the posting of the [REDACTED] Documents to the Qualifying Shareholders and, if required by or in compliance with the Listing Rules, a copy of the [REDACTED] stamped "For Information Only" to the Non-qualifying Shareholders on the [REDACTED] Posting Date;

(e) the approval of the [REDACTED], the [REDACTED] Agreement and the transactions contemplated thereunder by the Independent Shareholders at the EGM;

(f) the approval of the Whitewash Waiver by the Independent Shareholders at the EGM by way of poll;

(g) the grant of the Whitewash Waiver by the Executive;

(h) the approval of the Special Deal by the Independent Shareholders by way of poll and the consent of the Special Deal granted by the Executive;

(i) the grant or the agreement to grant (subject to allotment) by the Listing Committee, and not having withdrawn or revoked such grant, of the [REDACTED] of and permission to deal in all the [REDACTED], either unconditionally or subject to such conditions as are accepted by the Company;

(j) the Stock Exchange having conditionally or unconditionally approved, or decided to allow the Company to proceed with, the resumption of trading in the New Shares on the Stock Exchange and all the conditions attached to such approval or decision (if any) having been fulfilled (other than those conditions relating to or in connection with restoration of public float) or waived by the Stock Exchange; and

(k) all other necessary waivers, consents and approval including but not limited to those from the Stock Exchange, the SFC and any other relevant government or regulatory authorities, which are required (if any) for the implementation of the resumption proposal and all transactions contemplated thereunder.

Except for condition (h), all the other conditions are not waivable. None of the conditions precedent has been fulfilled up to the Latest Practicable Date. If any of the conditions of the [REDACTED] Agreement is not fulfilled in whole (or waived where applicable) by [REDACTED] (or such other time and/or date as the Company and the [REDACTED] may determine in writing), or shall become incapable of being fulfilled, all obligations and liabilities of the parties under the [REDACTED] Agreement shall cease, and no party shall have any claim against the other party of the [REDACTED] Agreement and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

The [REDACTED] shall, subject to them having received from the Company notification to do so before [6:30] p.m. on the business day immediately following [REDACTED], pay to the Company by [4:00] p.m. on [●] the aggregate [REDACTED] in respect of all the [REDACTED].]

**Termination of [REDACTED] Agreement**

If, prior to 4:00 p.m. on [REDACTED] or such later date or time as the Company and the [REDACTED] may agree in writing, being the latest time to terminate the [REDACTED] Agreement (the "**Latest time for Termination**"):

(1) in the reasonable opinion of the [REDACTED], the success of the [REDACTED] would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the sole and reasonable opinion of the [REDACTED], materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the [REDACTED]; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not ejusdem generis with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the sole and reasonable opinion of the [REDACTED], materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the [REDACTED] or otherwise makes it inexpedient or inadvisable to proceed with the [REDACTED]; or

(c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or

(2) any material adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which

in the sole and reasonable opinion of the [REDACTED] is likely to materially and adversely affect the success of the [REDACTED] or otherwise makes it inexpedient or inadvisable to proceed with the [REDACTED]; or

(3) there is any change in the circumstances of the Company or any member of the Group which in the sole and reasonable opinion of the [REDACTED] will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) the circular, [REDACTED] or announcements of the Company published since the date of the [REDACTED] Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or Listing Rules or any applicable regulations) which has not prior to the date of the [REDACTED] Agreement been publicly announced or published by the Company and which may in the sole and reasonable opinion of the [REDACTED] is material to the Group as a whole and is likely to affect materially and adversely the success of the [REDACTED] or might cause a prudent investor not to accept the relevant [REDACTED] to it,

the [REDACTED] shall, by notice in writing to the Company served prior to the Latest Time for Termination, be entitled to terminate the [REDACTED] Agreement.

## WARNING OF THE RISKS OF DEALING IN THE NEW SHARES

**The [REDACTED] is conditional upon, inter alia, the fulfillment of the conditions set out under the paragraph "Conditions of the [REDACTED] Agreement" above in this circular. Therefore, the [REDACTED] may or may not proceed.**

**Any dealing in the New Shares from the date of this circular up to the date on which all the conditions of the [REDACTED] Agreement are fulfilled will accordingly bear the risk that the [REDACTED] may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealings in the New Shares are recommended to consult their own professional advisers. The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the New Shares.**

## 5. THE SUBSCRIPTION

According to the Original Subscription Agreement, Jinwu agreed to subscribe for ordinary shares of HK$0.01 each in the capital of the Company at a total subscription price of HK$162.0 million.

Pursuant to the Stand-by Facility, Time Boomer and First Apex have provided working capital facilities of HK$13 million and HK$20 million to the Group respectively. Pursuant to the TB Option Agreement and the FA Option Agreement entered into between the Company, Time Boomer and First Apex, respectively, the Company agreed to grant: (1) Time Boomer the TB Option; and (2) First Apex the FA Option.

Taking into consideration the Acquisition, the Company has entered into the Amended Subscription Agreement, the Amended TB Option Agreement and the New FA Option Agreement, (to supplement or replace (as the case may be) the Original Subscription Agreement, the TB Option Agreement and the FA Option Agreement) so that:

(a) Jinwu will subscribe for 954,694,714 New Shares at a subscription price of HK$0.155 per New Share for a total subscription amount of approximately HK$148.0 million;

(b) Time Boomer shall be entitled to subscribe for 83,870,968 New Shares at a total exercise price of HK$13 million, or HK$0.155 per New Share; and

(c) First Apex shall be entitled to subscribe for 129,032,258 New Shares at a total exercise price of HK$20 million, or HK$0.155 per New Share.

**Subscription by Jinwu**

| | | |
|---|---|---|
| **Subscription Shares** | : | 954,694,714 New Shares |
| **Subscription Price** | : | Approximately HK$148 million (equivalent to approximately HK$0.155 per New Share) |
| **Conditions Precedent** | : | The completion of the Amended Subscription Agreement is conditional upon fulfilment of, among other things, the Capital Reorganisation, the Shareholders passing at the EGM ordinary resolutions approving the share subscription thereunder and the Listing Committee granting approval for the [REDACTED] of, and permission to deal in the New Shares to be allotted and issued thereunder.<br><br>In the event that any of the conditions are not satisfied by [REDACTED] or such later date as may be agreed between Jinwu and the Company, the Amended Subscription Agreement shall be terminated. |

| | | |
|---|---|---|
| **Completion** | : | Following the fulfillment of the conditions precedent, the Company will issue and deliver a completion notice to Jinwu accompanied by documents evidencing the satisfaction of the conditions precedent. Completion shall take place within ten business days upon receipt of such completion notice by Jinwu or at such other time as the parties may agree. |

**Subscription by Time Boomer**

| | | |
|---|---|---|
| **Option** | : | The Company agreed to grant Time Boomer the New TB Option. |
| **Option Period** | : | The option period of the New TB Option shall commence from the fulfillment of all the conditions precedent to the Amended Subscription Agreement (unless the same is waived by Jinwu) to the date of the completion of the Subscription. |
| **Exercise Price** | : | The exercise price for the New TB Option shall be HK$0.155 per New Share, and shall be equal to and no less favourable than the Subscription Price with an aggregate exercise price of HK$13 million. |
| **Option Shares** | : | 83,870,968 New Shares |
| **Conditions Precedent** | : | The completion of the Amended TB Option Agreement is conditional upon fulfilment of, among other things, the Shareholders passing at the EGM ordinary resolutions approving the granting of the New TB Option and the New TB Subscription Shares; the Listing Committee granting approval for the [REDACTED] of, and permission to deal in the New TB Subscription Shares; and the fulfillment of all the conditions (unless the same is waived by Jinwu) under the Amended Subscription Agreement.<br><br>The Company shall use its best endeavours to ensure that completion of the conditions are fulfilled prior to [REDACTED]. In the event that any of the conditions are not fulfilled on or before [REDACTED] or such later date as may be agreed between Time Boomer and the Company, the Amended TB Option Agreement shall be terminated. |

**Set-off** : At the completion, Time Boomer shall be entitled at its absolute discretion to satisfy the exercise price (or any part thereof) for the New TB Subscription Shares in the following manner:

(a) to pay the same (or any part thereof) by way of cashier order drawn on a licensed bank in Hong Kong in favour of the Company or by way of remitting the same to a bank account in the name of the Company as designated by the Company; and/or

(b) to satisfy, discharge and set-off the same (or any part thereof) by way of assigning to the Company all of the outstanding loan, interest and other sums payable by MDL to Time Boomer under the TB Loan Agreement by giving the Company and MDL written notice.

**Completion** : Subject to fulfillment of the conditions precedent as detailed above and exercise of the New TB Option by Time Boomer within the option period of the New TB Option, the completion of the Amended TB Option Agreement shall take place simultaneously with the Subscription.

Upon the completion and the issue of the written notice assigning to the Company all of the outstanding loan, interest and other sums payable by MDL to Time Boomer under the TB Loan Agreement:

(a) Time Boomer shall be and be deemed to have assigned and transferred to the Company all of the outstanding loan, interest and other sums payable by MDL to Time Boomer under the TB Loan Agreement and all rights and obligations of Time Boomer under the TB Loan Agreement, on the condition that Time Boomer shall not be entitled to issue the written notice for any amount less than all of the outstanding loan, interest and other sums payable by MDL under the TB Loan Agreement;

(b) the exercise price payable by Time Boomer for the New TB Subscription Shares shall be satisfied, discharged and set off against an amount equivalent to all of the outstanding loan, interest and other sums payable by MDL under the TB Loan Agreement, and Time Boomer is only liable to pay the remaining amount of the exercise price, if any, to the Company;

(c) in the event where all of the outstanding loan, interest and other sums payable by MDL under the TB Loan Agreement exceeds the exercise price payable by Time Boomer for the New TB Subscription Shares, such amount (if any) shall be paid by the Company to Time Boomer at the completion; and

(d) MDL shall become liable to repay all of the outstanding loan, interest and other sums payable by MDL under the TB Loan Agreement to the Company in accordance with the terms of the TB Loan Agreement, and MDL's liability to repay all of the outstanding loan, interest and other sums payable by MDL under the TB Loan Agreement to Time Boomer shall be discharged absolutely.

**Transferability** : The New TB Option may be assigned or transferred by Time Boomer with the consent of Jinwu.

**Subscription by First Apex**

| | | |
|---|---|---|
| **Option** | : | The Company agreed to grant to First Apex the New FA Option. |
| **Option Period** | : | The option period of the New FA Option shall commence from the fulfillment of all the conditions precedent to the Amended Subscription Agreement (unless the same is waived by Jinwu) to the date of the completion of the Subscription. |
| **Exercise Price** | : | The exercise price for the New FA Option shall be HK$0.155 per New Share, and shall be equal to and no less favourable than the Subscription Price with an aggregate exercise price of HK$20 million. |
| **Option Shares** | : | 129,032,258 New Shares |
| **Conditions Precedent** | : | The completion of the New FA Option Agreement is conditional upon fulfillment of, among other things, the Shareholders passing at the EGM ordinary resolutions approving the granting of the New FA Option and the allotment and issue of the New FA Subscription Shares to First Apex; the Listing Committee granting approval for the [REDACTED] of, and permission to deal in the New FA Subscription Shares; and the fulfillment of all the conditions (unless the same is waived by Jinwu) under the Amended Subscription Agreement.<br><br>The Company shall use its best endeavours to ensure that completion of the conditions are fulfilled prior to [REDACTED]. In the event that any of the conditions are not fulfilled on or before [REDACTED] or such later date as may be agreed between First Apex and the Company, the New FA Option Agreement shall be terminated. |

**Set-off** : At the completion, First Apex shall be entitled at its absolute discretion to satisfy the exercise price (or any part thereof) for the New FA Subscription Shares in the following manner:

(a) to pay the same (or any part thereof) by way of cashier order drawn on a licensed bank in Hong Kong in favour of the Company or by way of remitting the same to a bank account in the name of the Company as designated by the Company; and/or

(b) to satisfy, discharge and set-off the same (or any part thereof) by way of assigning to the Company all of the outstanding loan, interest and other sums payable by MDL to First Apex under the FA Loan Agreement by giving the Company and MDL written notice.

**Completion** : Subject to fulfillment of the conditions precedent as detailed above and exercise of the New FA Option by First Apex within the option period of the New FA Option, the completion of the New FA Option Agreement shall take place simultaneously with the completion of the Subscription.

Upon the completion and the issue of the written notice assigning to the Company all of the outstanding loan, interest and other sums payable by MDL to First Apex under the FA Loan Agreement:

(a) First Apex shall be and be deemed to have assigned and transferred to the Company all of the outstanding loan, interest and other sums payable by MDL to First Apex under the FA Loan Agreement and all rights and obligations of First Apex under the FA Loan Agreement, on the condition that First Apex shall not be entitled to issue the written notice for any amount less than all of the outstanding loan, interest and other sums payable by MDL under the FA Loan Agreement;

(b) the exercise price payable by First Apex for the New FA Subscription Shares shall be satisfied, discharged and set off against an amount equivalent to all of the outstanding loan, interest and other sums payable by MDL under the FA Loan Agreement, and First Apex is only liable to pay the remaining amount of the exercise price, if any, to the Company;

(c) in the event where all of the outstanding loan, interest and other sums payable by MDL under the FA Loan Agreement exceeds the exercise price payable by First Apex for the New FA Subscription Shares, such amount (if any) shall be paid by the Company to First Apex at the completion; and

(d) MDL shall become liable to repay all of the outstanding loan, interest and other sums payable by MDL under the FA Loan Agreement to the Company in accordance with the terms of the FA Loan Agreement, and MDL's liability to repay all of the outstanding loan, interest and other sums payable by MDL under the FA Loan Agreement to First Apex shall be discharged absolutely.

**Transferability** : The New FA Option may be assigned or transferred by First Apex with the consent of Jinwu.

The completion of the Subscription, the Acquisition and the [REDACTED], which form part of the Proposed Restructuring, will be inter-conditional to each other.

The Subscribers, their respective associates, and parties acting in concert with any of them, and those (if any) who are involved in or interested in the Subscription and the transactions contemplated thereunder, shall abstain from voting on the resolution to approve the Subscription at the EGM.

## 6. REASONS FOR THE [REDACTED], THE SUBSCRIPTION AND THE WORKING FACILITY CAPITALISATION AND THE [REDACTED]

The [REDACTED] and the Subscription form part of the Resumption Proposal seeking the resumption of trading in the New Shares, which has been suspended since 27 November 2009.

The total [REDACTED] from the [REDACTED] and the Subscription, amounts to approximately [REDACTED], and, after excluding the working capital facility of [REDACTED] million provided to the Group, the [REDACTED] from the [REDACTED] and the Subscription amounts to approximately [REDACTED]. The [REDACTED] in the sum of [REDACTED] will be paid into the Creditors Schemes and, after deducting the professional fees and expenses, the balance shall be retained as the working capital of the Company after the Completion.

No cash will be generated from the Working Facility Capitalisation as the subscription monies for the subscription of the New Shares by Time Boomer and First Apex will be set off against the amounts due under the TB Loan Agreement and the FA Loan Agreement.

## 7. THE ACQUISITION

Under the Acquisition Agreement, the Company will purchase from the Vendors the Sale Equity Interest. Set out below are the salient terms of the Acquisition Agreement:

**Date**

31 March 2014 (as supplemented and amended by a supplemental agreement dated 27 October 2014 and a second supplemental agreement dated 30 April 2015)

**Parties to the Acquisition Agreement**

(i) the Company, being the purchaser;

(ii) the Vendors (namely, Mr. Shie and Mr. Tsoi), being the vendors; and

(iii) Mr. Ng, being the purchaser's guarantor.

To the best of the Director's knowledge, information and belief and having made all reasonable enquires, the Vendors are third parties independent of and not connected with, the Company and connected persons of the Company. The Vendors have also confirmed to the Company that no member of the Concert Group is acting in concert with any of the Subscribers and their respective associates. The Subscribers are Independent Third Parties.

**Asset to be acquired**

The asset to be acquired under the Acquisition Agreement is the Sale Equity Interest, being the entire equity interest in China General. The entire equity interest of China General is owned as to 50% by Mr. Shie and 50% by Mr. Tsoi respectively. Upon completion of the Acquisition, the Target Group will become wholly-owned subsidiaries of the Company.

**The Consideration**

The Consideration is approximately HK$817.0 million and was arrived at after arm's length negotiations between the parties to the Acquisition Agreement and was determined by reference to (i) the unaudited combined net asset value of the Target Group as at 31 December 2013, being approximately RMB480.0 million assuming the related capitalisation of debts having been completed; (ii) the development prospects of the Target Group; and (iii) the management's assessment on the value of the property interests held by the Target Group, based on publicly available information from, amongst other sources, the Land and Resources Bureau of Yangzhou (揚州國土資源局) (in respect of auction prices of land parcels in Yangzhou), Soufun Holdings Limited (a company whose business is operating property searching platform in the PRC) (in respect of historical selling prices of the Binjiang International Project (one of the residential property development projects of the Target Group)), as well as information provided by the

Vendors including but not limited to description of the residential property development projects held by the Target Group and the gross floor area remains for selling in the future.

The Consideration shall be satisfied by the allotment and issue of the Consideration Shares at the Consideration Price of HK$0.20 each upon completion of the Acquisition.

An application will be made by the Company to the Stock Exchange for the [REDACTED] of, and the permission to deal in the Consideration Shares.

**Conditions precedent to the Acquisition Agreement**

Conditions precedent to the Acquisition Agreement include, among others, the following which cannot be waived by parties to the Acquisition Agreement:

(a) the Creditors Schemes becoming effective no later than completion of the Acquisition;

(b) the entering into of the Subscription Agreements to amend the terms of the Original Subscription Agreement, the FA Option Agreement and the TB Option Agreement;

(c) signed written consents from the Subscribers having been obtained for the Company to enter into the Acquisition Agreement and the transactions contemplated thereunder;

(d) written consent from Deloitte Touche Tohmatsu as agent to the participating creditors having been obtained for the Company to enter into the Acquisition Agreement and the transactions contemplated thereunder, if applicable;

(e) passing of resolutions of the Independent Shareholders at the EGM by way of poll approving (i) the Capital Reorganisation; (ii) the [REDACTED]; (iii) the Acquisition; (iv) the Whitewash Waiver; (v) the Subscription; and (vi) the Special Deal;

(f) the Whitewash Waiver having been granted by the Executive to the Vendors and the Whitewash Waiver not subsequently being revoked or withdrawn;

(g) the Special Deal having been consented to by the Executive and the conditions attached (if any) to such consent having been satisfied;

(h) the Grand Court granting an order confirming the Capital Reduction;

(i) all consents from, and filings with, any government authority or any court or judicial body and other relevant third parties which are required or appropriate necessary for the implementation of the Proposed Restructuring;

(j) the Company having completed the due diligence review of the legal, financial and business affairs of the Target Group and the results of such review being reasonably satisfactory to the Company;

(k) the Vendors having completed the due diligence review of the legal, financial and business affairs of the Company and the results of such review being reasonably satisfactory to the Vendors;

(l) the [REDACTED] of and permission to deal in all of the New Shares upon completion of the Capital Reorganisation and the New Shares allotted and issued pursuant to the Subscription, the Acquisition and the [REDACTED], having been granted by the Listing Committee and such permission not subsequently being revoked or withdrawn;

(m) submission of a [REDACTED] in respect of the Target Group to the Stock Exchange by the Company and the receipt of the approval in principle from the Listing Committee by the Company and such approval not being subsequently revoked or withdrawn;

(n) the Shares or the New Shares remain to be [REDACTED] on the main board of the Stock Exchange;

(o) the entering into of the Disposal Agreement and the fulfilment or waiver of all the conditions precedents set out therein;

(p) where applicable, the Company having received from the Stock Exchange the in-principle approval letter in respect of the amendments to the Proposed Restructuring submitted to the Stock Exchange on 31 March 2014; and

(q) the Vendors having completed the reorganisation in respect of the Target Group to the satisfaction of the Company; and the Target Group shall have the full legal ownership of The Cullinan Bay Project and the Binjiang International Project.

As at the Latest Practicable Date, condition (b), (c) and (d) have been fulfilled. Completion of the Acquisition and the allotment and issue for the Consideration Shares, Subscription Shares and [REDACTED] will take place simultaneously on the date falling after 5 Business Days upon the fulfilment or waiver of the conditions described above or such other date as agreed between the parties in writing.

If any of the conditions above is not fulfilled on or before [REDACTED] or such other date as the Company and the Vendors may agree in writing, the Acquisition Agreement will be terminated and the parties thereto shall have no further obligations or liabilities thereunder save for antecedent breach.

**Reasons for the Acquisition**

The Acquisition forms part of the Resumption Proposal seeking the resumption of trading in the New Shares, which has been suspended since 27 November 2009.

Upon completion of the Acquisition, the Group will have a sufficient level of operation on the basis that the Target Group will continue to (i) sell the property units of the Binjiang International Project that approximately 19,655 sq.m. of its total saleable GFA was available for sale as at 31 July 2015; (ii) develop and sell the property units of The Cullinan Bay Project that its various phases or stages are expected to commence pre-sale or delivery in the next four years; and (iii) actively identify potential land parcels suitable for its property development projects and expand its land reserves, which will promote the sustainable growth of the Target Group and thereby enabling the Group to have a sufficient level of operation upon completion of the Acquisition. Meanwhile, the [REDACTED] from the [REDACTED] will improve the financial and liquidity position of the Group based on the financial effect of the Proposed Restructuring, details of which are set out in the section headed "Financial effects of the Proposed Restructuring" in this circular.

Taking into account that (a) the Consideration of approximately HK$817.0 million, which was arrived at after arm's length negotiations between the parties to the Acquisition Agreement and determined with reference to (i) the unaudited combined net asset value of the Target Group as at 31 December 2013, being approximately RMB480.0 million assuming the related capitalisation of debts having been completed; (ii) the development prospects of the Target Group; and (iii) the management's assessment on the value of the property interests held by the Target Group, based on publicly available information from, amongst other sources, the Land and Resources Bureau of Yangzhou (揚州國土資源局) (in respect of auction prices of land parcels in Yangzhou), Soufun Holdings Limited (a company that operates a property searching platform in the PRC) (in respect of historical selling prices of the Binjiang International Project (one of the residential property development projects of the Target Group)), as well as information provided by the Vendors including but not limited to description of the residential property development projects held by the Target Group and the gross floor area remains for selling in the future, representing a discount of approximately 6.74% to the adjusted net assets attributable to owners of the Target Group of approximately RMB693.87 million (equivalent to approximately HK$876.01 million); (b) the prolonged suspension of trading in the Shares; (c) the Resumption Proposal being the only proposal that the Listing (Review) Committee will consider for the purpose of Resumption and not any other proposals; and (d) the Company will be delisted if the Resumption Proposal failed to proceed, the Directors believe that the terms of the Acquisition Agreement are fair and reasonable and in the best interests of the Company and its Shareholders as a whole.

**Reverse takeover and [REDACTED]**

The Acquisition also constitutes a reverse takeover for the Company under Rule 14.06(6)(a) of the Listing Rules on the basis that the Acquisition (i) is a very substantial acquisition for the Company under Chapter 14 of the Listing Rules; and (ii) is regarded as resulting in a change in control of the Company to the Vendors, which falls within the bright line tests of Rule 14.06(6)(a) of the Listing Rules. Accordingly, the Company will be treated as if it were a [REDACTED] under Rule 14.54 of the Listing Rules. The Enlarged Group or the Target Group must be able to meet the requirements of Rule 8.05 of the Listing Rules and the Enlarged Group must be able to meet all the other basic conditions set out in Chapter 8 of the Listing Rules.

In this regard, the Company has appointed the Sponsor and other professional parties to assist it to prepare the [REDACTED]. The Company has made the [REDACTED] to the Stock Exchange on 30 October 2014.

**Financial effects of the Acquisition on the Company**

Immediately following completion of the Acquisition, China General will be wholly-owned by the Company and the results of the Target Group will be consolidated into the accounts of the Company.

*(i) Effect on earnings*

As set out in the section headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix III to the circular, assuming the Acquisition had been completed on 1 January 2014, the loss for the year ended 31 December 2014 of the Enlarged Group would be approximately [REDACTED], after taking into account of the Deemed [REDACTED] expenses as defined in Appendix III to this circular. In view of the profit-making track record of the Target Group, the Directors expect that the earnings of the Group will be enhanced upon Completion.

*(ii) Effect on assets value*

As set out in the section headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix III to the circular, assuming the Acquisition had been completed on 30 June 2015, the assets value of the Group as at 30 June 2015 will be improved from approximately [REDACTED] to the assets value of the Enlarged Group of approximately [REDACTED]. Based on the above, the Directors expect that the assets position of the Group will be enhanced upon Completion.

*(iii) Effect on net assets value*

As set out in the section headed "Unaudited pro forma financial information of the Enlarged Group" in Appendix III to the circular, assuming the Acquisition had been completed on 30 June 2015, the net liabilities value of the Group as at 30 June 2015 will be improved from approximately [REDACTED] to the net assets value of the Enlarged Group of approximately [REDACTED]. Based on the above, the Directors expect that the net assets position of the Group will be enhanced upon Completion.

For further details in relation to the unaudited pro forma financial information of the Enlarged Group, please refer to Appendix III to this circular.

It should be noted that the above financial effects are for illustrative purpose only and do not purport to represent the financial position of the Group upon Completion.

## 8. THE [REDACTED], THE SUBSCRIPTION SHARES AND THE CONSIDERATION SHARES

### Number of the New Shares

The [REDACTED] to be allotted and issued at the [REDACTED] of [REDACTED] each represent:

(i) approximately 200.0% of the issued shares of the Company upon completion of the Capital Reorganisation;

(ii) approximately 22.2% of the issued shares of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED] and the Subscription Shares; and

(iii) approximately 6.7% of the issued shares of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED], the Subscription Shares and the Consideration Shares.

The 1,167,597,940 Subscription Shares to be allotted and issued at the Subscription Price of HK$0.155 each represent:

(i) approximately 600.0% of the issued shares of the Company upon completion of the Capital Reorganisation;

(ii) approximately 66.7% of the issued shares of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED] and the Subscription Shares; and

(iii) approximately 20.0% of the issued shares of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED], the Subscription Shares and the Consideration Shares.

The 4,086,592,787 Consideration Shares to be allotted and issued at the Consideration price of HK$0.20 each represent:

(i) approximately 2,100.0% of the issued shares of the Company upon completion of the Capital Reorganisation;

(ii) approximately 233.3% of the issued shares of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED] and the Subscription Shares; and

(iii) approximately 70.0% of the issued shares of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED], the Subscription Shares and the Consideration Shares.

**Price of the New Shares**

The [REDACTED] of [REDACTED] each represents:

(i) a discount of approximately 92.3% to the theoretical quoted price of HK$1.68 per New Share (the quoted price of HK$0.168 per Share has been adjusted to reflect the effects of the Capital Reorganisation) on 27 November 2009, being the Last Trading Day; and

(ii) a premium of approximately HK$10.39 over the unaudited consolidated net liabilities per New Share of HK$10.26 as at 31 December 2014 (based on the audited consolidated net liabilities of the Group of approximately HK$1,997.8 million as at 31 December 2014 and 194,599,656 New Shares upon the Capital Reorganisation becoming effective).

The [REDACTED] was determined by the Company, after taking into account (i) the financial performance and financial position of the Group; and (ii) the fact that trading in the Shares on the Stock Exchange has been suspended since 27 November 2009.

The Subscription Price of HK$0.155 each represents:

(i) a discount of approximately 90.8% to the theoretical quoted price of HK$1.68 per New Share (the quoted price of HK$0.168 per Share has been adjusted to reflect the effects of the Capital Reorganisation) on 27 November 2009, being the Last Trading Date; and

(ii) a premium of approximately HK$10.415 per New Share over the unaudited consolidated net liabilities per New Share of HK$10.26 as at 31 December 2014 (based on the audited consolidated net liabilities of the Group of approximately HK$1,997.8 million as at 31 December 2014 and 194,599,656 New Shares upon the Capital Reorganisation becoming effective).

The Subscription Price was determined after arm's length negotiations, taking into account (i) the financial performance and financial position of the Group; (ii) the fact that trading in the Shares on the Stock Exchange has been suspended since 27 November 2009; and (iii) the time that the Subscribers have been involved in the Proposed Restructuring.

The Consideration Price of HK$0.20 each represents:

(i) a discount of approximately 88.1% to the theoretical quoted price of HK$1.68 per New Share (the quoted price of HK$0.168 per Share has been adjusted to reflect the effects of the Capital Reorganisation) on 27 November 2009, being the Last Trading Day; and

(ii) a premium of approximately HK$10.46 per New Share over the unaudited consolidated net liabilities per New Share of HK$10.26 as at 31 December 2014 (based on the audited consolidated net liabilities of the Group of approximately HK$1,997.8 million as at 31 December 2014 and 194,599,656 New Shares upon the Capital Reorganisation becoming effective).

The Consideration Price was determined after arm's length negotiations, taking into account (i) the financial performance and financial position of the Group; (ii) the fact that trading in the Shares on the Stock Exchange has been suspended since 27 November 2009; and (iii) the time that the Vendors have been involved in the Proposed Restructuring.

**Issue under specific mandate**

The [REDACTED], the Subscription Shares and the Consideration Shares will be issued pursuant to a specific mandate to be obtained upon approval by the Shareholders, or Independent Shareholders, as the case may be, at the EGM.

## 9. CHANGES IN SHAREHOLDING STRUCTURE

The tables below set out the changes in the shareholding structure of the Company arising from the Capital Reorganisation, the [REDACTED], the Subscription and the Acquisition. For illustrative purposes only, two cases, which assume (I) none of the Existing Shareholders subscribed for the [REDACTED] and the [REDACTED] takes up the [REDACTED] in full; and (II) all Existing Shareholders subscribed for the [REDACTED], are shown below:

### Case (I) — none of the Existing Shareholders subscribed for the [REDACTED]

| Name of shareholders | As at the Latest Practicable Date | | (I) Immediately after the Capital Reorganisation | | (II) Immediately after the Capital Reorganisation and upon completion of the [REDACTED] (*Note 2*) | | (III) Immediately after the Capital Reorganisation, the [REDACTED] and the Subscription (*Note 2*) | | (IV) Immediately after the Capital Reorganisation, the [REDACTED], the Subscription and the Acquisition (*Note 2*) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *(Shares)* | *(%)* | *(Shares)* | *(%)* | *(Shares)* | *(%)* | *(Shares)* | *(%)* | *(Shares)* | *(%)* |
| **Subscribers** | | | | | | | | | | |
| Jinwu Limited | – | – | – | – | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Time Boomer | – | – | – | – | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| First Apex | – | – | – | – | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Subtotal** | **–** | **–** | **–** | **–** | **–** | **–** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| **Existing Controlling Shareholders** | | | | | | | | | | |
| Mr. Ng Kok Hong | 596,766,389 | 30.7 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Ms. Tan Sook Kiang | 9,088,625 | 0.5 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| NKT Holdings Sdn. Bhd *(Note 1)* | 596,766,389 | 30.7 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Mr. Ng Kok Yang | 146,944,889 | 7.5 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Subtotal** | **1,349,566,292** | **69.4** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| **Public** *(Note 3)* | 596,430,273 | 30.6 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| [REDACTED] | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Concert Group | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Total** | **1,945,996,565** | **100.0** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |

## Case (II) — all Existing Shareholders subscribed for the [REDACTED]

| Name of shareholders | As at the Latest Practicable Date | | (I) Immediately after the Capital Reorganisation | | (II) Immediately after the Capital Reorganisation and upon completion of the [REDACTED] *(Note 2)* | | (III) Immediately after the Capital Reorganisation, the [REDACTED], and the Subscription *(Note 2)* | | (IV) Immediately after the Capital Reorganisation, the [REDACTED], the Subscription and the Acquisition *(Note 2)* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *(Shares)* | *(%)* | *(Shares)* | *(%)* | *(Shares)* | *(%)* | *(Shares)* | *(%)* | *(Shares)* | *(%)* |
| **Subscribers** | | | | | | | | | | |
| Jinwu Limited | – | – | – | – | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Time Boomer | – | – | – | – | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| First Apex | – | – | – | – | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Subtotal** | **–** | **–** | **–** | **–** | **–** | **–** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| **Existing Controlling Shareholders** | | | | | | | | | | |
| Mr. Ng Kok Hong | 596,766,389 | 30.7 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Ms. Tan Sook Kiang | 9,088,625 | 0.5 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| NKT Holdings Sdn. Bhd *(Note 1)* | 596,766,389 | 30.7 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Mr. Ng Kok Yang | 146,944,889 | 7.5 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Subtotal** | **1,349,566,292** | **69.4** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| **Public** *(Note 3)* | 596,430,273 | 30.6 | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Concert Group** | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Total** | **1,945,996,565** | **100.0** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |

*Note 1:* NKT Holdings Sdn. Bhd is jointly owned by Mr. Ng Kok Tai and Md. Siew Ai Lian.

*Note 2:* The completion of the [REDACTED], the Subscription and the Acquisition will take place simultaneously.

*Note 3:* The Subscribers, and the Vendors (if necessary), will take appropriate steps, which may include arrangement with a [REDACTED] agent to place down a portion of the New Shares, to ensure that the minimum public float as required under the Listing Rules is maintained before the resumption of trading in the Shares. Further announcement(s) will be made in relation to the arrangements, as and when appropriate.

*Note 4:* Shareholders and public investors should note that the above changes in shareholding structure of the Company are for illustration purpose only.

### [REDACTED] down to restore public float

In order to restore the public float of the Company upon completion of the Capital Reorganisation, the [REDACTED], the Subscription and the Acquisition, the Subscriber(s), and the Vendors (if necessary), will take appropriate steps, including entering into a [REDACTED] arrangement with a third party broker or agent to place down not less than 584,382,770 New Shares as set out in the various scenarios below to independent [REDACTED], to restore sufficient public float of the Company. Firstly, the Subscriber(s) will place down an aggregate of not less than 584,382,770 New Shares to restore the sufficient public float of the Company. In the event that the sufficient public float of the Company cannot be restored after completion of the [REDACTED] by the

Subscriber(s), the Vendors will place down a portion of the New Shares to ensure that the minimum public float as required under the Listing Rules is maintained before the resumption of trading in the Shares.

The Stock Exchange has indicated that if, upon completion of the Proposed Restructuring, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued share capital, are held by the public or if the Stock Exchange believes that:

(i) a false market exists or may exist in the Shares; or

(ii) there are insufficient Shares in public hands to maintain an orderly market, trading in the Shares will remain suspended.

Under the [REDACTED] arrangement, the [REDACTED] agent has agreed to place the aforementioned number of New Shares in the relevant scenarios on a fully underwritten basis.

## 10. FINANCIAL EFFECTS OF THE PROPOSED RESTRUCTURING

According to Appendix II to this circular, the Group's total assets and liabilities as at 30 June 2015 were approximately HK$0.5 million and approximately HK$2,065.7 million respectively, representing a net liability position of approximately HK$2,065.2 million.

Based on the current estimation of the Company, if the Proposed Restructuring had been completed on 30 June 2015, the Enlarged Group will have a net assets position.

Upon Resumption, the Enlarged Group expects to record a net loss for the year ending 31 December 2016. Major items causing the loss for the year ending 31 December 2016 will be the Deemed [REDACTED] expenses of the Proposed Restructuring. Assuming the completion of the Proposed Restructuring takes place in 2016, it is expected that the Deemed [REDACTED] expenses will be charged to the profit or loss for the year ending 31 December 2016. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group which is set out in Appendix III to this circular, the Proposed Restructuring was assumed to have taken place on 30 June 2015, and the Deemed [REDACTED] expenses of approximately HK$466.9 million are charged to the profit or loss for the period ended 30 June 2015. Please refer to note 12(a) of Appendix III to this circular for details. In light of the abovementioned substantial loss arising from the Proposed Restructuring, the Company expect to issue a profit warning announcement as soon as practicable after Resumption.

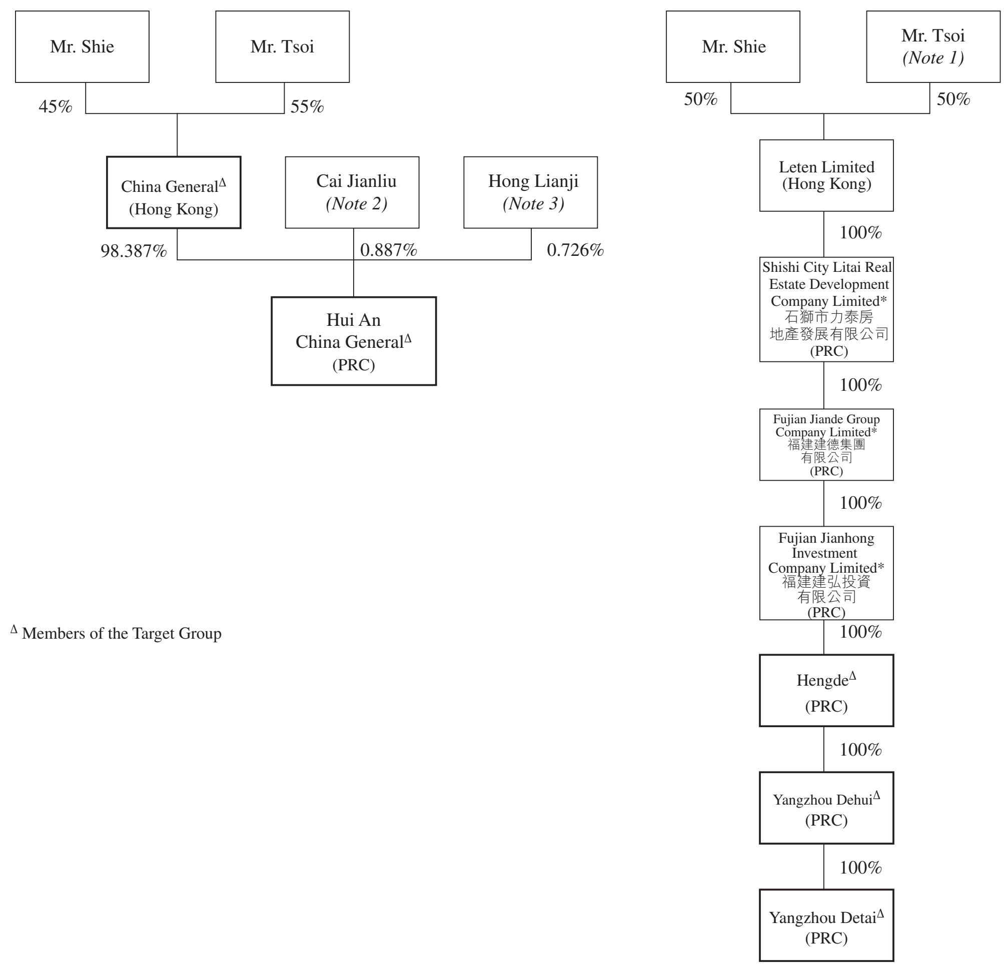
## 11. INFORMATION OF THE GROUP

The Company is an investment holding company. The Company, through its subsidiaries, is principally engaged in the trading and distribution of mobile phones and related accessories.

## 12. INFORMATION OF THE TARGET GROUP

The Target Group is primarily engaged in development and sale of residential properties in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province of the PRC. As at the Latest Practicable Date, the property portfolio of the Target Group comprised two property development projects, namely, the Binjiang International Project in Fujian Province and The Cullinan Bay Project in Jiangsu Province.

**Corporate structure of the Target Group before the Group Reorganisation and the Acquisition**

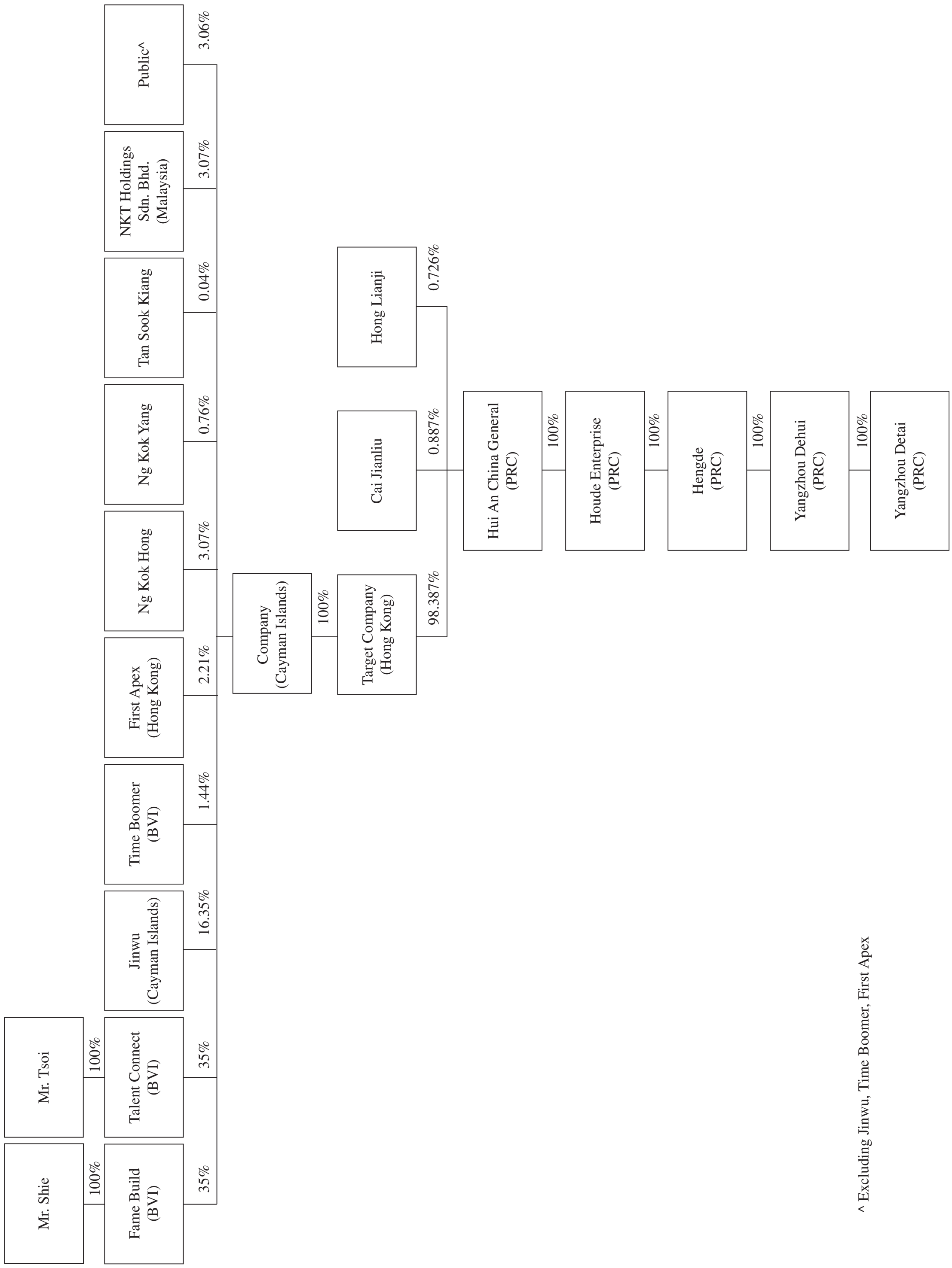



*Note 1:* The shares of Leten Limited were held on trust by Ms. Tse Lai Fung, the wife of Mr. Tsoi, in favour of Mr. Tsoi.

*Note 2:* Mr. Cai Jianliu is the younger brother of Mr. Tsoi.

*Note 3:* Mr. Hong Lianji is an Independent Third Party.

**Corporate structure of the Target Group after the Group Reorganisation and the Acquisition assuming all the Existing Shareholders fully subscribe for the [REDACTED]**



**Change of principal business activities of the Enlarged Group after Resumption**

The Vendors do not intend to continue the existing businesses of the Group. After completion of the Acquisition and the Disposal (as detailed in the section below), the Enlarged Group will primarily focus on the development and sale of residential properties in the PRC after Resumption. Other than the introduction of the business of the Target Group and the Disposal, the Vendors do not intend to introduce any major change to the Enlarged Group's business (including any re-deployment of the Enlarged Group's fixed assets) nor does it intend to discontinue the employment of any of the Group's employees after Resumption.

Each of the Company, the Vendors, the Subscribers and the Directors (including the proposed Directors), confirms that, save for the Disposal, each of them has not entered into any agreement or arrangement or has any intention and/or plan, in respect of the Company's business and/or the Enlarged Group's business, about any acquisition, disposal of interest in companies or assets, and/or to carry out a principal business other than the Enlarged Group's business within 24 months after the Resumption. The Vendors have confirmed that, save for the proposed [REDACTED] of new Shares for the purpose of meeting the public float requirement as disclosed in the paragraph headed "[REDACTED] down to restore public float" in the section headed "Changes in shareholding structure" of this circular, which the Vendors' participation is necessary, the Vendors have no intention or plan to dispose of their respective interests in the Company within 24 months after the Resumption.

*Business review of the Target Group*

For the property development, the Target Group focuses on, among others, identifying and acquiring suitable sites for development, planning and design of property development projects and formulating sales and marketing strategy. To implement its strategy and achieve its goal, the Target Group engages qualified contractors, construction supervision companies, agencies and property management company (for the Binjiang International Project) to provide design, construction, sales and marketing and property management services and supervises their performance and manages the overall project development process.

**Property development projects held by the Target Group**

*Binjiang International Project*

The Binjiang International Project is a residential project consisting primarily of high-rise residential buildings. It also includes ancillary retail shops, clubhouse, swimming pool, car parking spaces and kindergarten. The project is located in Huian County, Quanzhou, Fujian Province and developed by the Target Group.

The project consisted of four phases. As at the Latest Practicable Date, the Target Group has completed the construction of the project.

*The Cullinan Bay Project*

The Cullinan Bay Project is a residential project consisting primarily of high-rise residential buildings. It also includes ancillary retail shops and clubhouse. The project currently being developed by the Target Group is located in the west of Wangjiang Road, north of Dingxing Road and east of Linjiang Road in Yangzhou, Jiangsu Province.

The project consisted of two phases. The Target Group has completed construction of Stage 1 of Phase 1 and commenced construction of Stage 2 of Phase 1 of this project.

**Future plans**

The Target Group plans to manage its expansion plan mainly from the following aspects:

- To continue to acquire land for residential property development in prime locations in cities with high economic growth potential, in particular, the third and fourth tier cities in the PRC.
- To continue to focus on providing quality residential properties with a living community to customers.
- To strengthen its corporate recognition and presence in the property market.
- To continue to develop existing property development projects and acquire land reserves to sustain future growth.
- To continue to exercise prudent financial control in order to ensure sustainable growth and sufficient financial resources.
- To attract, retain and motivate talented personnel by offering competitive remuneration packages.

**Management profile of the Target Group**

The Target Group has experienced management teams with an average of about seven years of experience in the real estate industry. The Company believes that the Target Group's experienced and stable management team has contributed to the success of the Target Group and will further enhance the Target Group's execution capabilities.

**Financial information of the Target Group**

The audited consolidated net asset value of the Target Group was approximately RMB500.9 million as at 31 December 2014, assuming the related capitalisation of debts having been completed.

The net profits (both before and after taxation) attributable to the assets that are the subject of the Acquisition, i.e. the Target Group, for the years ended 31 December 2012, 2013 and 2014 are set out as follows:

| | **For the year ended 31 December 2012** | **For the year ended 31 December 2013** | **For the year ended 31 December 2014** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Audited net profit before taxation of the Target Group | 22,447 | 39,736 | 53,661 |
| Audited net profit after taxation of the Target Group | 15,295 | 27,372 | 35,813 |

## 13. INFORMATION ON THE SUBSCRIBERS

Jinwu is a special purpose investment company owned by Daxin Investment Fund, being an investment fund established under the laws of the Cayman Islands, managed by Greater China Capital Limited. Greater China Capital Limited is an investment advisory firm established under the laws of Hong Kong.

Time Boomer is a company incorporated in the British Virgin Islands and is wholly and beneficially owned by Mr. Tai Kai Hing. Mr. Tai is an experienced investor while Time Boomer is principally an investment holding company.

First Apex is a limited liability company incorporated in Hong Kong and is wholly and beneficially owned by Mr. Benjamin Kumar Sharma, a businessman involved in the distribution of major-brand mobile phones and accessories with over 30 years of experience in this industry. First Apex is principally an investment holding company.

Each of Jinwu, Time Boomer and First Apex and their respective beneficial owners are third parties independent of the Company and its connected persons and the Concert Group.

## 14. THE DISPOSAL

Following completion of the transactions, the Company has no intention to continue the existing businesses of the Group (other than the businesses operated by the Target Group) and therefore, has entered into the Disposal Agreement to dispose of the Retained Subsidiaries.

### The Disposal Agreement

*Date*

27 October 2014 (as supplemented by a supplemental agreement dated 30 April 2015)

*Parties*

(i) the Company, being the vendor; and

(ii) the Purchaser, being the purchaser which is solely and beneficially owned by Mr. Ng.

*Assets to be disposed of*

Pursuant to the Disposal Agreement, the Purchaser has conditionally agreed to acquire and the Company has conditionally agreed to sell the entire issued share capital of each of the Disposed Companies. The Disposed Companies, together with their subsidiaries, are the Retained Subsidiaries which will be disposed of under the Proposed Restructuring. Upon completion of the Disposal, the Company will no longer be interested in the Retained Subsidiaries.

*The consideration*

The Retained Subsidiaries will be transferred to the Purchaser at a nominal consideration of HK$1.00, which was arrived at after arm's length negotiations between the parties and was determined by reference to the unaudited net tangible liabilities value of the Retained Subsidiaries (as a group) as at 30 June 2015, which amounts to approximately [REDACTED], by reference to the management account of the Retained Subsidiaries.

The consideration shall be satisfied in cash upon completion of the Disposal.

*Conditions precedent*

Completion of the Disposal shall be subject to and conditional upon the fulfillments of the following conditions:

(1) the passing by the Independent Shareholders at an extraordinary general meeting of the Company resolutions approving the transactions contemplated in the Disposal Agreement in accordance with all applicable requirements under the Listing Rules and the Takeovers Code;

(2) consent from the Executive in relation to the transactions contemplated in the Disposal Agreement, which constitute a special deal in accordance with Rule 25 of the Takeovers Code being obtained;

(3) all necessary authorisations of all relevant governmental or regulatory authorities, agencies or bodies, or any other third party (including banks), required for the implementation of the transactions contemplated in the Disposal Agreement being obtained and maintained;

(4) no matter, event, circumstance or change having occurred which has caused, causes or is likely to cause any material adverse effect on the ability of the Company to perform or observe any of its obligations, undertakings or covenants under the Disposal Agreement;

(5) there being no applicable law which prohibits, restricts or imposes conditions or limitations on, or is reasonably expected to operate to prohibit, restrict or impose conditions or limitations on, the consummation of any of the transactions contemplated in the Disposal Agreement;

(6) there being no bona fide or other proceedings in effect, pending or genuinely threatened as at completion of the Disposal before any court, tribunal or arbitrator of a competent jurisdiction or by any governmental authority which seeks to prohibit, restrict, impose condition or limitation on or otherwise challenge any of the transactions contemplated in the Disposal Agreement; and

(7) the fulfilment of the conditions under the Acquisition Agreement other than the condition relating to the fulfilment or waiver of the conditions precedent under the Disposal Agreement.

Save and except for the conditions precedent set out in paragraphs (1) and (2) above which cannot be waived in any circumstance, the Purchaser shall be entitled to waive any of the conditions precedent. In the event that the above conditions are not fulfilled on or before [REDACTED] (or such earlier or later date as may be agreed by the Company and the Purchaser in writing), the Disposal Agreement shall lapse and the Company does not need to proceed with the Disposal.

*Completion*

Completion of the Disposal shall take place within five business days from the date on which all the conditions precedent as set out above are fulfilled (or such earlier or later date as may be agreed by the Vendors and the Purchaser in writing).

**Information on the Purchaser**

The Purchaser is a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Ng and principally engaged in investment holding. Mr. Ng is also the sole director of the Purchaser.

As at the Latest Practicable Date, Mr. Ng is interested and deemed to be interested in an aggregate of 605,855,014 Shares, representing approximately 31.1% of the issued share capital of the Company. The Purchaser and Mr. Ng are therefore connected persons of the Company pursuant to Chapter 14A of the Listing Rules.

**Information on the Retained Subsidiaries**

The Disposed Companies were incorporated in the British Virgin Islands or Hong Kong respectively. The Retained Subsidiaries (as a group) are engaged in the business of trading and distribution of mobile phones and related accessories and their business have been gradually scaled down in the past three years.

Set out below is the consolidated audited financial results of each of the Disposed Companies for each of the three financial years ended 31 December 2014 as extracted from the consolidated statement of profit or loss and consolidated statement of financial position of the Group.

*Marzo Holdings*

| | **For the year ended 31 December 2012** *HK$'000* | **For the year ended 31 December 2013** *HK$'000* | **For the year ended 31 December 2014** *HK$'000* |
|---|---|---|---|
| Loss before tax | (80) | (25) | (20) |
| Loss after tax | (70) | (25) | (20) |

As at 31 December 2014, the consolidated net assets of Marzo Holdings was approximately HK$48,000.

As at 30 June 2015, the consolidated net assets of Marzo Holdings was approximately HK$48,000.

*Value Day*

| | **For the year ended 31 December 2012** *HK$'000* | **For the year ended 31 December 2013** *HK$'000* | **For the year ended 31 December 2014** *HK$'000* |
|---|---|---|---|
| Loss before tax | (98) | (115) | (115) |
| Loss after tax | (98) | (115) | (115) |

As at 31 December 2014, the consolidated net liabilities of Value Day was approximately HK$328,000.

As at 30 June 2015, the consolidated net liabilities of Value Day was approximately HK$376,000.

*MDL*

| | **For the year ended 31 December 2012** | **For the year ended 31 December 2013** | **For the year ended 31 December 2014** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Loss before tax | (22,909) | (11,353) | (1,954) |
| Loss after tax | (22,909) | (11,353) | (1,954) |

As at 31 December 2014, the consolidated net liabilities of MDL was approximately HK$85,088,000.

As at 30 June 2015, the consolidated net liabilities of MDL was approximately HK$84,185,000.

**Financial effect of the Disposal and the use of proceed from the Disposal**

Upon completion of the Disposal, each of the Retained Subsidiaries will cease to be a subsidiary of the Company and their respective financial results will not be consolidated in the Group's financial statements.

The Disposal is expected to record an unaudited gain on deconsolidation of the Retained Subsidiaries of approximately HK$81.9 million to the Company and no material effect on the earning, assets and liabilities of the Group upon completion of the Disposal. The net proceeds from the Disposal will be used as general working capital of the Group.

**Reasons for the Disposal**

The Group is principally engaged in the business of trading and distribution of mobile phones and related accessories. Following completion of the Acquisition and the Disposal respectively, the Group will retain the entire issued share capital of China General. As such, the Group's principal business will then be engaged in development and sales of residential properties.

The Disposal is part of the Proposed Restructuring. Following completion of the Proposed Restructuring, the Group will have a sufficient level of operation while the [REDACTED] from the [REDACTED] will improve the financial and liquidity position of the Group based on the financial effect of the Proposed Restructuring.

The Board considers that the terms of the Disposal Agreement are on normal commercial terms which are fair and reasonable and are in the best interests of the Company and the Shareholders as a whole.

## 15. PROPOSED APPOINTMENT OF PROPOSED DIRECTORS

For further details of the proposed Directors and biographical and other information related to any proposed Directors, please refer to the section headed "Directors and Senior Management of the Enlarged Group" in this circular.

## 16. PROPOSED ADOPTION OF NEW MEMORANDUM AND ARTICLES

The Existing Memorandum and Articles has been adopted since 2000 and was amended in 2003, 2004 and 2006 respectively. In connection with the Proposed Restructuring, the Board proposes to seek the approval of the Shareholders at the EGM for the adoption of the New Memorandum and Articles to substitute the Existing Memorandum and Articles, the provisions of which will comply with the requirements of the Listing Rules and Cayman Islands laws. Below is a short summary of the major changes to the Existing Memorandum and Articles:

(a) to allow the Company to use the Company's website and other electronic means to send or make available notices or documents to the Shareholders, subject to compliance with the Listing Rules and applicable laws of the Cayman Islands, where notice is published on the Company's website the Shareholders concerned should be notified that it has so been published;

(b) to reflect the result of the Capital Reorganisation, including the changes made to the Company's authorised share capital;

(c) to specify that all resolutions at general meetings of the Company shall be decided by poll (except that the chairman of the general meetings may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands);

(d) to align with the latest changes to the Listing Rules on the Directors' requirement of not voting on any resolution of the Board approving any contract or arrangement in which the Director or any of his associates is materially interested; and

(e) to align with the requirements of the Listing Rules that matter in which a substantial shareholder or a Director has a conflict of interest which is considered to be material by the Board should be dealt with by a physical Board meeting rather than a written resolution.

A summary of the principal terms of the New Memorandum and Articles is set out in Appendix VI to this circular.

The adoption of the New Memorandum and Articles is conditional upon (i) the passing of a special resolution by the Shareholders at the EGM to approve the Capital Reorganisation and adopt the New Memorandum and Articles in substitution for the Existing Memorandum and Articles; (ii) approval of the Capital Reduction by the Cayman Islands Court; (iii) registration by the Registrar of Companies of the Cayman Islands of the order of the Cayman Islands Court confirming the Capital Reduction and the minute approved by the Cayman Islands Court containing the particulars required under the Companies Law in respect of the Capital

Reduction; (iv) compliance with any condition as may be imposed by the Cayman Islands Court in relation to the Capital Reduction; and (v) the Listing Committee granting the [REDACTED] of, and permission to deal in, the New Shares in issue, upon the date on which the Capital Reduction becomes effective. The New Memorandum and Articles will substitute the Existing Memorandum and Articles on the date of satisfaction of the foregoing conditions.

Shareholders are advised that the New Memorandum and Articles are written in English only and there is no official Chinese translation. The Chinese translation of the New Memorandum and Articles is for reference purpose only. In case of any inconsistency, the English version shall prevail.

## 17. FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising activities in the past twelve months before the Latest Practicable Date.

## 18. IMPLICATIONS UNDER THE LISTING RULES

### The Capital Reorganisation

As the passing of the special resolution by the Shareholders at the EGM of the Capital Reorganisation is one of the conditions precedent to completion of the Subscription and the Acquisition, Shareholders who are required to abstain from voting on the Subscription and/or the Acquisition are also required to abstain from voting on the resolution to approve the Capital Reorganisation at the EGM.

### The Subscription

The Subscribers, their respective associates, and parties acting in concert with any of them, and those (if any) who are involved in or interested in the Subscription and the transactions contemplated thereunder, shall abstain from voting on the resolution to approve the Subscription at the EGM.

### The Acquisition

As one or more of the applicable percentage ratios of the Acquisition under Rule 14.07 of the Listing Rules exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules and a reverse takeover for the Company under Rule 14.06(6) of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements pursuant to the Listing Rules and approval of the [REDACTED] by the Listing Committee.

The Vendors, their respective associates and parties acting in concert with any of them, and those (if any) who are involved in or interested in the Acquisition and the transactions contemplated thereunder shall abstain from voting on the resolution at the EGM to approve the Acquisition.

### The [REDACTED]

As the [REDACTED] will increase the issued share capital of the Company by more than 50%, pursuant to Rule 7.24(5) of the Listing Rules, the [REDACTED] and the transactions contemplated under the [REDACTED] Agreement will be subject to the approval by the Shareholders at the EGM by way of poll. The Existing Controlling Shareholders are collectively interested in 1,349,566,292 Shares, representing approximately 69.4% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in favour of the resolution(s) to be proposed at the EGM to consider and, if thought fit, approve the [REDACTED] and the transactions contemplated under the [REDACTED] Agreement.

### The Disposal

As the applicable percentage ratio (as defined under the Listing Rules) in respect of the Disposal is more than 25% but less than 75%, the entering into of the Disposal Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Purchaser is a company which is wholly-owned by Mr. Ng, the Disposal also constitute connected transactions of the Company pursuant to Chapter 14A of the Listing Rules and is subject to the reporting, announcement and approvals by the Independent Shareholders at the EGM.

Given the material interests of Mr. Ng in the Disposal, Mr. Ng had abstained from voting at the Board meeting approving the Disposal Agreement and the transactions contemplated thereunder and the Purchaser, Mr. Ng and parties acting in concert with any of them and any Shareholders who are involved in or interested in the Disposal will also abstain from voting on the resolution to approve the Disposal Agreement and the transactions contemplated thereunder at the EGM.

### Others

Save as disclosed above, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, none of the other Shareholders and its associates is required to abstain from voting on any resolutions to be proposed at the EGM.

For the avoidance of doubt, none of the Shareholders is required to abstain from voting on the resolutions in relation to the proposed appointment of the proposed Directors and the adoption of the New Memorandum and Articles. Voting on the resolutions at the EGM will be taken by poll.

The Company will apply to the Stock Exchange for the [REDACTED] of and permission to deal in the [REDACTED], the Consideration Shares and the Subscription Shares.

## 19. IMPLICATIONS UNDER THE TAKEOVERS CODE

### Whitewash Waiver

As at the Latest Practicable Date, the Concert Group does not own or control any existing Shares, convertible securities, warrants, options or derivatives in respect of the existing Shares. Upon Completion, the Concert Group will, in aggregate, hold approximately 70.0% of the share capital of the Company after the Capital Reorganisation and as enlarged by the [REDACTED], the Subscription Shares and the Consideration Shares.

As such, the Concert Group would be required to make a mandatory general offer for all the issued shares of the Company (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

The Vendors have made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, in which parties of the Concert Group and those who are involved in or interested in the Proposed Restructuring will abstain from voting on the relevant resolution(s). If the Whitewash Waiver is granted by the Executive, the Concert Group will not be required to make a mandatory offer which would otherwise be required as a result of the acquisition of the Consideration Shares. The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted, the Acquisition Agreement will lapse and consequentially the Subscription Agreements, the [REDACTED] Agreement, the Disposal Agreement and the [REDACTED] will lapse.

### Special Deal

As the Disposal will not be extended to other existing Shareholders, the Disposal constitutes a special deal under Note 4 to Rule 25 of the Takeovers Code, and will be conditional upon obtaining the prior consent of the Executive under Rule 25 of the Takeovers Code. An application has been made to the Executive for consent under Rule 25 of the Takeovers Code for the Disposal. Such consent, if granted, will be subject to (i) the Independent Financial Adviser publicly states that in its opinion the terms of the Special Deal are fair and reasonable; and (ii) the Special Deal is approved by the Independent Shareholders at the EGM by way of poll.

Shareholders including (i) the Purchaser, Mr. Ng and parties acting in concert with any of them; and (ii) any Shareholders who are involved in or interested in the Special Deal, will be required to abstain from voting on the relevant resolutions to be proposed at the EGM.

## 20. INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

As at the Latest Practicable Date, the Concert Group confirms that, save as disclosed in this circular,

(a) none of the members of the Concert Group owns or has control or direction over any existing Shares, rights over Shares, convertible securities, warrants, options or derivatives in respect of the Shares;

(b) other than the entering into of the Acquisition Agreement, none of the members of the Concert Group has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company within the six months prior to the date of the Acquisition Agreement and up to the Latest Practicable Date;

(c) none of the members of the Concert Group has received any irrevocable commitment in relation to voting of the resolutions in respect of the Capital Reorganisation, the Acquisition, the Subscription, the [REDACTED], the [REDACTED] Agreement, the Whitewash Waiver, the Special Deal, the proposed appointment of the proposed Directors, the adoption of the New Memorandum and Articles or any transactions contemplated thereunder at the EGM;

(d) there is no outstanding derivative in respect of the securities of the Company which has been entered into by any members of the Concert Group;

(e) there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of any of the members of the Concert Group or the Company and which might be material to the Acquisition Agreement, the Subscription Agreements, the [REDACTED], the [REDACTED] Agreement, the Whitewash Waiver, the Special Deal, the proposed appointment of the proposed Directors, the adoption of the New Memorandum and Articles or any transactions contemplated thereunder;

(f) there is no agreement or arrangement to which any members of the Concert Group is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Acquisition Agreement, the Subscription Agreements, the [REDACTED], the [REDACTED] Agreement, the Whitewash Waiver, the Special Deal, the proposed appointment of the proposed Directors, the adoption of the New Memorandum and Articles or any transactions contemplated thereunder, including any break fees being payable; and

(g) none of members of the Concert Group has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

As at the Latest Practicable Date, the issued share capital of the Company comprises 1,945,996,565 Shares and, other than the New TB Option and the New FA Option, the Company does not have any options, warrants or convertible securities in issue.

## 21. EGM

A notice of the EGM to be held at [●] on [REDACTED], [REDACTED] at [2:00] [p.m.] is set out on pages EGM-1 to EGM-7 of this circular for the purpose of considering and, if thought fit, approving the Capital Reorganisation, the [REDACTED], the Acquisition, the Whitewash Waiver, the Subscription, the Special Deal, the adoption of the New Memorandum and Articles and the proposed appointment of the proposed Directors. Voting on the resolutions at the EGM will be taken by poll.

A form of proxy for use at the EGM is enclosed. Whether or not you intend to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, [REDACTED] at [REDACTED] as soon as possible but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending, and voting in person at the EGM or any adjournment thereof if you so desire.

## 22. GENERAL

It should be noted that the transactions contemplated are subject to a number of conditions, which may or may not be fulfilled. In addition, the approval of the [REDACTED], the Whitewash Waiver and the Special Deal may or may not be granted. Shareholders and potential investors should exercise caution when they deal or contemplate dealing in the Shares or other securities of the Company.

## 23. RECOMMENDATIONS

The Directors consider that the terms of (i) the Capital Reorganisation; (ii) the [REDACTED]; (iii) the Acquisition; (iv) the Whitewash Waiver; (v) the Subscription; (vi) the Special Deal; (vii) the adoption of the New Memorandum and Articles; and (viii) the proposed appointment of propose Directors are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. The Directors accordingly recommend (i) the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Capital Reorganisation, the [REDACTED], the Acquisition, the Whitewash Waiver, the Subscription and the Special Deal; and (ii) the Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the adoption of the New Memorandum and Articles and the proposed appointment of the proposed Directors.

Goldin Financial Limited has been appointed as the Independent Financial Adviser to advise the Independent Shareholders in this regard. The text of the letter from the Independent Financial Adviser, containing its advice to the Independent Shareholders and the principal factors and reasons which it has taken into account in arriving at its advice, is set out on pages [87] to [124] of this circular.

## 24. FURTHER INFORMATION

Your attention is drawn to other sections of and appendices to this circular, which contain further information on the Target Group and other information required to be disclosed under the Takeovers Code and the Listing Rules.

By order of the Board
**First Mobile Group Holdings Limited**
**Ng Kok Hong**
*Executive Chairman*

*The following is the full text of the letter from Goldin Financial Limited setting out the advice to the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*

高銀融資有限公司
GOLDIN FINANCIAL LIMITED

**Goldin Financial Limited**
23rd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

[●] 2015

*To: the Independent Shareholders of*
*First Mobile Group Holdings Limited*

Dear Sirs,

**(1) PROPOSED [REDACTED] OF [REDACTED]
ON THE BASIS OF TWO [REDACTED] FOR EVERY
ONE NEW SHARE
HELD ON [REDACTED];
(2) PROPOSED SUBSCRIPTION OF SUBSCRIPTION SHARES
UNDER SPECIFIC MANDATE;
(3) VERY SUBSTANTIAL ACQUISITION
IN RELATION TO THE ACQUISITION OF THE TARGET GROUP;
(4) APPLICATION FOR WHITEWASH WAIVER; AND
(5) SPECIAL DEAL AND MAJOR AND CONNECTED TRANSACTIONS
IN RELATION TO THE DISPOSAL**

## INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Shareholders in relation to the Proposed Restructuring, details of which are set out in the Letter from the Board (the "Board Letter") contained in this circular dated [●] 2015 issued by the Company (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Dealing in the shares of the Company on the Main Board of the Stock Exchange has been suspended since 27 November 2009. As set out in the interim financial information of the Company for the six months ended 30 June 2013, the Stock Exchange placed the Company in the third delisting stage under Practice Notice 17 to the Listing Rules on 20 June 2012. In an effort to implement the Resumption Proposal dated 4 December 2012, the Company has identified a new target company and entered into the Acquisition Agreement on 31 March 2014 with the Vendors, pursuant to which the Company will acquire the Sale Equity Interest. Upon completion of the Acquisition, the Enlarged Group will hold 98.387% interest in certain property development projects in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province in the PRC.

Pursuant to the Acquisition Agreement, the Company will carry out the Proposed Restructuring which comprises: (i) the Capital Reorganisation; (ii) the Creditors Schemes; (iii) the [REDACTED]; (iv) the Subscription; (v) the Acquisition; and (vi) the Disposal, which constitutes a special deal under Note 4 to Rule 25 of the Takeovers Code, details of which are contained the Circular.

As one or more of the applicable percentage ratios of the Acquisition under Rule 14.07 of the Listing Rules exceed 100%, the Acquisition constitutes a very substantial acquisition of the Company under Rule 14.06(5) of the Listing Rules and a reverse takeover for the Company under Rule 14.06(6) of the Listing Rules and is therefore subject to the reporting, announcement and shareholders' approval requirements pursuant to the Listing Rules and approval of the [REDACTED] by the Listing Committee.

As the [REDACTED] will increase the issued share capital of the Company by more than 50%, pursuant to Rule 7.24(5) of the Listing Rules, the [REDACTED] and the transactions contemplated under the [REDACTED] Agreement will be subject to the approval by the Shareholders at the EGM by way of poll. The Existing Controlling Shareholders are collectively interested in 1,349,566,292 Shares, representing approximately 69.4% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting in favour of the resolution(s) to be proposed at the EGM to consider and, if thought fit, approve the [REDACTED] and the transactions contemplated under the [REDACTED] Agreement.

As at the Latest Practicable Date, the Concert Group does not own or control any existing Shares, convertible securities, warrants, options or derivatives in respect of the existing Shares. Upon Completion, the Concert Group will, in aggregate, hold approximately 70.0% of the share capital of the Company after the Capital Reorganisation and as enlarged by the [REDACTED], the Subscription Shares and the Consideration Shares. As such, the Concert Group would be required to make a mandatory general offer for all the issued shares of the Company (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

The Vendors have made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, in which parties of the Concert Group and those who are involved in or interested in the Proposed Restructuring will abstain from voting on the relevant resolution(s). If the Whitewash Waiver is granted by the Executive, the Concert Group will not be required to make a mandatory offer which would otherwise be required as a result of the acquisition of the Consideration Shares. The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted, the Acquisition Agreement will lapse.

As the applicable percentage ratio (as defined under the Listing Rules) in respect of the Disposal is more than 25% but less than 75%, the entering into of the Disposal Agreement constitutes major transaction of the Company under Chapter 14 of the Listing Rules. In addition, as the Purchaser is a company which is wholly-owned by Mr. Ng, the Disposal also constitutes connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. As such, the Disposal is subject to the reporting, announcement and shareholders' approval requirements under Chapters 14 and Chapters 14A of the Listing Rules.

We, Goldin Financial Limited, have been appointed by the Company as the independent financial adviser to advise the Independent Shareholders in relation to the [REDACTED], the Subscription, the Acquisition, the Whitewash Application, and the Special Deal and the Disposal, and to make a recommendation as to, among others, whether the terms and conditions thereunder are fair and reasonable and as to voting in respect of the relevant resolutions at the EGM.

## BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the Subscription Agreements, the [REDACTED] Agreement, the Acquisition Agreement, the Disposal Agreement and the audited annual results of the Company for the year ended 31 December 2013 and for the year ended 31 December 2014 as set out in Appendix II to the Circular. We have also reviewed certain information provided by the management of the Company relating to the operation, financial condition and prospect of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the financials, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, which we have relied upon in formulating our opinion, are true, accurate and complete in all material respects as at the date hereof and the Shareholders will be notified of any material changes as soon as possible.

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than those in relation to the Vendors and the Target Group) contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those in relation to the Vendors and the Target Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. The Vendors, being the directors of China General, jointly and severally accept full responsibility for the accuracy of the information (other than those in relation to the Group) contained in the Circular in relation to the Target Group and themselves and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those in relation to the Group) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and the reasons for, the Proposed Restructuring and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group. We have not participated in the selection process of the restructuring proposals and we are therefore not in the position to comment on such process or the terms of any other proposals. Our opinion was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation on the Proposed Restructuring to the Independent Shareholders, we have taken into account the following principal factors and reasons:

### 1. Background to and reasons for the Proposed Restructuring

#### *1.1 Background of the Proposed Restructuring*

Dealing in the shares of the Company on the Main Board of the Stock Exchange has been suspended since 27 November 2009. As set out in the interim report of the Company for the six months ended 30 June 2013, the Stock Exchange placed the Company in the third delisting stage under Practice Notice 17 to the Listing Rules on 20 June 2012.

As set out in the aforementioned announcements and the Company's interim report for the six months ended 30 June 2013, the Company entered into an acquisition agreement with Energy Industry and the Julong Management Shareholders, and an option agreement with Apex Ocean, pursuant to which the Company agreed to acquire 57.55% equity interest in Julong and a call option to acquire the remaining 42.45% equity interest in Julong respectively. On 30 July 2013, the Company further entered into (i) a deed of termination with Apex Ocean to terminate the option agreement, and (ii) an agreement with Decent Glory Limited in respect of the acquisition of the entire issued share capital of Apex Ocean (instead of acquiring the remaining equity interest of Julong pursuant to the option agreement). The agreement with Energy Industry and the Julong Management Shareholders and the agreement with Decent Glory Limited will result in the Company acquiring the entire equity interest of Julong.

The Listing Committee by its letter dated 27 September 2013 informed the Company that it had decided to grant a final extension to 31 March 2014 for the Company to submit the [REDACTED] of Julong. The Listing Committee also decided that if the Company fails to submit the [REDACTED] by 31 March 2014 or the Resumption Proposal fails to proceed for any reasons, the Stock Exchange will cancel the [REDACTED] of the Shares on the Stock Exchange.

Subsequent to the entering into of the agreements and in the course of preparing for the [REDACTED], certain regulatory issues relating to the Julong Group were identified. As the regulatory issues had yet to be resolved, the Company was not able to make the [REDACTED] to the Stock Exchange by 31 March 2014.

Given the substantial effort already spent in resolving those regulatory issues regarding the Original Acquisition and the lack of results so far, the Directors considered that it is not in the interests of the Company and its Shareholders as a whole to continue with the Original Acquisition for the purpose of seeking a resumption of trading of the Shares. Accordingly, on 31 March 2014, the Company terminated the acquisition agreement with Energy Industry and Julong Management Shareholders and the agreement with Decent Glory Limited, the sole shareholder of Apex Ocean with immediate effect. Upon termination of the two agreements, no party shall have any claim against the other parties.

To continue with the Resumption Proposal, the Company has identified a new target company and entered into the Acquisition Agreement on 31 March 2014 with the Vendors, pursuant to which the Company shall purchase from the Vendors, the Sale Equity Interest, being the entire issued share capital of the Target Company. Upon completion of the restructuring of the Target Group, the Target Group holds interest in certain property development projects in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province.

Pursuant to the Acquisition Agreement, the Company will carry out the Proposed Restructuring which will now comprise: (i) the Capital Reorganisation; (ii) the Creditors Schemes; (iii) the [REDACTED]; (iv) the Subscription; (v) the Acquisition; and (vi) the Disposal.

As such, the Company made a submission to the Stock Exchange on 31 March 2014 to seek its permission to proceed with the Proposed Restructuring with the Acquisition in place of the Original Acquisition.

On 11 April 2014, the Listing Committee issued a letter to the Company stating that the third delisting stage had expired on 19 December 2012 and the Company had failed to submit the application within the final deadline imposed by the Listing Committee. Accordingly, the Listing Committee decided to cancel the [REDACTED] of the Company's shares on the Stock Exchange under Practice Note 17 to the Listing Rules.

On 24 April 2014, the Company has submitted a request for review of the Listing Committee Decision under Chapter 2B of the Listing Rules. A review hearing by the Listing (Review) Committee was held on 2 September 2014.

The Company received a letter dated 11 September 2014 from the Listing (Review) Committee, which stated that the Listing (Review) Committee decided to grant a final extension to 31 October 2014 for the Company to submit a [REDACTED] relating to the Target Group, and not any other proposal. The letter from the Listing (Review) Committee also stated that no further extensions of time will be granted to the Company, and the Listing (Review) Committee further decided to cancel the [REDACTED] of the Shares on the Stock Exchange should the Company fail to do the above by 31 October 2014 or the [REDACTED] relating to the Target Group fail to proceed for any reasons. The Company submitted the [REDACTED] on 30 October 2014.

### *1.2 Financial information of the Group*

Set out below are the financial information of the Group as extracted from Appendix II to the Circular:

**Table 1: Summary of the consolidated statement of profit or loss of the Group**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| *HK$'000* | | | | (unaudited) | (unaudited) |
| Revenue | 23,186 | — | — | — | — |
| Profit/(loss) from operations | (40,253) | (22,337) | 34,209 | 45,972 | 174 |
| Loss for the year/period | (203,231) | (188,878) | (117,477) | (30,331) | (79,231) |

**Table 2: Summary of the consolidated statement of financial position of the Group**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| *HK$'000* | | | | (unaudited) |
| Non-current assets | 777 | 278 | 101 | 43 |
| Current assets | 5,483 | 664 | 367 | 423 |
| (Current liabilities) | (1,732,532) | (1,904,869) | (1,998,163) | (2,065,692) |
| (Net current liabilities) | (1,727,049) | (1,904,205) | (1,997,796) | (2,065,269) |
| (Net liabilities) | (1,726,272) | (1,903,927) | (1,997,695) | (2,065,226) |

*For the year ended 31 December 2013*

For the year ended 31 December 2013, the revenue of the Group decreased dramatically from approximately HK$23.19 million for the prior year to nil. The decrease in turnover was mainly attributable to the scale-down of operation in Indonesia. Loss from operations for the year ended 31 December 2013 amounted to approximately HK$22.34 million, as compared with that of approximately HK$40.25 million for the prior year, while loss after taxation for the year amounted to approximately HK$188.88 million, as compared with that of approximately HK$203.23 million for the prior year. The slightly lower loss for the year was mainly due to the combined effect of (i) no revenue generated for the year, as opposed to a gross profit of approximately HK$0.18 million for the prior year; (ii) increase in other income from approximately HK$0.14 million for the prior year to approximately HK$4.25 million; (iii) decrease in the aggregate amount of general and administrative expenses and other operating expenses from approximately HK$33.21 million for the prior year to approximately HK$26.59 million; (iv) a provision for financial guarantee liabilities of approximately HK$31.14 million recorded for the year ended 31 December 2012; and (v) a gain on deconsolidation of a liquidated subsidiary of approximately HK$24.51 million recorded for the year ended 31 December 2012.

As at 31 December 2013, the net current liabilities and net liabilities of the Group amounted to approximately HK$1,904.21 million and approximately HK$1,903.93 million respectively, as compared with that of approximately HK$1,727.05 million and approximately HK$1,726.27 million respectively as at 31 December 2012.

*For the year ended 31 December 2014*

For the year ended 31 December 2014, the revenue of the Group remained nil. Profit from operations for the year ended 31 December 2014 amounted to approximately HK$34.21 million, as opposed to the loss from operations of approximately HK$22.34 million for the prior year, while loss after taxation for the year amounted to approximately HK$117.48 million, as compared with that of approximately HK$188.88 million for the prior year. The slightly lower loss for the year was mainly due to the gain on the deconsolidation of a liquidated subsidiary of approximately HK$227.20 million.

As at 31 December 2014, the net current liabilities and net liabilities of the Group amounted to approximately HK$1,997.80 million and approximately HK$1,997.70 million respectively, as compared with that of approximately HK$1,904.21 million and approximately HK$1,903.93 million respectively as at 31 December 2013.

*For the six months ended 30 June 2015*

For the six months ended 30 June 2015, the revenue of the Group remained nil. Profit from operations for the six months ended 30 June 2015 decreased to approximately HK$0.17 million, as compared to the profit from operations of approximately HK$45.97 million for the prior corresponding period, while loss after taxation for the period amounted to approximately HK$79.23 million, as compared with that of approximately HK$30.33 million for the prior corresponding period. The widened loss for the six months ended 30 June 2015 was mainly due to absence of the gain on the deconsolidation of a liquidated subsidiary of approximately HK$227.20 million as recognized in the prior corresponding period.

As at 30 June 2015, the net current liabilities and net liabilities of the Group amounted to approximately HK$2,065.27 million and approximately HK$2,065.23 million respectively.

As noted from the above analysis, both the financial performance and the financial position of the Group have been deteriorating significantly with no sign of turnaround.

### *1.3 Details of the Proposed Restructuring*

*Proposed Capital Reorganisation*

The Board proposes to implement, subject to the approval by the Shareholders, the Capital Reorganisation. The Capital Reorganisation will comprise:

(i) the Capital Reduction — the par value of the existing issued Shares will be reduced from HK$0.10 to HK$0.0005 each;

(ii) the Share Premium Cancellation — upon the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company will be cancelled;

(iii) the Share Consolidation — upon the Share Premium Cancellation becoming effective, every ten (10) existing issued Shares of HK$0.0005 each will be consolidated into one (1) New Share of HK$0.005 each;

(iv) the Authorised Share Capital Cancellation — upon the Share Consolidation becoming effective, all the existing authorised but un-issued Shares will be cancelled in its entirety; and

(v) the Authorised Share Capital Increase — upon the Authorised Share Capital Cancellation becoming effective, the Company's authorised share capital will be increased to HK$500,000,000, divided into 100,000,000,000 New Shares of HK$0.005 each.

The implementation of the Capital Reorganisation and the [REDACTED] of the New Shares are conditional upon:

(i) the passing of a special resolution by the Shareholders by way of poll at the EGM to approve the Capital Reorganisation;

(ii) the Grand Court granting an order confirming the Capital Reduction;

(iii) the registration by the Registrar of Companies in the Cayman Islands of a copy of the Grand Court order and the minutes containing the particulars required under the Companies Law;

(iv) compliance with any conditions imposed by the Grand Court; and

(v) the Listing Committee granting the [REDACTED] of, and permission to deal in, the New Shares in issue upon the Capital Reorganisation becoming effective.

The passing of the resolution of the Independent Shareholders at the EGM of the Capital Reorganisation is one of the conditions precedent to completion of the Subscription and the Acquisition, the letter which in turn is one of the conditions precedent under the Disposal Agreement.

*Creditors Schemes*

As part of the Proposed Restructuring, the Creditors Schemes shall be effected as follows:

(i) part of the [REDACTED] from the [REDACTED] and the Subscription in the amount of [REDACTED] shall be made available to the Creditors Schemes for the benefit of the Scheme Creditors;

(ii) the transfer of the Scheme Subsidiaries to the Scheme Company or the Scheme Administrators (or their nominees) for the benefit of the Scheme Creditors and, if applicable, creditors of the Scheme Subsidiaries pursuant to the Group Reorganisation;

(iii) all or any claims of the Company in respect of transactions or events incurred up to the date on which the Creditors Schemes become effective against any person (including but not limited to the Scheme Subsidiaries) shall be assigned and/or transferred and/or novated (as the case may be) from the Company to Scheme Company or the Scheme Administrators (or their nominees) for the benefit of the Schemes Creditors upon the Creditors Schemes becoming effective;

(iv) any outstanding claims made or to be made by the Scheme Creditors in respect of transactions or events incurred up to the date on which the Creditors Schemes become effective shall be assigned or transferred to Scheme Company for settlement;

(v) all or any claims of the Retained Subsidiaries against the Scheme Subsidiaries in respect of transactions or events incurred up to the date on which the Creditors Schemes become effective shall be assigned and/or transferred and/or novated (as the case may be) from the Retained Subsidiaries to Scheme Company or the Scheme Administrators (or their nominees) for the benefit of the Scheme Creditors upon the Creditors Schemes becoming effective; and

(vi) all the indebtedness of the Company as at the date on which the Creditors Schemes become effective shall be compromised and discharged.

The implementation of each of the Creditors Schemes is conditional on Completion. The Company shall be irrevocably released from any indebtedness owing by the Company to its creditors in full on the date on which the Creditors Schemes become effective and, after Completion, no claims shall be made by the Scheme Creditors against the Company in respect of any of the indebtedness of the Company as at the date on which the Creditors Schemes become effective.

The Creditors Schemes have been approved by the creditors at the creditors' meeting held on 21 December 2010 and sanctioned by the High Court on 8 February 2011 and the Grand Court on 28 April 2011 respectively as stated in the announcements of the Company dated 14 February and 6 May 2011 respectively. Subject to any approvals/consents in respect of any modification of the Creditors Schemes (as necessary) having being obtained, the Creditors Schemes will become legally binding on the Company and its creditors upon fulfillment of the conditions to be set out in the Subscription Agreements and upon the filing of the orders of the High Court and the Grand Court with the relevant companies registries in Hong Kong and the Cayman Islands respectively. As at the Latest Practicable Date, the Creditors Schemes had not come into effect.

Information on the Acquisition, the [REDACTED], the Subscription and the Disposal are discussed in details in sections below of this letter.

***1.4 Reasons for the Proposed Restructuring***

As stated in the Board Letter, dealing in the shares of the Company on the Main Board of the Stock Exchange has been suspended since 27 November 2009. In an effort to implement the Resumption Proposal dated 4 December 2012, the Company has identified a new target company and entered into the Acquisition Agreement on 31 March 2014 with the Vendors, pursuant to which the Company will acquire the Sale Equity Interest. Upon completion of the Acquisition, the Enlarged Group will hold 98.387% interest in certain property development projects in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province in the PRC.

Pursuant to the Acquisition Agreement, the Company will carry out the Proposed Restructuring which comprises: (i) the Capital Reorganisation; (ii) the Creditors Schemes; (iii) the [REDACTED]; (iv) the Subscription; (v) the Acquisition; and (vi) the Disposal, which constitutes a special deal under Note 4 to Rule 25 of the Takeovers Code, details of which are contained in the Circular.

The Capital Reorganisation will give greater flexibility to the Company to raise funds through the issue of New Shares in the future. In addition, the credit arising from the Capital Reduction and Share Premium Cancellation will be used to offset the accumulated losses of the Company and the balance, if any, will be transferred to the distributable reserve of the Company to be applied in such manner as and when the Board considers appropriate. Moreover, the implementation of the Capital Reorganisation is conditional upon, among others, the passing of a special resolution of the Shareholders to approve the Capital Reorganisation and completion of the arrangement for the Capital Reorganisation forms part of the Resumption Proposal as submitted to the Stock Exchange. In other words, the Capital Reorganisation must be implemented if the transactions contemplated under the Proposed Restructuring and the Resumption are to take place. In addition, the Capital Reorganisation becoming effective is one of the conditions precedent under the Acquisition Agreement and the Subscription Agreements. Completion of the Acquisition will be inter-conditional to each of the [REDACTED] and the Subscription, the [REDACTED] of which will be applied to the discharge of the Company's liabilities through the Creditors Schemes and as general working capital of the Group. The Capital Reorganisation will provide the Company with the flexibility to accommodate issues of New Shares in the future when necessary. Based on the total credit of approximately HK$193.63 million arising from the Capital Reduction and the credit standing to the share premium account of the Company of approximately HK$127.54 million as at 30 June 2015, a total amount of approximately HK$321.17 million will be applied to offset the accumulated losses of the Company, which amounted to approximately HK$2,385.83 million as at 30 June 2015.

As mentioned above, the Company shall be irrevocably released from any indebtedness owing by the Company to its creditors in full on the date on which the Creditors Schemes become effective and, after Completion, no claims shall be made by the Scheme Creditors against the Company in respect of any of the indebtedness of the Company as at the date on which the Creditors Schemes become effective.

Upon completion of the Acquisition, the Group will have a sufficient level of operation, and on the other hand, of the aggregate [REDACTED] from the [REDACTED] and the Subscription of approximately [REDACTED], [REDACTED] will be paid into the Creditors Schemes and, after deducting the professional fees and expenses, the balance shall be retained as the working capital of the Company after the Completion. The [REDACTED] at the same time offers an opportunity to the existing Shareholders to participate in the Proposed Restructuring as well as the Group's new prospect in the PRC property market following the Acquisition.

The financial and liquidity position of the Group will be improved through the Proposed Restructuring, the financial effect of which are set out in the section headed ''Financial effects of the Proposed Restructuring'' in the Circular.

Following completion of the transactions, the Company has no intention to continue the existing businesses of the Group (other than the businesses operated by the Target Group) and therefore, has entered into the Disposal Agreement to dispose of the Disposed Companies. The Disposed Companies, together with their subsidiaries, are the Retained Subsidiaries, which will be disposed of under the Proposed Restructuring. The Disposal is part of the Proposed Restructuring. Following completion of the Proposed Restructuring, the Group will have a sufficient level of operation while the [REDACTED] from the [REDACTED] will improve the financial and liquidity position of the Group based on the financial effect of the Proposed Restructuring.

## 2. The [REDACTED] and the Subscription

### *2.1 Principal terms of the [REDACTED]*

As stated in the Board Letter, to enable the existing Shareholders to participate in the Proposed Restructuring, the Company proposes to undertake the [REDACTED] on the basis of two (2) [REDACTED] for every one (1) New Share held by the Qualifying Shareholders on the [REDACTED]. A total of [REDACTED] will be allotted and issued by the Company to the Qualifying Shareholders and/or the [REDACTED] at the [REDACTED] Price of [REDACTED] for each [REDACTED]. The [REDACTED] will be conditional upon Completion.

After arm's length negotiation with the [REDACTED], the Company decided that it will not offer the Qualifying Shareholders the entitlement to apply for any [REDACTED] which are in excess of their assured entitlements.

The number of [REDACTED] represents:

(i) 20.0% of the issued share capital of the Company as at the Latest Practicable Date;

(ii) approximately 200.0% of the issued shares of the Company upon the completion of the Capital Reorganisation;

(iii) approximately 22.2% of the issued shares of the Company upon the completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED] and the Subscription Shares; and

(iv) approximately 6.7% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED], the Subscription Shares and the Consideration Shares.

***2.2 Principal terms of the Subscription Agreements***

According to the Original Subscription Agreement, Jinwu agreed to subscribe for ordinary shares of HK$0.01 each in the capital of the Company at a total subscription price of HK$162.0 million.

Pursuant to the Stand-by Facility, Time Boomer and First Apex have provided working capital facilities of HK$13 million and HK$20 million to the Group respectively. Pursuant to the TB Option Agreement and the FA Option Agreement entered into between the Company, Time Boomer and First Apex, respectively, the Company agreed to grant: (1) Time Boomer the TB Option; and (2) First Apex the FA Option. Taking into consideration the Acquisition, the Company has entered into the Amended Subscription Agreement, the Amended TB Option Agreement and the New FA Option Agreement (to supplement or replace (as the case may be) the Original Subscription Agreement, the TB Option Agreement and the FA Option Agreement) so that:

(a) Jinwu will subscribe for 954,694,714 New Shares at a subscription price of HK$0.155 per New Share for a total subscription amount of approximately HK$148.0 million;

(b) Time Boomer shall be entitled to subscribe for 83,870,968 New Shares at a total exercise price of HK$13 million, or HK$0.155 per New Share; and

(c) First Apex shall be entitled to subscribe for 129,032,258 New Shares at a total exercise price of HK$20 million, or approximately HK$0.155 per New Share.

The completion of the Subscription, the Acquisition and the [REDACTED], which form part of the Proposed Restructuring, will be inter-conditional to each other.

The 1,167,597,940 Subscription Shares to be allotted and issued at the Subscription Price of HK$0.155 each represent:

(i) approximately 60.0% of the issued share capital of the Company as at the Latest Practicable Date;

(ii) approximately 600.0% of the issued shares of the Company upon completion of the Capital Reorganisation;

(iii) approximately 66.7% of the issued shares of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED] and the Subscription Shares; and

(iv) approximately 20.0% of the issued share capital of the Company upon completion of the Capital Reorganisation as enlarged by the allotment and issue of the [REDACTED], the Subscription Shares and the Consideration Shares.

***2.3 Use of [REDACTED]***

The total [REDACTED] from the [REDACTED] and the Subscription, amount to approximately [REDACTED], and, after excluding the working capital facility of HK$33.0 million provided to the Group, the [REDACTED] from the [REDACTED] and the Subscription amount to approximately [REDACTED]. The [REDACTED] in the sum of [REDACTED] will be paid into the Creditors Schemes and, after deducting the professional fees and expenses, the balance shall be retained as the working capital of the Company after the Completion.

No cash will be generated from Working Facility Capitalisation as the subscription monies for the subscription of the New Shares by Time Boomer and First Apex will be set off against the amounts due under the TB Loan Agreement and the FA Loan Agreement.

***2.4 The [REDACTED] and the Subscription Price***

The [REDACTED] of [REDACTED] each represents:

(i) a discount of approximately 92.3% to the theoretical quoted price of HK$1.68 per New Share (the quoted price of HK$0.168 per Share has been adjusted to reflect the effects of the Capital Reorganisation) on 27 November 2009, being the Last Trading Day; and

(ii) a premium of approximately HK$10.40 over the unaudited consolidated net liabilities per New Share of HK$10.27 as at 31 December 2014 (based on the audited consolidated net liabilities of the Group of approximately HK$1,997.70 million as at 31 December 2014 and 194,599,656 New Shares upon the Capital Reorganisation becoming effective).

The [REDACTED] was determined by the Company, after taking into account (i) the financial performance and financial position of the Group; and (ii) the fact that trading in the Shares on the Stock Exchange has been suspended since 27 November 2009.

The Subscription Price of HK$0.155 each represents:

(i) a discount of approximately 90.8% to the theoretical quoted price of HK$1.68 per New Share (the quoted price of HK$0.168 per Share has been adjusted to reflect the effects of the Capital Reorganisation) on 27 November 2009, being the Last Trading Day; and

(ii) a premium of approximately HK$10.425 per New Share over the unaudited consolidated net liabilities per New Share of HK$10.27 as at 31 December 2014 (based on the audited consolidated net liabilities of the Group of approximately HK$1,997.70 million as at 31 December 2014 and 194,599,656 New Shares upon the Capital Reorganisation becoming effective).

The Subscription Price was determined after arm's length negotiations, taking into account (i) the financial performance and financial position of the Group; (ii) the fact that trading in the Shares on the Stock Exchange has been suspended since 27 November 2009; and (iii) the time that the Subscribers have been involved in the Proposed Restructuring.

We have reviewed other restructuring proposals previously carried out by companies listed on the Stock Exchange, which involve, among other things, the acquisition of new business, rights issue/[REDACTED], new shares subscription and introduction of new investors. We noted that for each of these restructuring proposals, the structure and terms thereof, including but limited to, (i) the business nature and model, size, financials and prospect of the acquisition targets; (ii) the subscription ratio of the rights issue/[REDACTED], the subscription price, and the amount and use of [REDACTED]; (iii) the number of shares issued under the new shares subscriptions, the subscription prices, and the amount and use of [REDACTED]; and (iv) the background and intention of the new investors, are unique and very different from the others, which were arrived at after arm's length negotiation between the parties thereto, taking into account the circumstances and various factors unique to each case, such as the specific state of affairs of each of the companies concerned as well as the severity of their financial and operational problems. As such, we do not consider that it is meaningful to assess the fairness and reasonableness of the terms of the [REDACTED] and the Subscription by making reference to those of other companies with restructuring proposals. Given that the Shares were suspended from trading for more than four years, we consider that the closing price of the Shares prior to the suspension of trading is not reflective of the current financial condition and valuation of the Company and will not provide a fair basis for the evaluation of the [REDACTED] and the Subscription Price.

In view of (i) the prolonged suspension in the trading of the Shares, the significant net liabilities position of the Group as at 30 June 2013 and the continuous loss-making performance of the Group; (ii) the [REDACTED] forms part of the Resumption Proposal seeking the resumption of trading in the Shares; (iii) part of the [REDACTED] from the

[REDACTED] will be used to meet the Company's financial obligations for the implementation of the Creditors Scheme under the Proposed Restructuring; (iv) the equal opportunity given to each of the Qualifying Shareholders to participate in the growth of the Enlarged Group by subscribing their assured entitlements under the [REDACTED]; and (v) the relatively attractive [REDACTED], which is lower than the Subscription Price, i.e. the price per Share to be paid by the Qualifying Shareholders through the [REDACTED] is more favourable than that to be paid by the Subscribers through the Subscription, we are of the view that the [REDACTED], including the [REDACTED], is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In view of (i) the prolonged suspension in the trading of the Shares, the significant net liabilities position of the Group as at 30 June 2013 and the continuous loss-making performance of the Group and given such financial and operational status of the Group, there would be no certainty that the Company would be able to seek other investors to provide the necessary funding for the implementation of the Resumption Proposal; (ii) the Subscription forms part of the Resumption Proposal seeking the resumption of trading in the Shares; (iii) part of the [REDACTED] from the Subscription will be used to meet the Company's financial obligations for the implementation of the Creditors Scheme under the Proposed Restructuring; (iv) the amounts due under the TB Loan Agreement and the FA Loan Agreement will be offset against the subscription monies for the Subscription by Time Boomer and First Apex through the Working Facility Capitalisation; and (v) the Subscription Price is higher than the [REDACTED] and therefore is less favourable than the price to be paid by the Qualifying Shareholders through the [REDACTED], we are of the view that the Subscription, including the Subscription Price, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### *2.5 [REDACTED] Agreement*

The Company and the [REDACTED] have entered into the [REDACTED] Agreement on [●] pursuant to which the [REDACTED] will fully [REDACTED] the [REDACTED]. Terms of the [REDACTED] Agreement were determined after arm's length negotiations between the Company and the [REDACTED]. The [REDACTED] Agreement is conditional upon certain conditions being fulfilled on or before [REDACTED] (or such other time and/or date as the Company and the [REDACTED] may determine in writing). Details of the [REDACTED] Agreement are set out in the sub-section headed "The [REDACTED]" in the Board Letter. The maximum number of the untaken Shares underwritten by the [REDACTED] is [REDACTED]. The [REDACTED] will receive an [REDACTED] commission of [●]% of the aggregate subscription price for the [REDACTED].

Having considered that the entering into of the [REDACTED] Agreement could ensure the Group to receive the necessary funding, we are of the view that the terms of the [REDACTED] Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The [REDACTED] is conditional upon, inter alia, the fulfillment of the conditions set out under the paragraph "Conditions of the [REDACTED] Agreement" in the Board Letter. Therefore, the [REDACTED] may or may not proceed. The Shareholders and potential investors of the Company should therefore exercise extreme caution when dealing in the New Shares.

## 3. The Acquisition

### *3.1 Information on the Target Group*

The asset to be acquired under the Acquisition Agreement is the Sale Equity Interest, being the entire equity interest in the Target Company. The entire equity interest of China General is owned as to 50% by Mr. Shie and 50% by Mr. Tsoi respectively.

The Target Group, comprising China General and its subsidiaries, is a residential property developer primarily focusing on the development and sale of residential properties in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province of the PRC through its two project companies, namely Hui An China General and Yangzhou Dehui. Since the acquisition of China General in January 2005, the Target Group specialises in the development and sale of high-rise residential properties with ancillary retail shops in cities with high economic growth potential, in particular the third and fourth tier cities in the PRC.

As at 31 July 2015, the property portfolio of the Target Group comprises two property development projects, namely, the Binjiang International Project (濱江國際項目) in Fujian Province and The Cullinan Bay Project (天璽灣項目) in Jiangsu Province. The Target Group only completed and generated revenue from the sales of properties of the Binjiang International Project during the Track Record Period.

Set out below are the highlights of the financial results of the Target Group for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, details of which are set out in Appendix I to the Circular:

**Table 4: Summary of consolidated statements of profit or loss and other comprehensive income of the Target Group**

| | **For the years ended 31 December** | | | **For the six months ended 30 June** | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | | | | (unaudited) | |
| *RMB'000* | | | | | |
| Revenue | 90,603 | 203,689 | 256,532 | 130,109 | 61,310 |
| Gross profit | 26,801 | 47,682 | 69,827 | 31,834 | 33,284 |
| Profit before tax | 22,447 | 39,736 | 53,661 | 22,989 | 29,482 |
| Profit and total comprehensive income for the year/period | 15,295 | 27,372 | 35,813 | 13,985 | 16,007 |
| Profit and total comprehensive income for the year/period attributable to owners of the Target Company | 15,031 | 26,836 | 35,094 | 13,650 | 15,726 |

**Table 5: Summary of consolidated statements of financial position of the Target Group**

| | **As at 31 December** | | | **As at 30 June** |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| *RMB'000* | | | | |
| Non-current assets | 103,748 | 116,315 | 123,185 | 125,052 |
| Current assets | 736,471 | 852,681 | 809,233 | 863,524 |
| Current liabilities | 757,323 | 848,575 | 244,668 | 288,051 |
| Non-current liabilities | 13,282 | 23,435 | 186,850 | 183,618 |
| Net current (liabilities)/assets | (20,852) | 4,106 | 564,565 | 575,473 |
| Net assets | 69,614 | 96,986 | 500,900 | 516,907 |

*For the year ended 31 December 2013*

For the year ended 31 December 2013, revenue of the Target Group increased by approximately 124.82% from approximately RMB90.60 million for the prior year to approximately RMB203.69 million. Revenue of the Target Group during the year was derived from the GFA delivered under the Binjiang International Project. The increase in revenue was mainly due to (i) the higher total saleable GFA sold of approximately 54,080.06 sq.m. for the year ended 31 December 2013, as compared with that of approximately 24,443.32 sq.m. for the prior year; and (ii) the higher ASP of approximately RMB3,766 per sq.m. for the year ended 31 December 2013, as compared with that of approximately RMB3,707 per sq.m. for the prior year. For the year ended 31 December 2013, profit and total comprehensive income increased by approximately 78.89% from approximately RMB15.30 million for the prior year to approximately RMB27.37 million.

As at 31 December 2013, the net current assets and net assets of the Target Group amounted to approximately RMB4.11 million and approximately RMB96.99 million respectively, as compared with net current liabilities and net assets of approximately RMB20.85 million and approximately RMB69.61 million respectively as at 31 December 2012.

*For the year ended 31 December 2014*

For the year ended 31 December 2014, revenue of the Target Group increased by approximately 25.94% from approximately RMB203.69 million for the prior year to approximately RMB256.53 million. Revenue of the Target Group during the year was derived from the GFA delivered under the Binjiang International Project. The increase in revenue was mainly due to (i) the higher total saleable GFA sold of approximately 55,830.95 sq.m. for the year ended 31 December 2014, as compared with that of approximately 54,080.06 sq.m. for the prior year; and (ii) the higher ASP of approximately RMB4,595 for the year ended 31 December 2014, as compared with that of approximately RMB3,766 for the prior year. For the year ended 31 December 2014, profit and total comprehensive income increased by approximately 30.84% from approximately RMB27.37 million for the prior year to approximately RMB35.81 million.

As at 31 December 2014, the net current assets and net assets of the Target Group amounted to approximately RMB564.57 million and approximately RMB500.90 million respectively, as compared with that of approximately RMB4.11 million and approximately RMB96.99 million respectively as at 31 December 2013.

*For the six months ended 30 June 2015*

For the six months ended 30 June 2015, revenue of the Target Group decreased by approximately 52.88% from approximately RMB130.11 million for the six months ended 30 June 2014 to approximately RMB61.31 million. Revenue of the Target Group during the period was derived from the GFA delivered under the Binjiang International Project. The total GFA delivered amounted to approximately 8,377 sq.m. for the six months ended 30 June 2015, as compared with that of approximately 30,176 sq.m. for the prior period. Nonetheless, the overall ASP realized from the delivered properties amounted to approximately RMB7,318 for the six months ended 30 June 2015, as compared with that of approximately RMB4,312 for the prior period. Therefore, the decrease in revenue was primarily due to the net effect of the decrease in total GFA delivered and the increase in overall ASP realized. For the six months ended 30 June 2015, profit and total comprehensive income increased by approximately 14.44% from approximately RMB13.99 million for the prior period to approximately RMB16.01 million.

As at 30 June 2015, the net current assets and net assets of the Target Group amounted to approximately RMB575.47 million and approximately RMB516.91 million respectively.

As noted from the above analysis, the Target Group has demonstrated a profitable track record with improving financial position.

### 3.2 *Overview on the property portfolio of the Target Group*

*Binjiang International Project, Fujian Province*

The Binjiang International Project is a residential project located in the intersection of 324 National Highway and Xibin Park in Huian County, Quanzhou, Fujian Province, the PRC with a completed GFA of approximately 394,701 sq.m.. It consists primarily of high-rise residential buildings and includes ancillary retail shops, kindergarten, clubhouse, swimming pool and car parking spaces.

The Binjiang International Project consists primarily of high-rise residential buildings and includes ancillary retail shops, clubhouse facilities, car parking spaces and kindergarten. The greening rate and plot ratio of the Binjiang International Project are 43% and 3.89 respectively. The Target Group developed the project in four phases comprising 18 blocks of high-rise residential buildings with an aggregate completed GFA of approximately 394,701 sq.m.. It comprises a residential area of approximately 308,781 sq.m., retail shops area of approximately 16,334 sq.m., clubhouse facilities of approximately 1,121 sq.m., aboveground and underground ancillary area (comprising car parking space and area other ancillary facilities) of approximately 65,631 sq.m. and kindergarten of approximately 2,833 sq.m..

Set out below is a summary of the development of the Binjiang International Project as at 31 July 2015:

| | Construction site areas | Completed | | | | Under development | Future development |
|---|---|---|---|---|---|---|---|
| | | GFA Completed *(Note 1)* | GFA sold | Saleable GFA remaining unsold | Saleable GFA | Total GFA | Planned GFA |
| | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* |
| **Binjiang International Project** | 83,399.00 | 394,701.13 | 305,459.19 | 19,655.74 | 325,114.93 | — | — |

*Note 1:* Comprised the portion of GFA held by the Target Group as amenities not saleable.

The Binjiang International Project was accredited the "Top Ten Model Residence Park in the PRC 2006* (2006中國十大典範公園住宅)" and "The Best Supreme Model Residence in the PRC 2006* (2006中國最佳超級戶型典範住宅)".

*The Cullinan Bay Project, Jiangsu Province*

The Cullinan Bay Project is a residential development project located in the west of Wangjiang Road, north of Dingxing Road and east of Linjiang Road in Yangzhou, Jiangsu Province, the PRC.

The Cullinan Bay Project consists primarily of high-rise residential buildings and ancillary retail shops and clubhouse. The planned greening rate and plot ratio of The Cullinan Bay Project are 35% and 2.30 respectively. The Target Group is developing the project in two phases comprising 15 blocks of high-rise residential buildings with an aggregate GFA of approximately 40,295 sq.m. of completed properties, an aggregate GFA of approximately 112,214 sq.m. held under development and an aggregate planned GFA of approximately 105,890 sq.m. held for future development. It will comprise residential area of approximately 181,255 sq.m., retail shops area of approximately 3,843 sq.m. and above-ground and underground ancillary areas (comprising car parking space, clubhouse and area for ancillary facilities) of approximately 73,301 sq.m.

Set out below is a summary of the development of the Cullinan Bay Project as at 31 July 2015:

| | Construction site areas | Completed | | | | Under development | | | | Future development |
|---|---|---|---|---|---|---|---|---|---|---|
| | | GFA completed *(Note 1)* | GFA sold | Saleable GFA remaining unsold | Saleable GFA | GFA Under development *(Note 1)* | GFA pre-sold | Saleable GFA remaining unsold | Saleable GFA | Planned GFA *(Note 1)* |
| | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* |
| **The Cullinan Bay Project** | 81,749.27 | 40,294.94 | 17,524.66 | 7,783.54 | 25,308.20 | 112,213.55 | — | — | 19,656.51 | 105,890.00 *(Note 2)* |

*Notes:*

1. Comprised the portion of GFA held by the Target Group as amenities not saleable.

2. It is planned that Phase 2 of The Cullinan Bay Project would comprise residential properties of 80,151.00 sq.m. which will become saleable after the Target Group obtains the relevant pre-sale permits.

Pre-sale of Stage 1 of Phase 1 of The Cullinan Bay Project commenced in May 2014. Set out below is an actual/planned development schedule of The Cullinan Bay Project:

| | Actual/planned commencement date of construction | Actual/planned pre-sale commencement date | Actual/planned completion date of construction | Planned delivery date of properties |
|---|---|---|---|---|
| **The Cullinan Bay Project** | | | | |
| **— Stage 1 of Phase 1** | October 2013 | May 2014 | May 2015 | June 2016 |
| **— Stage 2 of Phase 1** | May 2014 | July 2015 | December 2016 | June 2017 |
| **— Phase 2** | March 2016 | November 2016 | December 2017 | June 2018 |

The Cullinan Bay Project received the awards of "Property with Best Potential in Yangzhou 2014* (2014年度揚州最具潛力樓盤)" and the "Model Property of Yangzhou — Property Brand Value Ranking 2014* (2014房地產品牌價值榜城市典範名盤)".

With respect to the Binjiang International Project, construction of all phases of the project have been completed and sales have commenced. The total saleable GFA under the Binjiang International Project is 325,114.93 sq.m., of which 305,459.19 sq.m. has been sold and 19,655.74 sq.m. is available for sale. With respect to The Cullinan Bay Project, the schedule below provides an overview on the aggregate saleable GFA of the project and the respective planned time of commencement of pre-sale and delivery.

| | Aggregate saleable GFA (or aggregate GFA of residential units) *(sq.m.)* | Number of residential and ancillary retails shops units | Actual/planned pre-sale commencement date | Planned delivery date of properties |
|---|---|---|---|---|
| **The Cullinan Bay Project** | | | | |
| **— Stage 1 of Phase 1** | 22,372 | 231 | May 2014 | June 2016 |
| **— Stage 2 of Phase 1** | 78,732 | 736 | July 2015 | June 2017 |
| **— Phase 2** | 80,151 | 802 | November 2016 | June 2018 |

The above figures of the Binjiang International Project and The Cullinan Bay Project, which have received numerous market recognitions, illustrate the amount of completed GFA available for sale as well as GFA under development and held for development in the property portfolio of the Target Group that spans over a period up to 2018, which in our view will contribute to the financial performance during the period.

### *3.3 Overview on the PRC property market*

*Economy of the PRC*

As discussed under the section headed "Industry overview" in the Circular, over the past few years, the PRC's economy was affected by the worldwide economic turmoil. However, under the influence of various macro-economic policies, the PRC's GDP growth has remained strong, with a GDP growth from RMB31,405 billion in 2008 to RMB63,646 billion in 2014, representing a CAGR of approximately 12.5%. According to the World Economic Outlook published by the International Monetary Fund (updated in July 2015), GDP growth in the PRC in 2015 is projected to be 6.8%, down from 7.7% and 7.4% in 2013 and 2014, respectively and is projected to settle on 6.3% in 2016. Nevertheless, such projections are still higher than the projected growth of GDP in advanced economies (including United States and Euro area) of 2.1% in 2015 and 2.4% in 2016 respectively, as well as the projected growth of GDP in emerging market and developing economies (including Russia, India and ASEAN) of 4.2% in 2015 and 4.7% in 2016.

*Economy of Quanzhou and Yangzhou*

According to the Market Research Report, a commissioned research report from DTZ for use in part in the Circular to provide the Shareholders with information relating to the economy of the PRC, the residential market in Yangzhou and Quanzhou, and the industry in which the Target Group operates, the GDP of Quanzhou has increased to RMB573 billion in 2014 from RMB280 billion in 2008, with a growth at a CAGR of 12.7% while the GDP of Yangzhou has increased to RMB370 billion in 2014 from RMB157 billion in 2008, with a growth at a CAGR of 15.4%. Alongside the economic development in the areas, the demand for residential properties in terms of total GFA grew at a CAGR of 20.3% and 12.1% from 2008 to 2014 in Quanzhou and Yangzhou respectively.

Accordingly, we consider that the economic outlook of the PRC, including Quanzhou and Yangzhou, is positive, providing a favourable environment for the development of the domestic real estate market.

*Development and outlook of the property market in the PRC*

As discussed under the section headed "Industry overview" in the Circular, the total investment in real estate development projects in the PRC increased from RMB3,120 billion in 2008 to RMB9,504 billion in 2014, representing a CAGR of approximately 20.4%. According to the data released by the National Bureau of Statistics of China (the "Statistics Bureau"), in 2014, the total GFA of residential properties completed was 1,075 million sq.m. The GFA of residential properties under construction was approximately 5,936 million sq. m.. The GFA of residential properties sold was approximately 1,052 million sq.m.. Both the GFA of residential properties under construction and residential properties sold were notably higher when compared with those in 2008. Meanwhile, both the transaction volume and price of commodity housing increased due to increasing demand in the residential property market by investors. The average selling price of residential properties rose from RMB3,576 per sq.m. in 2008 to RMB5,850 per sq.m. in 2014.

We have conducted researches from the public domain and analysed on the policies and regulatory environment surrounding the PRC's real estate market, and the interaction with the market performance. We noted that since January 2010, the PRC property market has been constantly under the effect of various measures and restrictions implemented by the PRC government regulating the domestic property market, with an aim to bring down property prices to a level closer to local income levels. On 1 March 2013, 〈國務院辦公廳關於繼續做好房地產市場調控工作的通知〉(The State Council's notice on property market regulation*, also commonly known as the "New Five National Policies") was issued setting out five broad yet stringent regulatory policies involving, among others, stabilising housing prices and curbing speculative investments.

Despite the growth rate of the total floor space of commodity houses sold in 2014, 2013, 2012 and 2011 were approximately -7.6%, 17.3%, 1.8% and 4.9% respectively, demonstrating a resilient growth since the issue of tightening measures for the domestic property market in 2010, as announced by the National Bureau of Statistics of China (the "Statistics Bureau") on 15 July 2015, the total floor space of commodity houses sold in the period of January 2015 to June 2015 recorded an increase of approximately 3.9%, marked a turnaround as compared to the decrease of approximately 7.6% in 2014, implying that demand for commercial buildings is still soaring. All in all, the aforementioned figures infer a fluctuating real estate market in the PRC.

Nevertheless, there are signs of easing control on the domestic real estate market. Up to the Latest Practicable Date, all but five of the 46 cities that imposed limits on home ownership have been removed or eased the restriction, including second-tier cities such as Nanjing, according to the latest news coverage by Bloomberg. On 30 September 2014, The People's Bank of China and the China Banking Regulatory Commission jointly announced〈進一步做好住房金融服務工作的通知〉(Notice on enhancing financial services for domestic housing*), setting out four key measures in supporting the domestic housing sector, in particular releasing the purchasing power by dramatically reducing down payment ratio, for second home buyer who has paid off his initial mortgage, from 60% or 70% to 30% with discount of up to 30% on mortgage rate which is same as that for first home buyer.

Subsequently on 14 October 2014, 中華人民共和國住房和城鄉建設部 (Ministry of Housing and Urban-Rural Development of the PRC), 中華人民共和國財政部 (Ministry of Finance of the PRC) and The People's Bank of China jointly announced the 關於發展住房公積金個人住房貸款業務的通知 (Notice regarding the development of housing provident fund's personal mortgage business*) (source: 新華網, www.news.xinhuanet.com), pursuant to which worker who has made contribution to housing provident fund shall be eligible to apply for housing provident fund's mortgage. On 30 March 2015, the People's Bank of China, China Banking

Regulatory Commission and Ministry of Housing and Urban-Rural Development of the PRC jointly announced (關於個人住房貸款政策有關問題的通知) (Notice on the relevant issues relating to individual housing mortgage policy*), pursuant to which the down payment ratio for second home buyer who has not paid off his initial mortgage would be reduced from 60% to 40%, while down payment ratio for first home buyer and second home buyer applied for housing provident fund's mortgage would be reduced from 30% to 20% and from 70% to 30% respectively. On 31 August 2015, the People's Bank of China, China Banking Regulatory Commission and Ministry of Housing and Urban-Rural Development of the PRC further announced that the down payment ratio for second home buyer applied for housing provident fund's mortgage would be reduced from 30% to 20%, with an aim to increase the mortgage granting ratio of housing provident fund and thereby releasing the purchasing power in the real estate market.

Moreover, since 2015, the People's Bank of China has been adjusted downward four times the standard borrowing and saving rates. The latest standard borrowing rate for up to 5-year term has decreased for a further 0.25% to 5.15% effective from 26 August 2015. As a result of the policy, the financing costs to purchase properties are lowered. It is expected to improve the liquidity and stimulate the demand of the property market and to maintain the market to grow at a steady rate. As such, it is expected that the above favourable policies reflecting the reversal of the government's stance on the domestic real estate market would spark buyers' interest which could result in increasing demand for residential property.

Having considered the above factors, we are of the view that the demand in the domestic real estate market would pick up following the loosening of the tightening policies, under the solid economic outlook in the PRC as analysed above, and that the outlook of the PRC's real estate market, in which the Target Group is engaged in, to be positive.

### *3.4 Principal terms of the Acquisition*

*Conditions precedent of the Acquisition*

Conditions precedent to the Acquisition Agreement (cannot be waived by parties to the Acquisition Agreement) include, among others, (a) the Creditors Scheme becoming effective no later than completion of the Acquisition; (b) the passing of resolutions of the Independent Shareholders at the EGM by way of poll approving (i) the Capital Reorganisation; (ii) the Acquisition; (iii) the Subscription; (iv) the [REDACTED]; (v) the Whitewash Waiver; and (vi) the Special Deal; (c) the Whitewash Waiver having been granted by the Executive to the Vendors and the Whitewash Waiver not subsequently being revoked or withdrawn; (d) the Special Deal having been consented to by the Executive and the conditions attached (if any) to such consent having been satisfied; and (e) submission of a [REDACTED] in respect of the Target Group to the Stock Exchange by the Company and the receipt of the approval in principle from the Listing Committee by the Company and such approval not being subsequently revoked or withdrawn. Complete details on the conditions precedent to the Acquisition Agreement are contained in the subsection headed "Conditions precedent to the Acquisition Agreement" under the section headed "7. The Acquisition" of the Board Letter.

*Consideration*

The Consideration is approximately HK$817.0 million and was arrived at after arm's length negotiations between the parties to the Acquisition Agreement and was determined by reference to (i) the unaudited combined net asset value of the Target Group as at 31 December 2013, being approximately RMB480.0 million assuming the related capitalisation of debts having been completed; (ii) the development prospects of the Target Group; and (iii) the management's assessment on the value of the property interests held by the Target Group (the "Property Interests"), being the properties under the Binjiang International Project and The Cullinan Bay Project, based on publicly available information from, amongst other sources, Land and Resources Bureau of Yangzhou (揚州國土資源局) (in respect of auction prices of land parcels in Yangzhou), Soufun Holdings Limited (in respect of historical selling prices of the Binjiang International Project (one of the residential property development projects of the Target Group)), as well as information provided by the Vendors including but not limited to description of the residential property development projects held by the Target Group and the gross floor area remains for selling in the future.

The Consideration shall be satisfied by the allotment and issuance of the Consideration Shares at the Consideration Price of HK$0.20 each upon the completion of the Acquisition.

*Property valuation*

The Property Interests have been valued by DTZ, an independent property valuer (the "Valuation"). Based on the report for the Valuation (the "Valuation Report") as contained in Appendix IV to the Circular, the Valuation of the Property Interests was RMB924,936,187 as at 31 July 2015. Based on the accountants' report on the Target Group as contained in Appendix I to the Circular, the audited consolidated net assets attributable to owners of the Target Group as at 30 June 2015, assuming the related capitalisation of debts of approximately RMB53.76 million (equivalent to approximately HK$67.87 million) having been completed, was approximately RMB561.63 million (equivalent to approximately HK$709.06 million), while the book value attributable to the Property Interests was approximately RMB792.99 million (equivalent to approximately HK$1,001.15 million). Accordingly, the adjusted net assets attributable to owners of the Target Group (the "Revaluated NAV") based on the audited consolidated net assets of the Target Group as at 30 June 2015 (assuming the related capitalisation of debts having been completed) as adjusted by the valuation surplus of approximately RMB131.95 million (equivalent to approximately HK$166.59 million) arising from the Valuation as at 31 July 2015 with reference to the Valuation is approximately RMB693.58

million (equivalent to approximately HK$875.64 million). Accordingly, the Consideration of approximately HK$817.0 million represents a discount of approximately 6.70% to the Revaluated NAV.

For our due diligence purpose, we reviewed and enquired DTZ's qualification and experience in relation to the performance of the Valuation. We noted that DTZ has a handful of experience in performing valuation for transactions of listed companies as well as the initial public offering cases in Hong Kong and the PRC. DTZ confirmed that it is an independent third party to the Company. DTZ also confirmed that the relevant material information provided by the Company had been incorporated in the Valuation Report. In addition, we also reviewed the terms of DTZ's engagement and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report.

In the Valuation Report, the Property Interests are classified into three different groups: (i) first group as property held by the Target Group for sale in the PRC, being the unsold portions of the residential and retail units, and clubhouse under the Binjiang International Project ("Group I Property"); (ii) second group as property held by the Target Group for investment in the PRC, being the kindergarten and underground car parking spaces under the Binjiang International Project ("Group II Property"); and (iii) third group as property held by the Target Group under development in the PRC, being the proposed development under The Cullinan Bay Project ("Group III Property").

According to the Valuation Report, unless otherwise stated below, the valuation of each of the properties under the Property Interests represents its market value which in accordance with The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

To determine the appraised value of the Property Interests, we were given to understand that two valuation approaches commonly adopted for valuation of properties, namely the investment approach (the "Investment Approach") and the direct comparison approach (the "Direct Comparison Approach"), were considered by DTZ. The Investment Approach considers the capitalised rental incomes derived from the existing tenancies with due provision for any reversionary income potential of the property interests, while the Direct Comparison Approach makes reference to comparable sales evidence as available in the relevant market subject to suitable adjustments between the subject properties and the comparable properties.

The market value of Group I Property in existing state attributable to the Target Group as at 31 July 2015 pursuant to the Valuation as RMB212,319,146. As discussed with DTZ, Direct Comparison Approach was adopted in valuing the residential and retail units of the Group I Property, given that such portion is held for sale, with comparable sales evidence available for valuation. Investment Approach was adopted in valuing the clubhouse of the Group I Property, given that there is a lack of clubhouse transactions in the vicinity, pursuant to which the rental income to be derived from the reversionary income potential of the clubhouse is taken into account.

The market value of Group II Property in existing state attributable to the Target Group as at 31 July 2015 pursuant to the Valuation as RMB82,940,241. As discussed with DTZ, Investment Approach was adopted in valuing the Group II Property, given that Group II Property is held for investment, pursuant to which the rental derived from the existing tenancies with the reversionary income potential of the property. According to the Valuation Report, It is noted that DTZ ascribed no commercial value to the civil defence car parking spaces of the Group II Property on market value basis as the Target Group has no title ownership of such civil defence spaces. DTZ was requested, for the Group's management reference, to separately assess the worth of the civil defence car parking spaces held by the Target Group for investment in existing state on a non-market value basis. Such worth, known as investment value, according to the International Valuation Standards, which the HKIS Valuation Standards follow, is defined as "the value of an asset to the owner or a prospective owner for individual investment or operational objectives". Investment value is an entity-specific basis of value which reflects the benefits received by an entity from holding the asset and, therefore, does not necessarily involve a hypothetical exchange. Investment value of the property to the Target Group has been separately stated in the note of the valuation certificate. It must be emphasized that the investment value is not market value.

The market value of Group III Property in existing state attributable to the Target Group as at 31 July 2015 pursuant to the Valuation as RMB629,676,800. As discussed with DTZ, Direct Comparison Approach was adopted in valuing the Group III Property by making reference to comparable sales evidence as available in the relevant market and have also taken into account the expended construction costs and the costs that will be expended to complete the development to reflect the quality of the completed development. The "market value when completed" represents the opinion of DTZ of the aggregate selling prices of the development assuming that it was completed as at the date of valuation. The Direct Comparison Approach was adopted given that Group III Property is held under development. According to the Valuation Report, in valuing the Group III Property, DTZ has valued on the basis that the property will be developed and completed in accordance with the Target Group's latest development proposal provided to it. DTZ has assumed that all consents, approvals and licences from relevant government authorities for the development proposal have been obtained without onerous conditions or delays. DTZ has also assumed that the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities.

With respect to the general assumptions adopted in the Valuation, we noted that the valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value. In the Valuation, it was also assumed that transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. In valuing the properties, unless otherwise stated, DTZ has assumed that the owners have the enforceable title to the properties and free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired terms as granted. Moreover, no allowance has been made in the Valuation for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale, and unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

We were given to understand that DTZ has reviewed the legal opinion on the property prepared by the Company's PRC legal adviser and is not aware of any special terms or circumstances, or that the transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have not been granted or that any premium payable has not been fully paid, or that the enforceable title to the properties and free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired terms have not been granted to owners.

As disclosed in the Valuation Report, with reference to the legal opinion on the property prepared by the Company's PRC legal adviser, portions of Group I Property are subject to mortgages in favour of 惠安縣農村信用合作聯社螺陽信用社 (Hui'an Rural Credit Union Luo Yang Branch*), and the land use rights of Group III Property are subject to mortgages in favour of 中國建設銀行股份有限公司揚州分行 (China Construction Bank Corporation, Yangzhou Branch). Based on our discussion with DTZ, we were given to understand that it is a common practice that no allowance is to be made in the valuation of properties for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale, with the associated costs in terms of time and monetary value for discharging any relevant charges or mortgages incidental to effecting a sale and could not be quantified which do not affect the market value of such properties. Therefore, we consider that it is justifiable that no allowance has been made in the Valuation for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale, and unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values. Accordingly, we consider that the adoption of the abovementioned assumptions in the Valuation are fair and reasonable.

Having considered the above, we are of the view that the principal bases, valuation methods and assumptions adopted for the Valuation are fair, reasonable and complete and hence the reliability of the Valuation Report.

*The Consideration Price*

The Consideration Price of HK$0.20 each represents:

(i) a discount of approximately 88.1% to the theoretical quoted price of HK$1.68 per New Share (the quoted price of HK$0.168 per Share has been adjusted to reflect the effects of the Capital Reorganisation) on 27 November 2009, being the Last Trading Day; and

(ii) a premium of approximately HK$10.47 per New Share over the unaudited consolidated net liabilities per New Share of HK$10.27 as at 31 December 2014 (based on the audited consolidated net liabilities of the Group of approximately HK$1,997.70 million as at 31 December 2014 and 194,599,656 New Shares upon the Capital Reorganisation becoming effective).

Trading in the Shares was suspended since 27 November 2009, therefore, we consider that comparison of the Consideration Price of HK$0.20 with the theoretical quoted price of HK$1.68 per New Share (the quoted price of HK$0.168 per Share has been adjusted to reflect the effects of the Capital Reorganisation) on 27 November 2009, being the Last Trading Day, is not appropriate considering the prolonged suspension in the trading of the Shares.

We consider that it is not appropriate to make reference to the discount represented by the Consideration Price to the theoretical quoted price of HK$1.68 per New Share (the quoted price of HK$0.168 per Share has been adjusted to reflect the effects of the Capital Reorganisation) on 27 November 2009, being the Last Trading Day, and to compare the Consideration Price, and such discount to the theoretical quoted price, with that of other restructuring cases of companies listed on the Stock Exchange, in assessing the reasonableness and fairness of the Consideration Price.

Trading in the Shares was suspended since 27 November 2009, and the theoretical quoted price of the New Share that is based on the closing price of the Shares on the Last Trading Day could only reflect the then fundamentals of the Company prior to prolonged trading suspension, without taking into account the fact of the prolonged trading suspension and the subsequent developments of the Company throughout the long period of trading suspension. The other restructuring cases share similar characteristics, while the Proposed Restructuring of the Company and each of these restructuring proposals has different and unique terms and conditions, such as the amount of capital injection and the shareholdings to be held by the relevant investors after completion of the restructuring, which could also affect the determination of the issue price of consideration shares for the acquisition. Therefore, we considered that either the direct comparison between the Consideration Price and the issue price of consideration shares of other restructuring cases, or comparison between the discounts as represented by the Consideration Price to the theoretical quoted price of the New Share and by that of other restructuring cases, are not appropriate.

Alternatively, we consider that it is relevant to compare the Consideration Price with the unaudited consolidated net liabilities per New Share of HK$10.27 as at 31 December 2014 (based on the audited consolidated net liabilities of the Group of approximately HK$1,997.70 million as at 31 December 2014 and 194,599,656 New Shares upon the Capital Reorganisation becoming effective) (the "Theoretical NAV") being the "book value" of the New Share, for assessing the fairness and reasonableness of the Consideration Price where analysis based on the "market value" of the New Share with reference to the closing price of the Shares on the Last Trading Day is not appropriate as discussed above. Given the net liabilities position of the Group upon the Capital Reorganisation becoming effective but prior to the Completion, the Consideration Price represents a significant premium of approximately HK$10.47 per New Share over the Theoretical NAV. Considering such significant premium, we consider that the Consideration Price is fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Company and the Shareholders as a whole.

We have not, however, in assessing the fairness and the reasonableness of the Consideration, relied on the management's assessment on the value of the Property Interests, based on publicly available information from, amongst other sources, Land and Resources Bureau of Yangzhou (揚州國土資源局) (in respect of auction prices of land parcels in Yangzhou), Soufun Holdings Limited (in respect of historical selling prices of the Binjiang International Project (one of the residential property development projects of the Target Group)), as well as information provided by the Vendors including but not limited to description of the residential property development projects held by the Target Group and the GFA remains for selling in the future, which together with such factors of the unaudited combined net asset value of the Target Group as at 31 December 2013 and the development prospects of the Target Group, were made reference to in determining the Consideration. We noted that such factors used in determining the Consideration as a whole, including but not limited to the historical selling prices of the Binjiang International Project which do not offer direct reference to the future selling prices of the GFA under the Property Interests, do not allow a complete, quantitative analysis on the value of the Property Interests. In contrast, the market values of the Property Interests pursuant to the Valuation as prepared by DTZ, have been appraised with clearly defined valuation methodologies, underlying bases and assumptions, which we considered an appropriate reference in assessing the value of the Property Interests and accordingly, the fairness and reasonableness of the Consideration.

Having considered that (i) the Consideration represents a discount of approximately 6.70% to the Revaluated NAV based on the Valuation of the Property Interests of the Target Group; (ii) the valuation methodologies in arriving at the appraised value of the Property Interests are commonly adopted approaches and reasonable as discussed above; and (iii) the Consideration Price represents a significant premium over the Theoretical

NAV as analysed above, we are of the view that the Consideration and the Consideration Price are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole.

Taking into account (i) the Target Group has demonstrated a profitable track record with improving financial position; (ii) the outlook of the PRC's real estate market, in which the Target Group is engaged in, to be positive; (iii) the Consideration represents a discount of approximately 6.70% to the Revaluated NAV based on the Valuation of the Property Interests of the Target Group; and (iv) the Consideration Price represents a significant premium of approximately HK$10.47 per New Share over the Theoretical NAV, we are of the view that the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned and is in the interest of the Company and the Shareholders as a whole.

**4. The Disposal**

Pursuant to the Disposal Agreement, the Purchaser has conditionally agreed to acquire and the Company has conditionally agreed to sell the entire issued share capital of each of the Disposed Companies. The Disposed Companies, together with their subsidiaries, are the Retained Subsidiaries which will be disposed of under the Proposed Restructuring. Upon completion of the Disposal, the Company will no longer be interested in the Retained Subsidiaries and each of the Retained Subsidiaries will cease to be a subsidiary of the Company and their respective financial results will no longer be consolidated into the Group's financial statements.

***4.1 Information on the Retained Subsidiaries***

The Disposed Companies were incorporated in the British Virgin Islands or Hong Kong respectively. The Retained Subsidiaries (as a group) are engaged in the business of trading and distribution of mobile phones and related accessories and their business have been gradually scaled down in the past three years.

Set out below are the consolidated financial results of each of the Disposed Companies for each of three financial years ended 31 December 2014 as extracted from the audited consolidated statement of profit or loss and consolidated statement of financial position of the Group:

**Table 6: Summary of consolidated financial results of each of the Disposed Companies**

*Marzo Holdings*

| | For the years ended 31 December | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Loss before tax | (80) | (25) | (20) |
| Loss after tax | (70) | (25) | (20) |

As at 31 December 2014, the consolidated net assets of Marzo Holdings was approximately HK$48,000.

As at 30 June 2015, the consolidated net assets of Marzo Holdings was approximately HK$48,000.

*Value Day*

| | For the years ended 31 December | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Loss before tax | (98) | (115) | (115) |
| Loss after tax | (98) | (115) | (115) |

As at 31 December 2014, the consolidated net liabilities of Value Day was approximately HK$328,000.

As at 30 June 2015, the consolidated net liabilities of Value Day was approximately HK$376,000.

*MDL*

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2012** | **2013** | **2014** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Loss before tax | (22,909) | (11,353) | (1,954) |
| Loss after tax | (22,909) | (11,353) | (1,954) |

As at 31 December 2014, the consolidated net liabilities of MDL was approximately HK$85,088,000.

As at 30 June 2015, the consolidated net liabilities of MDL was approximately HK$84,185,000.

### *4.2 Analysis on the Disposal*

The Retained Subsidiaries will be transferred to the Purchaser at a nominal consideration of HK$1.00, which was arrived at after arm's length negotiations between the parties and was determined by reference to the unaudited net tangible liabilities of the Retained Subsidiaries (as a group) as at [30 June 2015], which amounts to approximately [REDACTED], by reference to the management account of the Retained Subsidiaries. The consideration shall be satisfied in cash upon completion of the Disposal.

In view of the loss-making track record with shrinking operation scale for the past three consecutive years and the heavy net consolidated liabilities position of the Disposed Companies, we consider the possibility of turnaround of the Disposed Companies to be unlikely in near term.

The Disposal is part of the Proposed Restructuring. Following completion of the Proposed Restructuring, the Group will have a sufficient level of operation while the proceeds from the [REDACTED] will improve the financial and liquidity position of the Group based on the financial effect of the Proposed Restructuring.

The Disposal is expected to record an unaudited gain on deconsolidation of the Retained Subsidiaries of approximately HK$81.9 million to the Company and no material effect on the earning, assets and liabilities of the Group upon completion of the Disposal. The net proceeds from the Disposal will be used as general working capital of the Group. The consideration of HK$1.00 represents a significant premium on the abovementioned unaudited net tangible liabilities of approximately [REDACTED].

Having considered that (i) the loss-making track record with shrinking operation scale for the past three consecutive years and the heavy net consolidated liabilities position of the Disposed Companies; (ii) the consideration of HK$1.00 represents a significant premium to the estimated pro forma net tangible liabilities of the Retained Subsidiaries; and (iii) the Disposal allows the Company to dispose of the businesses under the Disposed Companies and allows the Group to redeploy its resources to other investment opportunities that may bring better and attractive returns, we are of the view that the terms of the Disposal Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Disposal, which constitutes the Special Deal, is in the interest of the Company and the Shareholders as a whole.

**5. The Whitewash Waiver**

As at the Latest Practicable Date, the Concert Group does not own or control any existing Shares. Upon the Completion, the Concert Group will, in aggregate, hold approximately 70.0% of the share capital of the Company after the Capital Reorganisation and as enlarged by the [REDACTED], the Subscription Shares and the Consideration Shares.

As such, the Concert Group would be required to make a mandatory general offer for all the issued shares of the Company (not already owned or agreed to be acquired by the Concert Group) under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

The Vendors have made an application to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, in which parties of the Concert Group and those who are involved in or interested in the Proposed Restructuring will abstain from voting on the relevant resolution(s). If the Whitewash Waiver is granted by the Executive, the Concert Group will not be required to make a mandatory offer which would otherwise be required as a result of the acquisition of the Consideration Shares. The Executive may or may not grant the Whitewash Waiver. If the Whitewash Waiver is not granted, the Acquisition Agreement will lapse and consequentially the Subscription Agreements, the [REDACTED] Agreement, the Disposal Agreement and the [REDACTED] will lapse.

We note from the Board Letter that completion of the Acquisition, which forms part of the Proposed Restructuring, is conditional upon, amongst others, (i) the approval of the Whitewash Waiver by the Independent Shareholders; and (ii) the granting of the Whitewash Waiver by the Executive. If the Whitewash Waiver is not to be approved by the Independent Shareholders or granted by the Executive, the transactions contemplated under the Acquisition Agreement cannot proceed which would have a detrimental effect on the implementation of the Proposed Restructuring and the Resumption Proposal.

Having considered that the approval of the Whitewash Waiver by the Independent Shareholders is one of the conditions precedent to the Acquisition Agreement which is crucial to the implementation of the Resumption Proposal, we are of the view that the Whitewash Waiver is fair and reasonable and is in the interest of the Company and the Shareholders as a whole as it would allow the Proposed Restructuring and the transactions contemplated thereunder to proceed.

**6. Dilution to the shareholding of the existing Shareholders**

Your attention is drawn to the section headed "9. Changes in shareholding structure" set out in the Board Letter. We noted that the shareholding of the public would reduce from approximately 30.6% as at the Latest Practicable Date to (i) approximately 3.1% upon completion of the Capital Reorganisation, the [REDACTED], the Subscription and the Acquisition (assuming all Existing Shareholders have taken up his/her entitlement under the [REDACTED]); and (ii) approximately 1.0% upon completion of the Capital Reorganisation, the [REDACTED], the Subscription and the Acquisition (assuming none of the Existing Shareholders have taken up his/her entitlement under the [REDACTED]). Assuming all Existing Shareholders have taken up his/her entitlement under the [REDACTED], the shareholding dilution from approximately 30.6% to approximately 3.1% will result in the dilution effect of approximately 89.97%.

In order to assess the fairness and reasonableness of the dilution effect, we have identified companies which had been placed under the delisting procedures by the Stock Exchange pursuant to Practice Note 17 with resumption plans involving the offer of shares by way of [REDACTED] to its existing shareholders, the subscription of shares and/or convertible notes (assuming full conversion thereof) and the acquisition of new business which was approved by the Stock Exchange (subject to resumption conditions) and completed during the three years preceding the Latest Practicable Date. Based on the information publicly available on the website of the Stock Exchange and on our best effort basis, we have identified [three] companies and we consider that the list of comparables is exhaustive based on the selection criteria as set out above. We have also assumed each of the [REDACTED] were taken up by their respective existing shareholders of the comparables in full. Details of the comparables are summarised in the following table:

| **Comparable companies** | **Date of announcement** | **Potential maximum dilution as a result of the subscription, [REDACTED] and acquisition** *(Approximate)* |
|---|---|---|
| **Proview International Holdings Limited (SC: 334)** | 30/5/2014 | 86.60% |
| **Mitsumaru Easy Kit (Holdings) Limited (SC:2358)** | 28/8/2013 | 82.51% |
| **Warderly International Holdings Limited (SC: 607)** | 21/3/2013 | 96.51% |
| | Maxium | 96.51% |
| | Minimum | 82.51% |
| | Mean | 88.54% |
| **The Company** | | 89.97% |

As shown above, we noted that the dilution effect as shown by the comparable companies ranges from approximately 82.51% to approximately 96.51%, with a mean of approximately 88.54%. It is noted that the dilution effect upon completion of, among others, the [REDACTED], the Subscription and the Acquisition of approximately 89.97% falls with the aforesaid range and is slightly above the mean. As stated in the Board Letter, the Company is under prolonged suspension of trading in the Shares since 27 November 2009 and the Stock Exchange will cancel the [REDACTED] of the Shares on the Stock Exchange if the Resumption Proposal fails to proceed. In addition, the Company had consolidated net liabilities of approximately HK$1,997.70 million as at 31 December 2014. Having considered that (i) completion of the Proposed Restructuring, including but not limited to the Capital Reorganisation, the [REDACTED], the Subscription, the Acquisition, the issue of the Consideration Shares, is one of the conditions of the resumption of trading in the Shares on the Stock Exchange; (ii) the terms of the [REDACTED], the [REDACTED] Agreement, the Subscription Agreements and the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned; (iii) the fund raised from the [REDACTED] and the Subscription will provide the financial resources for the implementation of the Creditors Schemes and increase the Group's working capital; (iv) the dilution effect upon completion of, among others, the [REDACTED], the Subscription and the Acquisition falls with the aforesaid range and is slightly above the mean; and (v) following completion of the [REDACTED], the

Subscription and the Acquisition, the Group would return to a net assets position according to the "Unaudited pro forma financial information of the Enlarged Group" as set out in Appendix III to the Circular, we are of the view that the dilution effect on the shareholding of the existing Shareholders is acceptable so far as the Independent Shareholders are concerned.

**7. Financial effects of the Proposed Restructuring**

*(a) Net assets/(liabilities)*

According to the "Unaudited pro forma of financial information of the Enlarged Group" as set out in Appendix III to the Circular, assuming the Proposed Restructuring had been completed as at 30 June 2015, the Group's financial position would improve from net liabilities of approximately [REDACTED] to net assets of approximately [REDACTED]. This significant improvement in the financial position of the Group is beneficial to the Company and the Shareholders as a whole.

*(b) Earnings*

Assuming the Proposed Restructuring had been completed on 1 January 2014, the net loss of the Company would be widened from approximately HK$117.48 million to approximately HK$346.11 million, which is mainly attributable to the one-off Deemed [REDACTED] expenses as defined in Appendix III and such adjustment is not expected to have continuing effect on the Enlarged Group's consolidated statement of profit or loss, according to the section headed "Unaudited pro forma of financial information of the Enlarged Group" as set out in Appendix III to the Circular. In view of the profit-making track record of the Target Group, it is expected that the Acquisition would bring a positive impact to the earnings position of the Company in the future.

*(c) Gearing position*

As at 30 June 2015, the Group had total assets of approximately HK$0.47 million and total liabilities of approximately HK$2,065.27 million. The debt to asset ratio of the Group was approximately 4,394.19 times, being the total liabilities divided by total assets. According to the section headed "Unaudited pro forma of financial information of the Group" set out in Appendix III to the Circular, assuming the Proposed Restructuring had been completed on 30 June 2015, the Enlarged Group would have total assets of approximately [REDACTED] and total liabilities of approximately [REDACTED]. Accordingly, the debt to asset ratio of the Enlarged Group would be reduced to approximately 0.48 times.

*(d) Working capital*

As at 30 June 2015, the Group had cash and bank balances of approximately HK$0.08 million and net current liabilities of approximately HK$2,065.70 million. According to the section headed "Unaudited pro forma of financial information of the Group" as set out in Appendix III to the Circular, assuming that the Proposed Restructuring took place on 30 June 2015, the Enlarged Group would have cash and bank balances of approximately [REDACTED] and net current assets of approximately [REDACTED]. Therefore, the working capital position of the Group will be substantially improved after the Proposed Restructuring.

## RECOMMENDATIONS

Based on the abovementioned principal factors and reasons for the Proposed Restructuring and the Whitewash Waiver, and after taking into account that:

(i) the Capital Reorganisation and the Creditors Schemes will enable the Group to deal with its outstanding indebtedness in a formal and orderly manner which we consider to be essential to the Group's severe net liabilities position;

(ii) upon Completion, the Company shall be irrevocably released from any indebtedness owing by the Company to its creditors in full on the date on which the Creditors Schemes become effective;

(iii) the [REDACTED] provides the existing Shareholders an equal opportunity to participate in the growth of the Enlarged Group;

(iv) the [REDACTED] from the [REDACTED] and the Subscription will provide the capital needed for the implementation of the Proposed Restructuring and for the Group's general working capital;

(v) the relatively attractive [REDACTED], which is lower than the Subscription Price, i.e. the price per Share to be paid by the Qualifying Shareholders through the [REDACTED] is more favourable than that to be paid by the Subscribers through the Subscription;

(vi) the Stock Exchange will cancel the [REDACTED] of the Shares on the Stock Exchange if the Resumption Proposal fails to proceed;

(vii) upon the completion of the Acquisition, the Group will have a sufficient level of operation to support its continued [REDACTED] on the Stock Exchange;

(viii) the Disposal, which constitutes the Special Deal, would allow the Group to redeploy its resources to other investment opportunities which may bring better and attractive returns;

(ix) the approval of the Whitewash Waiver by the Independent Shareholders is one of the conditions precedent to the Acquisition Agreement which is crucial to the implementation of the Resumption Proposal; and

(x) the substantial improvement in the Group's financial position after Completion,

We are of the view that the terms and conditions of the Proposed Restructuring including but not limited to the [REDACTED], the Subscription, the Acquisition, the Whitewash Waiver, the Special Deal and the Disposal and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the

Company and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Capital Reorganisation, the [REDACTED], the Subscription, the Acquisition, the Whitewash Waiver and the Special Deal and the Disposal to be proposed at the EGM.

Yours faithfully,
For and on behalf of
**Goldin Financial Limited**
**Billy Tang**
*Director*

# FORWARD-LOOKING STATEMENTS

This circular contains forward-looking statements that state the intentions, beliefs, expectations or predictions of the Enlarged Group and/or the Target Group for the future that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this circular. These forward-looking statements include all statements in this circular that are not historical fact, including, without limitation, statements relating to:

- the Enlarged Group's operations and business prospects;
- the future developments, trends and conditions in the PRC real estate industry;
- the Enlarged Group's strategies, plans, objectives and goals and its ability to implement such strategies and achieve its plans, objectives and goals;
- the Enlarged Group's future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of the Enlarged Group's business;
- the regulatory environment relating to, and the general industry outlook for, the PRC real estate industry;
- prospective financial matters regarding the Enlarged Group's business, results of operations and financial condition;
- the competitive markets for property developers and the actions and developments of the Group's competitors in the PRC; and
- the general political and economic environment in the PRC.

When used in this circular, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "might", "ought to", "plan", "project", "seek", "should", "will", "would" and similar expressions, as they relate to the Target Group and/or the Enlarged Group, are intended to identify forward-looking statements. However, all statements in this circular other than statements of historical fact are forward-looking statements. Such forward-looking statements reflect the views of the management of the Enlarged Group and/or the Target Group as the case may be as at the date of this circular with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Although the Directors (and the proposed executive Directors) believe that the expectations reflected in such forward-looking statements are reasonable, actual results and events may differ materially from information contained in the forward-looking statements as a result of a number of factors, including:

- the performance of the PRC property market;
- the Enlarged Group's ability to successfully complete and realise benefits from its development projects;
- the Enlarged Group's ability to obtain adequate financing on terms acceptable to it;

- the Enlarged Group's levels of indebtedness and interest payment obligations;
- the Enlarged Group's ability to effectively manage its planned expansion;
- the performance of the Target Group's independent construction contractors;
- the Enlarged Group's ability to stay abreast of market trends;
- the Enlarged Group's ability to continue to use certain properties in an undisrupted manner;
- the Enlarged Group's ability to effectively manage its operational and project development costs;
- the Enlarged Group's ability to retain core team members and attract qualified and experienced personnel;
- the Enlarged Group's ability to liquidate assets in response to changes in economic and financial conditions, as necessary;
- the Enlarged Group's ability to maintain and renew the permits and licences it required for undertaking its business operations;
- prospective financial information of Enlarged Group; and
- other factors beyond the control of the Company and the Target Company.

Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, the results of operations and financial condition of the Enlarged Group may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. Moreover, the inclusion of forward-looking statements should not be regarded as representations by the Company and the Target Company that their plans and objectives will be achieved or realised.

The forward-looking statements in this circular reflect the views of the management of the Enlarged Group as at the date of this circular and are subject to change in light of future developments. Subject to the requirements of the Listing Rules and the Takeovers Code, the Company and the Target Company do/will not intend to update or otherwise revise the forward looking statements in this circular, whether as a result of new information, future events or otherwise.

*You should carefully consider all of the information in this circular including the risk factors described below. The business, financial condition or results of operations of the Enlarged Group could be materially and adversely affected by any of these risk factors. In addition to the risk factors described below, other risks and uncertainties not presently known to the Enlarged Group, or not expressed or implied below, or that the Enlarged Group currently deems immaterial, may also adversely affect the business, operating results and financial condition of the Enlarged Group in a material respect.*

The Enlarged Group considers that there are certain risks involved in its business and operations and in connection with the Acquisition. Such risks can be categorised into: (i) risks relating to the Acquisition, the [REDACTED] and the Subscription; (ii) risks relating to the Enlarged Group; (iii) risks relating to the PRC in general; and (iv) risks relating to this circular.

## RISKS RELATING TO THE ACQUISITION, THE [REDACTED] AND THE SUBSCRIPTION AGREEMENTS

### Completion of the Acquisition is subject to the fulfilment of the conditions precedent and there is no assurance that they can be fulfilled and/or the Acquisition will be completed as contemplated

A number of the conditions precedent to completion of the Acquisition as set out in "7. The Acquisition — Conditions precedent to the Acquisition Agreement" in the section headed "Letter from the Board" in this circular involve the decisions of third parties, including, among others, approvals by the Independent Shareholders at the EGM, the Creditors Schemes becoming effective, the entering into of the Subscription Agreements, the Executive granting the Whitewash Waiver, the Grand Court granting an order confirming the Capital Reduction, the entering into of the Disposal Agreements and approval by the Listing Committee for the [REDACTED] of and permission to deal in all of the New Shares allotted and issued pursuant to the Subscription, the Acquisition and the [REDACTED]. As fulfilment of such conditions precedent is not within the control of the parties involved in the Acquisition, there is no assurance that the Acquisition will be completed in a timely manner as contemplated, or at all.

### The shareholding percentage of the existing Shareholders in the Company will be substantially diluted immediately following the completion of the [REDACTED] and the transactions contemplated under the terms of the Subscription Agreements and the Acquisition Agreement

Under the [REDACTED], the Company will allot and issue an aggregate of [REDACTED] to the Qualifying Shareholders and/or the [REDACTED]. In addition, under the Subscription, the Company will allot and issue, in aggregate, 1,167,597,940 New Shares to Jinwu, Time Boomer and First Apex. Furthermore, under the Acquisition, the Company will issue an aggregate of 4,086,592,787 New Shares to the Vendors pursuant to the terms of the Acquisition Agreement. As a result, the shareholding percentages of the existing Shareholders in the Company would be substantially diluted. Any value enhancement of the New Shares as a result of the Acquisition may not necessarily be reflected in their market price and may not offset the dilution effect to the existing Shareholders.

**The Company may not be able to attain the public float immediately following the completion of the [REDACTED]**

Assuming all existing Shareholders take up their respective entitlements to the [REDACTED] in full, the Company will only attain a public float of approximately 10.0%. Assuming none of the existing Shareholders takes up their respective entitlements to the [REDACTED] under the [REDACTED] and the [REDACTED] takes up the [REDACTED] in full, the Company will only attain a public float of approximately 3.3%. In order to attain the public float, the Subscribers, and the Vendors (if necessary), will take appropriate actions, including entering into [REDACTED] arrangement with third party broker or agent to place down not less than 584,382,770 New Shares to independent [REDACTED], to restore sufficient public float of the Company. However, there is still a risk that the Company may not be able to attain the public float if the Subscribers and/or the Vendors fails to enter into a [REDACTED] agreement with the [REDACTED] agent in time and the Resumption will only take place when the public float requirement is met.

**Existing Shareholders will experience further dilution if the Company issues additional New Shares in the future**

In order to expand the business of the Company, the Company may consider offering and issuing additional New Shares in the future. Shareholders may experience further dilution in the net tangible asset value per New Share of their New Shares if the Company issues additional New Shares in the future at a price which is lower than the net tangible asset value per New Share.

**Immediately following completion of the [REDACTED] and the transactions contemplated in the Subscription Agreements and the Acquisition Agreement, the Vendors will have substantial influence over the Company and their interests may not be aligned with the interests of the other Shareholders**

With reference to "Changes in Shareholding Structure" in the section headed "Letter from the Board" in this circular, it is the Vendors' intention to maintain more than 50% of the enlarged issued share capital of the Company at the relevant time of the Resumption. The interests of the Vendors may differ from the interests of the other Shareholders. The Vendors will have substantial influence over the Enlarged Group's business, including matters relating to its management and policies and decisions regarding mergers, expansion plans, consolidations and the sale of all or substantially all of the Enlarged Group's assets, election of directors and other significant corporate actions. It is possible that the Vendors may exercise their substantial influence over the Enlarged Group and cause it to enter into acquisitions or take, or fail to take, other actions or make decisions which conflict with the best interests of the other Shareholders.

## RISKS RELATING TO THE ENLARGED GROUP

### The growth prospects of the Enlarged Group depend on continual and successful operation and growth of the Target Group, the failure of which would adversely affect the operations, financial condition and business prospects of the Enlarged Group

The Target Group will become the main operating subsidiaries of the Company upon completion of the Acquisition. Upon the Creditors Schemes becoming effective, the Company will transfer the Scheme Subsidiaries to the Scheme Company or the Scheme Administrators for the benefit of the Scheme Creditors and dispose of the Retained Subsidiaries to the Purchaser pursuant to the Disposal Agreement. For more details, please refer to the section headed "Letter from the Board" in this circular. Accordingly, upon completion of the transfer of the Scheme Subsidiaries to the Scheme Company or the Scheme Administrators, the Disposal and the Acquisition, results of operations, financial condition and business prospects of the Enlarged Group will depend solely on those of the Target Group and may be materially and adversely impacted if the Target Group is not able to maintain the continual and successful operation and growth of its business.

### The Target Group's operating results are dependent on the sale of properties, which in turn depends on a number of factors including schedule of property development and delivery, and timing of property sales, which may impact on revenue recognition and cash flow and cause the results of operations of the Target Group to fluctuate

As the Target Group derives their revenue from the sale of properties, their operating results may vary significantly from period to period due to factors such as the Target Group's schedule of property development and delivery, and timing of property sales.

According to the Target Group's accounting policies, their revenue is recognised when the respective properties have been completed and delivered to the customers. Periods in which the Target Group delivers properties with a higher aggregate GFA typically generate higher level of revenue. However, the Target Group's revenue is not evenly distributed over different periods of any particular year due to a combination of factors, which include the overall delivery schedules of the Target Group's projects, the market demand for their properties and the timing of the sale of properties that the Target Group developed. Consequently, the Target Group's operating results for any given period may not be indicative of the actual demand for their properties or the pre-sales or sales achieved during such period. The Target Group's revenue and profit during any given period generally reflect property purchase decisions made by purchasers some time earlier. As a result, the Target Group's operating results are not necessarily indicative of results that may be expected for any future period.

Furthermore, the property development and/or the properties delivery schedule of the Target Group may be delayed or adversely affected by a combination of factors, including adverse weather conditions, delays in obtaining requisite permits and approvals from the relevant government authorities, as well as other factors beyond the control of the Target Group, which in turn adversely affect the revenue recognition and consequently the cash flow and results of operations of the Target Group.

**The Target Group's historical sales performance may not be taken as an indication of future prospects and results of operations and any failure to overcome challenges or address risks in the future would adversely affect the Target Group's operations, financial condition and prospects**

All of the revenue generated from the Target Group's property development business during the Track Record Period was derived from the sales of properties in the Binjiang International Project. The Target Group is developing The Cullinan Bay Project and may expand its business to other cities in the PRC in the future. Therefore, the historical sales performance and revenue attained by the Target Group in respect of the Binjiang International Project during the Track Record Period may not be taken as a reference or indication of its results of operations in the future. There is also no assurance that the gross profit margin of the Target Group will remain at a level similar to those in the Track Record Period or that the Target Group will be successful in meeting all challenges and addressing the risks and uncertainties it may face in developing The Cullinan Bay Project and other projects in other cities in the PRC. Should the Target Group fail in overcoming such challenges or addressing such risks and uncertainties in the future, its business, results of operations, financial condition and prospects may be adversely affected.

**The Target Group's business and prospects significantly depend on the performance of the PRC property market, particularly the property markets in Quanzhou and Yangzhou, and any change of market condition in the PRC property market would affect the results of operations and financial condition of the Target Group**

The Target Group is a residential property developer primarily focusing on developing and selling residential properties in Huian County, Quanzhou, Fujian Province and Yangzhou, Jiangsu Province through its two projects, namely the Binjiang International Project and The Cullinan Bay Project. As a result, the Target Group's business and prospects significantly depend on the performance of the PRC property market, particularly the property markets in Quanzhou and Yangzhou. The PRC property market may be volatile and may experience undersupply or oversupply of property units and significant property price fluctuations. Any significant downturn in the PRC economy could adversely affect demand for residential properties in the PRC. From time to time, the PRC property market has experienced excessive development. Any excessive development in the property markets where the Target Group operates may result in an oversupply of properties, intensified competition and increases in land acquisition costs due to intensified competition. As such, there is no assurance that the Target Group will be able to respond properly to these changing market condition in an appropriate way to maintain their competitive advantages and in turn the Target Group's business, results of operations and financial condition may be materially and adversely affected.

**The Target Group may not be able to acquire land reserves in desirable locations suitable for development at commercially acceptable prices in the future, which could have a material adverse impact on the business, financial condition and results of operations of the Target Group**

The growth and success of the Target Group's business depend on its ability to continue acquiring land reserves located in desirable locations that are suitable for residential projects at commercially reasonable prices. The Target Group's ability to acquire land may depend on a variety of factors that the Target Group cannot control, such as overall economic conditions in the PRC, effectiveness in identifying and acquiring land parcels suitable for development, land acquisition cost, competition for such land parcels and availability of financial resources of the Target Group. In addition, there is limited supply of suitable land available for development in such cities and the Target Group may also face competition from other property developers for the sites the Target Group plans to acquire. As a result, the Target Group may not be able to acquire suitable land at reasonable costs. Further changes in government policy with regard to land supply and development may lead to increases in the Target Group's costs of acquiring land and limit its ability to successfully acquire land at reasonable costs, which could have a material adverse impact on its business, financial condition and results of operations.

**The Target Group may not successfully maintain its growth and expansion, which could have a material adverse impact on the business, financial condition and results of operations of the Target Group**

The Target Group seeks to develop projects in other cities in addition to Quanzhou and Yangzhou in the PRC when appropriate opportunity arises. However, expansion into new geographical locations involves uncertainties and challenges due to the Target Group's unfamiliarity with local regulatory practices and customs, customer preferences and behavior, the reliability of local construction contractors and material suppliers, business practices, business environment and municipal-planning policies. In addition, such expansion would expose the Target Group to competition with developers who may have better-established local presence, more familiarity with local regulatory and business practices and customs, and stronger ties with local suppliers, contractors and purchasers. As the Target Group may face challenges not previously encountered, it may fail to recognise or properly assess risks or take full advantage of opportunities, or otherwise fail to adequately leverage its past experience to meet challenges encountered in these new activities. For example, the Target Group may have difficulty in accurately predicting market demand for its properties in the cities into which it expands. Moreover, business expansion into new geographic locations requires significant amount of capital and management resources, as well as maintaining the growth in its workforce when catering for such expansion. If the Target Group does not successfully maintain its growth and expansion, its business, results of operations, financial condition and prospects could be materially and adversely affected.

**The Target Group's operations are subject to extensive governmental regulations and failure to adapt to new policies and regulations in the future would adversely affect the Target Group's operations, financial condition and prospects**

The Target Group's business is subject to extensive governmental regulations. As with other PRC property developers, the Target Group must comply with various requirements mandated by the PRC laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. The PRC national and local governments may frequently adjust monetary, fiscal or other economic policies to prevent and curtail the overheating of the economy, in particular, the property market. The PRC government has in recent years taken various measures to regulate the property market in order to discourage speculations in the property market, such as raising benchmark interest rates of commercial banks, placing additional limitations on the ability of commercial banks to grant loans to property developers, imposing additional taxes and levies on property sales, restricting foreign investment in the PRC property market and imposing restrictions on the purchase of properties by domestic individuals. For additional information on the PRC laws and regulations relating to the property market, please refer to the section headed "Summary of principal PRC legal and regulatory provisions" in Appendix V to this circular.

Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on the Target Group's operations and future business development. There is no assurance that the PRC government will not adopt additional and more stringent industry policies and regulations in the future. If the Target Group fails to adapt its operations to the new policies and regulations that may come into effect, or such regulatory measures disrupt its business prospects or cause it to incur additional costs, the Target Group's business, results of operations and financial condition may be materially and adversely affected.

**The Target Group may not be able to complete its development projects on time and deliver the properties to its customers according to the terms of the sale and purchase agreements, which could have a material adverse impact on the results of operation and financial condition of the Target Group and expose the Target Group to litigation risk, which in turn affect the reputation and financial condition of the Target Group**

The construction of property development projects may take over a year or longer before positive net cash flow may be generated through sales and pre-sales. As a result, the Target Group's cash flow and results of operations may be significantly affected by its project development schedules. The schedules of the projects of the Target Group depend on a number of factors, including, among others, the performance and efficiency of construction contractors and the Target Group's ability to finance construction. Other specific factors that could adversely affect the Target Group's project development schedules include:

- natural catastrophes and adverse weather conditions;
- changes in market conditions, economic downturns and decreases in business;

- consumer sentiment in general;
- changes in relevant regulations and government policies;
- relocation of existing residents and/or demolition of existing constructions;
- shortages of materials, equipment, contractors and skilled labour;
- labour disputes;
- construction accidents; and
- errors in judgment on the selection and acquisition criteria for potential sites.

If a property project is not completed on time and/or the properties are not delivered to the Target Group's customers according to the terms of sale and purchase agreements, the customers would be entitled to compensation for late delivery. If the delay extends beyond a certain period, the purchasers would be entitled to terminate their property sale and purchase agreements and claim damages. As advised by the PRC Legal Advisers, the customers shall have the right to bring legal action against the Target Group for late delivery within two years after delivery of properties. There is no assurance that the Target Group will not experience significant delays in completion or delivery of its properties in the future. Should any such event occurs, the Target Group's results of operation and financial condition may be materially and adversely affected. The Target Group is subject to the risk of legal claims and proceedings in the ordinary course of its business. Any litigation or legal proceedings could expose the Target Group to financial liability, divert its resources away from its business and the reputation and financial condition of the Target Group could be adversely affected.

**The Target Group may be liable for delay in delivery of completed property and assisting purchaser to obtain the individual property ownership certificates, which may adversely affect the Target Group's business and reputation**

Once a property development project has passed the requisite completion inspections, the Target Group must deliver the completed property to the purchasers within the time frame provided in the sale and purchase agreements. Failure to do so may render the Target Group liable for monetary damages, which may adversely affect the Target Group's reputation and business operations. In addition, the Target Group must complete all necessary registration of the property ownership in respect of these properties within the time frame provided in the sale and purchase agreements.

As advised by the PRC Legal Advisers, an individual purchaser must apply for the individual property ownership certificate within 90 days after execution of the sale and purchase agreement for the purchase of completed properties or within 90 days after the delivery of property for the purchase of pre-sold properties unless it is specified otherwise under the sale and purchase agreement. The Target Group must complete all necessary registration with the relevant authorities before such authorities can issue individual property ownership certificates (namely, Strata-title Building Ownership Certificates (分戶產權證)) to property purchasers and the Target Group must provide the property purchasers with necessary assistance in applying for the individual property ownership certificates. Any delay in assisting property purchasers with the individual property ownership certificate application, including delay in obtaining the general property ownership certificate by the Target Group with respect to one or more of its property development projects, may adversely affect the Target Group's business and reputation.

**The Target Group's business may be adversely affected if it fails to obtain, or if it experiences material delay in obtaining, necessary government approvals in carrying out its property development operations**

The property industry in the PRC is heavily regulated by the PRC government. Property developers must comply with various laws and regulations, including rules issued by national and local governments to enforce these laws and regulations. To engage in property development business, the Target Group must apply to relevant government authorities to obtain (and renew for those relating to on-going operations) various licences, permits, certificates and approvals, including but not limited to qualification certificates, land use rights certificates, construction work commencement permits, construction work planning permits, construction land planning permits, pre-sale permits and completion certificates. The Target Group must meet specific conditions in order to obtain or renew such certificates or permits. Please refer to the section headed "Summary of principal PRC legal and regulatory provisions" in Appendix V to this circular for details. The Target Group may encounter material delay or difficulties in fulfilling the necessary conditions to obtain or renew all necessary certificates or permits for its operations, or at all, in the future. In the event that the Target Group fails to obtain or renew, or encounter any significant delay or difficulty in obtaining or renewing, the necessary government approvals for any of its property development projects, the Target Group will not be able to continue with its development plans, and as a result, its business, results of operations and financial condition may be materially and adversely affected.

**The Target Group's business and financial conditions may be adversely affected if it fails to develop properties in accordance with the terms and time frame set forth in the land acquisition agreement because, in such event, the Target Group may forfeit such land to the PRC government or may be subject to penalties under the land acquisition agreement**

Under the PRC laws and regulations, if a property developer fails to develop a project according to the terms of the relevant land acquisition agreement, including those relating to the payment of land grant premium, demolition and relocation costs and other fees, the designated use of the land and the time for commencement and completion of the property development, the PRC government may issue a warning, impose a penalty, and/or order such property developers to forfeit the land. Any failure of the Target Group to comply with the terms of land acquisition agreement may subject the Target Group to penalties, including forfeiture of the relevant land. If the land is forfeited, the Target Group will not only lose the opportunity to develop its property development project on such land, but may also lose all its past investments in the land, which will adversely and materially affect its business, financial condition and results of operations.

According to the land acquisition agreement in respect of The Cullinan Bay Project entered into between the Target Group and the Bureau of Land and Resources of Yangzhou (the "**Yangzhou Land Bureau**") in August 2012, the construction completion shall take place on or before 7 August 2015 and a daily penalty of 0.1% of the land acquisition cost (being approximately RMB327,000) will be imposed by the Yangzhou Land Bureau if construction completion cannot take place on or before the deadline. The Target Group entered into a supplemental agreement with the Yangzhou Land Bureau in September 2015, pursuant to which the Yangzhou Land Bureau agreed to amend the construction completion deadline to 7 August 2016. For details, please refer to the section headed "Business of the Target Group — Property development projects of the Target Group — Description of the property development projects — The Cullinan Bay Project" of this circular. According to the construction plan of the Target Group, the construction of the last phase of The Cullinan Bay Project will be completed by December 2017. The Target Group will apply to the Yangzhou Land Bureau for an extension of the construction completion deadline before 7 August 2016. However, there is no guarantee that an agreement with the Yangzhou Land Bureau to further extend the construction completion deadline will be reached. If the agreement cannot be reached, the Target Group may be subject to a daily penalty of 0.1% of land acquisition cost (being approximately RMB327,000) according to the land acquisition agreement, which could have a material adverse impact on the financial and business conditions of the Target Group.

**The reputation and business of the Target Group may be materially and adversely affected by the performance of construction contractors**

The Target Group engages construction contractors to carry out various work including construction of buildings and civil engineering, landscaping, water and electricity installation, equipment installation and exploration engineering. The Target Group selects construction contractors mainly through a tender process. There is no assurance that construction contractors will perform construction work with the required quality or in a timely manner. Any failure of the construction contractor to perform according to the quality requirement and timetable set out by the Target Group could increase the Target Group's project development costs and harm its reputation.

**The Target Group obtains a significant portion of its construction services, construction design services and construction materials from a few key construction contractors, design firms and construction material suppliers and, any disruption in their supply may have a material adverse effect on the Target Group's business and results of operations**

The aggregate purchase costs attributable to the five largest suppliers of the Target Group including construction contractors, design firm and construction material suppliers accounted for approximately 92.8%, 90.8%, 84.2% and 94.7% of the Target Group's total purchase costs for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. Their relationships with the Target Group range from one to eight years. If there is disruption in provision of materials or services by one or more major suppliers and the Target Group failed to replace these construction contractors, design firms and material suppliers on a timely manner, the business and result of operations of the Target Group may be materially and adversely affected.

**The Target Group's sale of properties is subject to fluctuation in the average selling price and may not be able to sustain its gross profit margin**

During the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the overall ASP realised from the delivered properties was approximately RMB3,707 per sq.m., RMB3,766 per sq.m., RMB4,595 per sq.m. and RMB7,318 per sq.m. respectively. The overall ASP of properties within a single property development project is subject to pricing of properties which was based on a number of factors, such as types, features, location of the properties and the supply and demand condition of the local market. In the case that the Target Group experienced a greater decrease in ASP while average cost of sales per sq.m. increase or remain stable, the Target Group may not be able to maintain its gross profit margin as those in the Track Record Period, and its financial performance may be adversely affected.

**Any significant increase in the cost of construction and development costs may adversely affect the business, results of operations and financial condition of the Target Group**

Construction and development costs constituted the most significant part of the cost of sales of the Target Group during the Track Record Period. Construction and development costs primarily consisted of construction contracting costs incurred for services rendered by construction contractors, including the constructors for major building foundation construction and construction works for ancillary facilities. Any increase in construction and development costs will impact the Target Group's cost of sales and overall project development costs. In addition, as the Target Group pre-sells some of its properties prior to their completion, the Target Group may not be able to pass any increase in construction and development costs subsequent to the time of pre-sale to its customers. As a result, any significant increase in the construction and development costs for its property developments may adversely affect the business, results of operations and financial condition of the Target Group.

**The Target Group experienced periods of net cash outflow from operating activities and net current liabilities. There is no assurance that the Target Group will not experience periods of net cash outflow from operating activities and/or net current liabilities in the future**

During the year ended 31 December 2012 and the year ended 31 December 2014, the Target Group had net cash outflow from operating activities of approximately RMB157.8 million and RMB58.0 million, respectively. As the property development business is a capital intensive industry, the Target Group may experience net operating cash outflow from time to time. The Target Group's net cash outflows from operating activities for the year ended 31 December 2012 was primarily due to the increase in inventories mainly resulted from the acquisition of land in Yangzhou for The Cullinan Bay Project. The net cash outflow from operating activities for the year ended 31 December 2014 was primarily attributable to the decrease in pre-sale proceeds upon delivery of completed properties of Phase 4 of the Binjiang International Project.

The Target Group had net current liabilities of approximately RMB20.9 million as at 31 December 2012. The net current liabilities position was primarily attributable to the amount due to directors with no fixed repayment term and classified as current liabilities.

There is no assurance that the Target Group will not experience periods of net operating cash outflow and/or net current liabilities in the future. If the Target Group continues to have net operating cash outflow in the future, it could have a material adverse effect on their business, financial condition, results of operations and prospects. If the Target Group continues to have net current liabilities in the future, their working capital for their operations may be subject to constraints.

**The financial results of the Target Group during the Track Record Period included changes in fair value of investment properties and any decrease in the fair value of investment properties in the future may have an adverse effect on the Target Group's business, results of operations and financial position**

The Target Group is required to reassess the fair value of its investment properties as at each reporting date in accordance with the HKFRSs. See section headed "Financial information of the Target Group" in this circular for details of changes in fair value of investment properties. Gains or losses arising from changes in the fair value of investment properties upon revaluation are included in the profit or loss of the Target Group in the corresponding periods, which may have a substantial effect on its profitability. The fair values of investment properties are based on valuations conducted by a firm of independent and qualified professional valuer, using valuation techniques that involves professional judgments and adopts certain bases and assumptions. Further, the fair value of investment properties during the years were significantly affected by the prevailing property market conditions and are subject to market fluctuations. Unforeseeable changes to the development of property development projects as well as national and local economic conditions may also affect the value of the Target Group's property development projects. There is no assurance that the fair value of investment properties will continue to increase in the future. The fair value of investment properties may decrease in the event that the property markets in the PRC experience a downturn or the PRC government implements any policies resulting in a general decline in property price. Any decrease in the fair value of the investment properties in the future will have an adverse effect on the Target Group's business, results of operations and financial position.

**The relevant PRC tax authorities may challenge the basis on which the Target Group calculates its LAT tax obligations**

Pursuant to the Interim Ordinance on Land Appreciation Tax of the PRC (中華人民共和國土地增值税暫行條例) and the Implementation Rules of Interim Ordinance on Land Appreciation Tax of the PRC (中華人民共和國土地增值税暫行條例實施細則), the Target Group is subject to LAT in respect of all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC at progressive rates ranging from 30% to 60% of the appreciation of land value, being the proceeds of sales of properties less deductible items, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items. Please refer to the section headed "Summary of principal PRC Legal and Regulatory Provisions" in Appendix V to this circular for a detailed description of the PRC regulations on LAT.

The Target Group makes provisions for the amount of applicable LAT payable in accordance with the relevant PRC laws and regulations from time to time, pending final settlement with the relevant tax authorities. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the Target Group recorded approximately RMB1.4 million, RMB1.7 million, RMB5.5 million and RMB7.9 million respectively as LAT expenses. In the event that the LAT provisions made by the Target Group are substantially lower than the actual LAT amounts as assessed by the PRC government in the future, its business, results of operations and financial position may be adversely affected.

**The Target Group guarantees mortgage loans of its customers for the purchase of pre-sale units provisionally for a period until the bank receives the individual property ownership certificates of the relevant property or full settlement of mortgage loans by the customers resulting that the Target Group may become liable to mortgagee banks if its customers default on their mortgage loans**

The Target Group provides guarantees to the banks in connection with its customers' mortgage loans for the purchase of pre-sale units provisionally to finance their purchase of the residential properties of the Target Group. The Target Group's guarantee is released at the earlier of (i) the bank received the individual property ownership certificate of the relevant property from the customer as security for the mortgage loan; and (ii) the full settlement of mortgage loans by the customers. If any customer defaults on his or her payment obligations under the mortgage loan during the terms of such guarantee, the bank may request the Target Group to fulfill such payment obligation. As at 30 June 2015, the outstanding balance of the mortgage loans guaranteed by the Target Group was approximately RMB351.5 million. The proposed Directors confirm that the Target Group did not experience any material default on mortgage during the Track Record Period and they were not called upon to fulfill material payment obligations under any guarantee provided to the banks. Should any material default by the customers of the Target Group occur under their mortgage loans guaranteed by the Target Group, the Target Group would be called upon to make significant payments to the banks, which could materially and adversely affect its result of operations and financial condition.

**The Target Group had borrowings from banks and the Target Group's financing costs may increase due to increases in interest rates which may impact on the results of operations and financial condition of the Target Group**

During the Track Record Period, the Target Group financed its property development projects through, inter alia, borrowings from banks. There is no assurance that the Target Group will be able to obtain bank loans or renew existing credit facilities in the future on acceptable terms or at all. Any significant increase in interest rates by the People's Bank of China may have a material adverse effect on the financial condition and results of operations of the Target Group.

**The Target Group may be exposed to certain risks for which it does not carry insurance and any resultant loss may affect the Target Group's operations, financial condition and prospect**

The Target Group will maintain insurance policies where practicable covering both its assets and employees in line with general practice in the real estate industry, with policy specifications and insured limits which it believes reasonable, or as required under the laws, rules or regulations in places where the Target Group operates. Currently, the Target Group does not carry out insurance for certain risks and does not have insurance coverage against risks of its projects. Should an insured loss occur, the Target Group could suffer loss, including loss of future revenue. The Target Group may also be liable for any debt or other financial obligation related to the relevant property or to third parties. Any such loss could adversely affect the Target Group's business, financial condition, results of operations and prospects.

**The appraised value of the Target Group's properties may be different from their actual realisable value and the business, financial condition and results of operations of the Target Group may be adversely affected if the actual realisable value of its properties is significantly lower than its appraised value**

The appraised value of the Target Group's properties as contained in the property valuation report in Appendix IV to this circular is based on multiple assumptions that include elements of subjectivity and uncertainty. With respect to properties under development and properties held for future development, the valuations are based on the assumptions that (i) the properties will be completed or developed as currently scheduled; (ii) regulatory and governmental approvals for the proposals have been or will be obtained; and (iii) the properties are free from encumbrances and other restrictions. For properties owned by the project companies in which the Target Group's has an attributable interest of less than 100%, the valuation assumes that the interest of the relevant project companies in the aggregate value of the property or business is equal to the Target Group's proportionate ownership interest in the relevant company or business.

If any of these assumptions turns out to be incorrect or the actual realisable value of any of the Target Group's properties is significantly lower than its appraised value, the Target Group's business, financial condition and result of operations may be materially and adversely affected.

**The Target Group relies on its key management members and any failure of the Target Group to recruit suitable successors or employ additional management personnel would adversely affect the business and future growth of the Target Group**

The Target Group depends on the services provided by its key management members. In particular, the Target Group is highly dependent on Mr. Shie, a director of the Target Company and the proposed chairman of the Board and Mr. Tsoi, a director of the Target Company, the proposed executive Director and the proposed chief executive officer and proposed executive Director of the Company, respectively. The Target Group does not maintain key employee insurance. In the event that the Target Group loses the services of any key management member, the Target Group may be unable to identify and recruit suitable successors in a timely manner or at all, which may adversely affect its business and operations. Moreover, the Target

Group may need to employ and retain additional management personnel to support its expansion into cities other than Quanzhou and Yangzhou. If the Target Group cannot attract and retain sufficient qualified management staff, its business and future growth may be materially adversely affected.

**The Target Group may become involved in legal and other proceedings from time to time and may be subject to significant liabilities or suffer other losses as a result**

The Target Group may be involved in disputes with various parties relating to late delivery of properties, development and sale of its properties or other aspects of its business and operations. These disputes may lead to legal or other proceedings. Disputes and legal and other proceedings may require substantial time and expense to resolve, which could divert valuable resources, such as management time and working capital, delay the Target Group's planned projects and increase its costs. Third parties that are found liable to the Target Group may not have the resources to compensate the Target Group for its damages. The Target Group could also be required to pay significant damages and expenses if it does not prevail in any such disputes or proceedings. In addition, the Target Group may have disagreements with regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavourable decrees that may result in pecuniary liabilities or cause delays to its property development.

**The property development business is subject to warranty claims under statutory quality warranties and any significant number of claims against the Target Group may adversely affect the reputation and financial condition of the Target Group**

According to the Construction Law of the PRC (《中華人民共和國建築法》) as amended in 2011 and the Administration of Urban Real Estate Development Ordinance (《城市房地產開發經營管理條例》) effective from 20 July 1998, a real estate development enterprise must be responsible for the quality of the real estate development project it develops or constructs. In addition, under the Ordinance on Quality Management of Construction Projects (《建設工程質量管理條例》), which became effective from 30 January 2000, all property developers in the PRC including the Target Group must provide certain quality warranties for the properties they construct or sell. The Target Group normally receives quality warranties from its construction contractors with respect to its property development projects. If a significant number of claims was to be brought against the Target Group under these warranties and the Target Group was unable to obtain reimbursement for such claims from construction contractors in a timely manner or at all, or if the amount of quality warranties retained by the Target Group from payment from the construction contractors was not sufficient to cover such payment obligations under its quality warranties to its customers, the Target Group could incur significant expenses to resolve such claims or fail to rectify the related defects in a timely manner, which could in turn adversely affect its reputation, result of operations and financial condition.

**The Target Group is subject to potential environmental liability and may incur significant additional costs if additional or stricter laws or regulations are enforced**

The Target Group is subject to a number of environmental laws and regulations. The particular environmental laws and regulations that apply to any given development site vary significantly according to the site's location, environmental condition, the present and former uses of the site and the nature of the adjoining properties. Compliance with environmental laws and regulations may result in delays in development process and increase in development cost and may restrict or even prohibit project development activities. As required by PRC laws and regulations, the Target Group has engaged environmental experts to conduct environmental impact assessments for its development projects. However, there is no assurance that the Target Group will effectively prevent non-compliance with applicable environmental laws and regulations in the future. If any project or any portion of its development project is found to be non-compliant with applicable environmental laws or regulations, the Target Group may be ordered to suspend all or a portion of its operations and may be subject to fines and other penalties, which may materially and adversely affect its business, financial condition and result of operations. In addition, the PRC government may change the existing laws and regulations or impose additional or stricter laws or regulations, the compliance of which may cause the Target Group to incur significant additional costs.

**The Target Group may not be able to pursue the intended use of civil defence properties if such properties are used by the PRC government and may suffer a loss of income as a result**

Under the Civil Air Defence Law, in times of peace, civil defence properties can be used (including lease) and managed by entities or persons investing in their construction and any revenue generated from the use of such areas belongs to such investors. However, in times of war, such areas may be used by the PRC government at no cost. The Target Group's civil defence areas are used as car parking space. According to the property management agreement entered into between the Target Group and its property management company in relation to the Binjiang International Project, the property management company shall be entitled to the rental income generated from the lease of car park space as part of its management fee. As a result, no income of the Target Group was generated from the use of civil defence properties during the Track Record Period. Should there be any alteration of terms of the property management company or should there be any change of the property management company resulting that the Target Group would generate income from the lease of car parking space, the Target Group may not be able to pursue the intended use when the civil defence areas of the Target Group are used by the PRC government in the event of war, such areas will no longer be a source of income for the Target Group.

**The Enlarged Group expects to record a net loss for the year ending [REDACTED]**

Assuming that completion of the Acquisition would take place in 2016, the Enlarged Group is expected to record a net loss in relation to the Resumption for the year ending [REDACTED].

Major items causing the loss for the year ending [REDACTED] will be the [REDACTED] expenses of the Proposed Restructuring. Assuming the completion of the Proposed Restructuring takes place in 2016, it is expected that the [REDACTED] expenses will be charged to the profit or loss of the Enlarged Group for the year ending [REDACTED]. For the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group which is set out in Appendix III to this circular, the Proposed Restructuring was assumed to have taken place on 30 June 2015, and the [REDACTED] expenses of approximately HK$466.9 million are charged to the profit or loss for the period ended 30 June 2015. Details of the [REDACTED] are set out in note 12(a) of Appendix III to this circular.

## RISKS RELATING TO THE PRC IN GENERAL

### PRC economic, political and social conditions as well as government policies could adversely affect the Enlarged Group's business and prospects

The PRC economy differs from the economies of most of the developed countries in many aspects, including:

- political structure;
- the amount and degree of the PRC government involvement and control;
- level of corruption;
- growth rate and degree of development;
- level and control of capital investment and reinvestment;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilise market forces in the development of the PRC economy. The Enlarged Group cannot predict whether changes in the PRC's economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on the Enlarged Group's current or future business, results of operations and financial condition.

In addition, many of the economic reform measures implemented by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on the Enlarged Group's operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy, including the real estate industry, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on the Enlarged Group's business, result of operations and financial condition.

**The PRC's legal system is still evolving and the uncertainties as to the interpretation and enforcement of PRC laws could have a material adverse effect on us**

The business and operations of the Target Group are conducted in the PRC, and thus it is governed by PRC laws and regulations. The PRC legal system is civil law system based on written status and past court decisions have limited precedential value and are cited for reference only. Since the late 1970s, the PRC government has made significant progress in the development of its laws and regulations governing economic matters, such as foreign investment, company organisation and management, business, tax and trade. As these laws and regulations are still evolving and there are only limited number of non-binding court cases, there exist uncertainties about the interpretation and enforcement of the laws and regulations. For the same reasons, any legal protections available to us under these laws and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention.

**Fluctuations in the value of the Renminbi may have a material adverse impact on your investment**

Even though most of the Target Group's revenue and expenditures are denominated in Renminbi, fluctuations in the exchange rate between Renminbi and the Hong Kong dollar may nonetheless in the future adversely affect the value of our net assets and earnings. In particular distributions to holders of the Shares are made in Hong Kong dollars. In addition, appreciation or depreciation in the value of Renminbi relative to the Hong Kong dollar would affect the Target Group's financial results in Hong Kong dollar terms without giving effect to any underlying change in its business or results of operations.

Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and China's foreign exchange regime and policy. Renminbi has been unpegged from US dollar since July 2005 and, although the People's Bank of China regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rate, Renminbi may appreciate or depreciate significantly in value against Hong Kong dollar in the medium to long term. Moreover, it is possible that the PRC authorities may lift restrictions on fluctuations in Renminbi exchange rates and lessen intervention in the foreign exchange market in the future.

There are limited hedging instruments available in the PRC to reduce the exposure to exchange rate fluctuations between Renminbi and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. To date, the Target Group has not entered into any hedging instrument in an effort to reduce its exposure to foreign currency exchange risks as the proposed executive Directors believe the currency risk is minimal. However, should material foreign currency exchange risks arise, the Target Group's business, result of operations and financial condition may be materially and adversely affected.

**The PRC government's control in foreign currency conversion may materially and adversely affect the financial condition, results of operations and ability to meet foreign exchange requirements of the Target Group**

Currently, Renminbi still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, the Target Group will have sufficient foreign exchange to meet its foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange acquisition under the current account conducted by the Target Group, including the payment of dividends, do not require advance approval from the SAFE, but the Target Group is required to present documentary evidence of such acquisition and conduct such acquisition at designated foreign exchange banks within the PRC that have the licences to carry out foreign exchange business. Control over conversion of Renminbi to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations.

Under existing foreign exchange regulations, the Target Group is able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue to be in effect in the future. In addition, any insufficiency of foreign exchange may restrict the Target Group's ability of dividend payments to Shareholders or to satisfy any other foreign exchange requirements. If the Target Group fails to obtain approval from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, its capital expenditure plans, business, result of operations and financial condition may be materially and adversely affected.

**The Enlarged Group may be deemed a PRC resident enterprise under the PRC EIT Law and be subject to PRC taxation on its worldwide income**

Under the PRC Enterprise Income Tax Law ("**PRC EIT Law**"), which came into effect on 1 January 2008, enterprises established outside the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and their global income will generally be subject to the uniform 25% Enterprise Income Tax ("**EIT**") rate. Under the Implementation Rules for the PRC EIT Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Since a substantial portion of the Target Group's management is currently based in the PRC and may remain in the PRC, the non-PRC members of the Target Group may be considered as PRC resident enterprises even though the non-PRC members of the Target Group have real operations outside the PRC. If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, its worldwide income will be subject to the EIT. The imposition of the EIT on the Target Group's global income as a "resident enterprise" under the PRC EIT Law may have a material adverse effect on the financial condition and result of operations of the Target Group.

### Dividends payable by the Target Group to its foreign investors and gains on the sale of its Shares may become subject to withholding taxes under PRC tax laws

Under the PRC EIT Law and its implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable by a PRC "resident enterprise" to investors that are "non-resident enterprises"(those enterprises that do not have an establishment or place of business in the PRC, or those that have such an establishment or place of business but the relevant income of which is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such enterprises is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If the Enlarged Group is regarded as a PRC "resident enterprise", it is unclear whether the dividends the Enlarged Group pays with respect to the New Shares, or the gain you may realise from the transfer of the New Shares, will be treated as income derived from sources within the PRC and be subject to PRC income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC EIT Law and the implementation rules. One example of a limitation on the 10% withholding tax is that, pursuant to a tax treaty between the PRC and Hong Kong, which became effective on 8 December 2006, a company incorporated in Hong Kong is subject to withholding tax at the rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% or greater interest in the PRC company, or 10% if it holds an interest of less than 25% in the PRC company. If the Enlarged Group is required under the PRC EIT Law to withhold PRC income tax on its dividends payable to its foreign Shareholders, or if you are required to pay PRC income tax on the transfer of your New Shares, the value of your investment in the New Shares may be materially and adversely affected.

## RISKS RELATING TO THIS CIRCULAR

### Certain facts and other statistics with respect to the PRC, the PRC economy and the PRC real estate industry in this circular are derived from various official government sources and third party sources and may not be reliable

Facts, forecasts and other statistics in this circular relating to the PRC, the PRC economy and the PRC real estate industry have been derived from various official government publications generally believed to be reliable. However, the Target Group cannot guarantee the quality or reliability of such materials. They have not been prepared or independently verified by the Target Group or any of its respective affiliates or advisers and, therefore, the Target Group makes no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside the PRC. The Target Group, however, has taken reasonable care in the reproduction and/or extraction of the official government publications for the purpose of disclosure in this circular. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts and statistics in this circular may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Furthermore, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to the PRC, the PRC economy and the PRC real estate industry contained in this circular.

*This section contains information relating to the economy of the PRC and the industry in which the Target Group operates. The Company has extracted and derived the information in the section below, in part, from the Market Research Report, a commissioned report from DTZ. Please see the paragraph "— Sources of Information" below. The Company believes that such sources are appropriate sources for the information and statistics below, including forward-looking information for future periods as identified, and has taken reasonable care in extracting and reproducing such information. The Company has no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by the Company, the Target Group, the Sponsor, any of their respective affiliates or advisers, or any party involved in the [REDACTED] and no representation is given as to its accuracy. The information and statistics should not be relied upon in making, or refraining from making, any investment decision.*

## SOURCES OF INFORMATION

In connection with the [REDACTED], the Company commissioned the Market Research Report from DTZ for use in this Circular to provide Shareholders with information relating to the economy of the PRC, the residential property market in Quanzhou and Yangzhou and the industry in which the Target Group operates. DTZ has charged a total fee of HK$350,000 for the preparation of the Market Research Report.

DTZ is a global real estate adviser, which offers a range of services including investment agency, leasing agency, property and facilities management, project and building consultancy, investment and asset management, market research and forecasting and valuation. DTZ has 208 offices in 52 countries.

For the purpose of the [REDACTED], DTZ also serves as the Company's independent property valuer. A property valuation report prepared by DTZ which relates to the Target Group's property interests is included in Appendix IV to this Circular. DTZ provided services through its independent valuation team and independent market research team. The Market Research Report was prepared primarily by the designated market research team of DTZ based on data from the PRC government, renowned research institutions and the proprietary databases of DTZ. In the course of research, DTZ conducted interviews with local marketing agents in the residential property sector.

The following sets out the main reasons why DTZ adopted the above sources of information and considered them as reliable:

- It is general market practice to adopt official data and announcements from various Chinese government agencies; and
- DTZ understands the data collection methodology and source of the subscribed database from China Real Estate Index System.

While preparing the Market Research Report, DTZ has relied on the major assumptions listed below:

- The macro-economic environment of each of the PRC, Yangzhou and Quanzhou is expected to grow at a steady rate;
- The political environment of the PRC remains stable; and
- The real estate industry of each of the PRC, Yangzhou and Quanzhou is expected to grow at a steady rate.

Based on the review and analysis of the above basis and assumptions, nothing has come to the attention of the Directors, the proposed Directors and the Sponsor to indicate that such information is misleading. As at the Latest Practicable Date, the Directors and the proposed Directors confirm that to the best of their knowledge and information and taking reasonable care, there is no adverse change in the market information since the date of the Market Research Report, which may qualify, contradict or have an impact on the information in this section.

## OVERVIEW OF THE PRC ECONOMY

Over the past few years, the PRC's economy was affected by the worldwide economic turmoil. However, under the influence of various macro-economic policies, the PRC's GDP growth has remained strong, with a GDP growth from approximately RMB31,405 billion in 2008 to approximately RMB63,646 billion in 2014, representing a CAGR of approximately 12.5%. According to the information from the National Bureau of Statistics of China, the PRC has been the world's second largest economy in terms of nominal GDP since 2010.

### Main economic indicators of the PRC

Under the influence of the PRC government's macro-economic policies, investment in fixed assets has maintained a steady growth. The total investment in fixed assets of the whole society has increased from approximately RMB17,283 billion in 2008 to approximately RMB51,276 billion in 2014, representing a CAGR of approximately 19.9%. The urban resident disposable income per capita has increased from approximately RMB15,781 in 2008 to approximately RMB28,844 in 2014, representing a CAGR of approximately 10.6%. This growth shows that willingness of urban residents to consume has increased, with their purchasing power raised.

**PRC's main economic indicators**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2008–2014 CAGR |
|---|---|---|---|---|---|---|---|---|
| Nominal GDP (RMB billion) | 31,405 | 34,090 | 40,151 | 47,310 | 51,947 | 56,885 | 63,646 | 12.5% |
| Real GDP Growth (%) | 9.6 | 9.2 | 10.4 | 9.3 | 7.8 | 7.7 | 7.4 | N/A |
| GDP per capita (RMB) | 23,708 | 25,608 | 30,015 | 35,198 | 38,459 | 41,908 | 46,652 | 11.9% |
| Urban disposable income per capita (RMB) | 15,781 | 17,175 | 19,109 | 21,810 | 24,565 | 26,955 | 28,844 | 10.6% |
| Fixed asset investment (RMB billion) | 17,283 | 22,460 | 25,168 | 31,149 | 37,470 | 44,629 | 51,276 | 19.9% |

*Notes: N/A means not applicable or not available, data in 2014 are tentative figures provided by National Bureau of Statistics of China*

*Sources: China Statistical Yearbook 2014, National Bureau of Statistics of China, DTZ*

### The PRC's economic outlook and government policies established for economic growth and urbanisation

The PRC's economic development had boosted the pace of urbanisation. Over the past 10 years, the proportion of urbanisation in the PRC increased by 1% to 1.5% every year reaching 55% in 2014. An increase of 1% represents an increase of approximately 13 million people flooding into cities, which will in no doubt bring large housing and consuming demand to the cities in the PRC. According to the"National Plan on New Urbanisation (2014–2020)" (國家新型城鎮化規劃 (2014–2020), released by the PRC State Council, certain measures will be carried out to increase the level and quality of China's urbanisation in the future, aiming at having the urbanisation rate to reach 60% by 2020. The table below sets out some statistics regarding urbanisation of the PRC for the years indicated.

| | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2008–2014 CAGR** |
|---|---|---|---|---|---|---|---|---|
| Population (million) | 1,328 | 1,334 | 1,340 | 1,347 | 1,354 | 1,360 | 1,368 | 0.5% |
| Urban population (million) | 624 | 645 | 669 | 690 | 711 | 731 | 749 | 3.1% |
| Urbanisation rate (%) | 47% | 48% | 50% | 51% | 53% | 54% | 55% | 2.7% |

*Note: Data in 2014 are tentative figures provided by National Bureau of Statistics of China*

*Sources: China Statistical Yearbook 2014, National Bureau of Statistics of China, DTZ*

## OVERVIEW OF THE PRC PROPERTY MARKET

The PRC government has put in place certain policies which are intended to stabilise the real estate prices and control the real estate loan in the PRC. These policies primarily relate to, among others, control over purchasing properties for speculation and adjustment of the minimum capital ratio of fixed asset investment projects according to the economic situations and the necessity of macro-economic control. For details of the aforesaid regulations, please refer to "Summary of Principal PRC Legal and Regulatory Provisions" in Appendix V to this circular.

Moreover, according to "Report on the Work of the Government" (政府工作報告) delivered by Mr. Li Keqiang, Premier of the State Council at the Second Session of the Twelfth National People's Congress in March 2014, the PRC government would regulate housing differently in different cities in light of local conditions, increase the supply of small and medium-sized commercial and joint-ownership housing units, curb the demand for housing for speculation and investment purposes, and promote sustained and healthy development of the property market.

According to "Report on the Work of the Government" (政府工作報告) delivered by Mr. Li Keqiang, Premier of the State Council at the Third Session of the Twelfth National People's Congress in March 2015, the PRC government will continue to focus on urbanization so as to narrow the gap between urban and rural area. It will further speed up the redevelopment of old buildings and increase the subsidized housing so as to support people's demand for properties for personal use and improvement. Reform of urban citizenship system for inbound residents will be imposed. More pilot cities for urbanization will be selected. It will also control the population of the mega cities and boost the population of county level cities by enhancing the social facilities therein.

In September 2014, the People's Bank of China and China Banking Regulatory Commission co-announced "Notice on Further Improving the Housing Financial Services" (關於進一步做好住房金融服務工作的通知), in which mortgage financing has been relaxed such that the down payment for 2nd home purchasers (with mortgage of 1st home fully paid) was reduced from 60% to 30%.

Furthermore, in March 2015, the People's Bank of China, China Banking Regulatory Commission and Ministry of Housing and Urban-Rural Development of the PRC co-announced "Notice on the related issues of Individual Housing Loan Policy" (關於個人住房貸款政策有關問題的通知). According to the announcement, the down payment of 2nd home purchasers (with mortgage of 1st home not yet fully paid) was reduced from 60% to 40%. Also, down payment for 1st home purchasers borrowing from Housing Provident Fund loan has been reduced from 30% to 20% and down payment for 2nd home purchasers borrowing from Housing Provident Fund loan has been reduced from 70% to 30%. According to "Notice on the Adjustment of the Minimum Down Payment Ratio of the Housing Provident Loans" (關於調整住房公積金個人住房貸款購房最低首付款比例的通知) co-announced by the People's Bank of China, China Banking Regulatory Commission and Ministry of Housing and Urban-Rural Development of the PRC on 27 August 2015, down payment for 2nd home purchasers borrowing from Housing Provident Fund loan was further reduced from 30% to 20% effective from 1 September 2015 with an aim to support the housing demand. The relaxation of mortgage financing along with the increase of Housing Provident Fund loan allowance are expected to stimulate demand of 2nd home purchaser of residential properties.

According to "Notice on Adjusting Policies on Admittance and Administration of Foreign Investment in Real Estate Market" (關於調整房地產市場外資准入和管理有關政策的通知) co-announced by Ministry of Housing and Urban-Rural Development and various government parties on 19 August 2015, the restrictions on foreign investment in the PRC property market has been loosened. The requirement for foreign real estate investment enterprises to pay registered capital in full before borrowing local loans, foreign loans and foreign exchange loans has been lifted, which lowers the initial financial burden of real estate investment. Also, the requirement that foreign individuals working/studying in the PRC must stay in the country for over a year before purchasing self-used properties has also been lifted. It is expected to bring a stimulating impact on the housing demand.

In addition, State Administration of Taxation announced "Notice on the Adjustments of Individual Housing Transfer Business Tax Policy" (關於調整個人住房轉讓營業稅政策的通知) in March 2015, that the application of tax exemption/reduction of secondary residential transaction was reduced from five years to two years. The announcement should further boost the confidence in the secondary residential property market in the PRC.

Also, the official borrowing and saving rates of the People's Bank of China reached the peak in July 2011 and it was adjusted downward twice in 2012, it was further adjusted down once in 2014, and four times in 2015 (the latest one being in August 2015). As a result of this change in monetary policy, the financing costs to purchase properties are lowered. It is expected to improve the liquidity and stimulate the demand of the property market and to maintain the market to grow at a steady rate.

Under the effects of domestic investment, consumption and the growth of the PRC economy, the PRC property market has been growing rapidly. The total investment in real estate development projects increased from approximately RMB3,120 billion in 2008 to approximately RMB9,504 billion in 2014, representing a CAGR of approximately 20.4%, although the real estate investment witnessed a slight decrease in growth since 2010.

According to the data released by the National Bureau of Statistics of China, the supply of residential properties, as reflected by the total GFA of residential properties completed, increased from approximately 1,594 million sq.m. in 2008 to approximately 1,933 million sq.m. in 2013. Due to the slowdown in the growth of real estate investment, the growth of total GFA of residential properties completed remained flat from 2011 to 2013. Due to a slowdown of construction of residential developments, the total GFA of residential properties completed experienced a decrease to approximately 1,075 million sq.m. in 2014. Similarly, the total GFA of residential properties under construction witnessed a decrease in growth in 2012 and 2013, and in 2014 it has dropped to approximately 5,936 million sq.m..

The demand of residential properties witnessed a bounce back between 2008 and 2009, as the economy had recovered from the financial crisis in 2008. Between 2009 and 2012, the demand experienced a relatively small growth. The two downward adjustments on the official borrowing and saving rates made by the People's Bank of China in 2012 had stimulated the demand for residential properties, which resulted in a boost of the total GFA of residential properties sold in 2013. However, in 2014 the demand witnessed a slight drop as the effects of the lowering of borrowing and saving rates were diluted. The average selling price of residential properties followed a similar trend, with a surge in growth between 2008 and 2009, and a slowdown in growth thereafter.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2008–2014 CAGR |
|---|---|---|---|---|---|---|---|---|
| **Real estate investment** | | | | | | | | |
| Real estate investment (RMB billion) | 3,120 | 3,624 | 4,826 | 6,180 | 7,180 | 8,601 | 9,504 | 20.4% |
| **Supply of residential properties** | | | | | | | | |
| Total GFA of residential properties completed (million sq.m.) | 1,594 | 1,842 | 1,746 | 1,975 | 1,951 | 1,933 | 1,075 | -6.4% |
| **Demand of residential properties** | | | | | | | | |
| Total GFA of residential properties sold (million sq.m.) | 593 | 862 | 934 | 965 | 985 | 1,157 | 1,052 | 10.0% |
| Total GFA of residential properties under construction (million sq.m.) | 3,644 | 4,315 | 4,808 | 5,749 | 6,150 | 6,732 | 5,936 | 8.5% |
| **Price level of residential properties** | | | | | | | | |
| Average selling price of residential properties (RMB per sq.m.) | 3,576 | 4,459 | 4,725 | 4,993 | 5,430 | 5,850 | N/A | 10.3%*(Note)* |

*Notes:* *N/A means not applicable or not available; CAGR of average selling price of residential properties is based on data from 2008 to 2013, data in 2014 are tentative figures provided by National Bureau of Statistics of China*

*Sources:* *China Statistical Yearbook 2014, National Bureau of Statistics of China, DTZ*

### Historical price trends of raw materials

The major construction materials used in the Target Group's property development projects generally include, among other things, cement and steel, which are subject to market fluctuation and volatility. The purchasing price indices for industrial producers in the PRC from 2007 to 2014 are set out below:

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Purchasing price indices for industrial producers (Building materials)(Note) (Base year 2007=100) | 100 | 109.5 | 110.7 | 114.9 | 124.6 | 124.2 | 122.6 | 122.3 |

*Sources: National Bureau of Statistics of China, DTZ*

*Note: The indices reflect changes in the level of prices paid by construction/development enterprises when they purchase production input such as raw materials from the material exchange market or from other construction raw materials producing enterprises for a combined range of construction raw materials. General industry's understanding of building materials includes, amongst other things, cement, steel, bitumen, concrete blocks, glass, steel, metal formwork, timber framework, paint, unplasticized PVC pipes, etc..*

## QUANZHOU

### Overview of the city

Quanzhou is a third-tier city located in the southeastern part of Fujian Province of the PRC. The total area of Quanzhou is 11,015 sq.km. It is one of the three largest central cities of Fujian Province, and is an important economic, cultural and commercial centre in the economic zone between Fujian Province and West Coast. Quanzhou is connected to the provincial capital of Fuzhou in the north, to Xiamen Special Economic Zone in the south, to Taiwan in the east, and to Zhangzhou, Longyan and Sanming in the west. Its total economic output remains first rank in Fujian Province for 15 consecutive years.

In addition, the construction of the highways in Quanzhou will be strengthened. In 2015, the towns in Quanzhou will be connected by roads and highways of national level 2 or above, and it will take within 15 minutes to reach from any county administrative centres to highways. For most of the towns it takes half an hour, and for remote towns it could take up to an hour. It will shorten the travelling distance and time between counties within Quanzhou and boost the second-hand housing market in Huian and other surrounding counties.

### Overview of economic development of Quanzhou

According to the "Twelfth Five-Year Plan relating to National Economic and Social Development in Quanzhou" (泉州市國民經濟和社會發展第十二個五年規劃綱要), during the "Twelfth Five-Year" period, the overall goal is to strive to transform Quanzhou into a modernised industry and trade port city in the West Coast Economic Zone (海峽西岸經濟區). It is expected that by 2015, Quanzhou's total regional GDP will jump to approximately RMB650 billion at an average annual growth rate of more than 11%, retaining first rank in terms of the total regional GDP of the economy across the province.

Quanzhou's GDP went up year-over-year at an average rate of double-digit growth, reflecting broad-based growth momentum. The city's regional GDP in 2014 was approximately RMB573 billion, with an increase of approximately 10% over the previous year. GDP per capita reached approximately RMB68,254 with an increase of approximately 9% over last year. Disposable income per capita increased from approximately RMB20,420 in 2008 to RMB34,820 in 2014. Fixed asset investment grew by nearly 242% to approximately RMB294 billion from 2008 to 2014. The development of private enterprises has added fresh impetus to Quanzhou's GDP, while giving new vitality to its accelerated urbanisation, as noted from the increase in urbanisation rate from approximately 50% in 2008 to approximately 63% in 2014. The economic indicators are as follows:

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2008–2014 CAGR |
|---|---|---|---|---|---|---|---|---|
| Regional GDP (RMB billion) | 280 | 307 | 357 | 420 | 470 | 522 | 573 | 12.7% |
| Regional GDP per capita (RMB) | 35,209 | 38,249 | 43,959 | 51,413 | 57,002 | 62,679 | 68,254 | 11.7% |
| Urban disposable income per capita (RMB) | 20,420 | 22,913 | 25,155 | 28,703 | 32,283 | 35,430 | 34,820 | 9.3% |
| Regional population (million) | 6.78 | 6.81 | 6.85 | 6.90 | 6.93 | 7.03 | 7.16 | 0.9% |
| Urbanisation rate (%) | 50 | 52 | 58 | 59 | 60 | 62 | 63 | N/A |
| Fixed asset investment (RMB billion) | 86 | 98 | 125 | 158 | 202 | 250 | 294 | 22.7% |

*Notes: N/A means not applicable or not available, data in 2014 are tentative figures from Quanzhou Statistics Handbook*

*Sources: Quanzhou Statistical Yearbook, Quanzhou Statistics Handbook, DTZ*

**Property market in Quanzhou**

According to the "Opinions on Promoting the Stable and Healthy Development of the Property Market by Fujian Provincial Housing and Urban-Rural Construction Department" (福建省住房和城鄉建設廳關於促進房地產市場平穩健康發展的若干意見) (also known as "閩八條") issued by Fujian Provincial Housing and Urban-Rural Construction Department on 8 August 2014, commercial banks are encouraged to strive to meet with individual's housing loan amount, and non-local property purchasers can apply for mortgage loans at local commercial banks. The new policy has the effect of stimulating the demand for residential properties in Quanzhou. In addition, relaxation of purchase restriction on residential properties is being promoted within Fujian Province. It should generally be in favour of the demand and transaction volume for residential properties in Fujian Province.

According to "Opinions on Promoting the Stable and Healthy Development of the Property Market" (關於促進房地產市場平穩健康發展的實施意見) issued by the Quanzhou People's Government on 31 October 2014, the restriction of purchase of properties imposed on non-local property purchasers and organisations was lifted. Evidence on taxation payment and social insurance payment are no longer required when purchasing properties in Quanzhou. Moreover, for those families in Quanzhou who have fully repaid the loans for purchasing their first properties and intend to purchase their second properties for improvement, they can enjoy a lower minimum down payment ratio (30%) for purchasing the second properties. The policies will promote the confidence of property purchasers, which in turn should boost up the demand of properties within Quanzhou.

According to "Opinions on Stabilizing Housing Consumption and Supporting Fundamental Housing Demand" (關於穩定住房消費支持剛性住房需求的實施意見) issued by Quanzhou People's Government on 31 March 2015, several measures have been imposed to boost the fundamental housing demand. These measures include increasing Housing Provident Fund loan allowance for 1st home purchasers such that down payment for 1st home purchasers is reduced from 30% to 20%. The policies should give property buyers more confidence and encourage the growth of the Quanzhou property market.

Investment in the property market in Quanzhou surged by almost five folds at a CAGR of approximately 33.8% from approximately RMB13.5 billion in 2008 to approximately RMB77.6 billion in 2014. In terms of the supply of residential properties in Quanzhou, despite a general rising trend, there were fluctuations throughout the years, and in particular, in 2009 and 2012. The drop of supply in 2009 was an aftereffect of the financial crisis in 2008, whilst the decrease in 2012 was due to the restrictive policies released by the government to suppress the residential price growth. The total GFA of residential properties under construction in 2012 also experienced a decrease in growth as a result. With the lowering of the official borrowing and saving rates in 2012, the demand of residential properties, as reflected by the total GFA of residential properties sold, witnessed a notable increase of approximately 70% in 2013. The demand witnessed a drop of approximately 15% in 2014 as the effects of the lowering of borrowing and saving rates were diluted.

The demand for residential properties was growing at a CAGR of approximately 20.3% during the period between 2008 and 2014, whereas the supply of residential property was growing at a CAGR of approximately 15.5% during the same period. Due to the higher growth in demand of residential properties, the average selling price of residential properties in Quanzhou rose from approximately RMB3,838 per sq.m. in 2008 to approximately RMB6,369 per sq.m. in 2014, representing an overall increase of approximately 65.9%. The average selling price experienced a drop in 2012 due to the effect of the macro policies suppressing the residential price growth. The average selling price bounced back in 2013 and despite a slight drop in 2014, the average selling price experienced a growth of approximately 3.4% from 2012 to 2014.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2008–2014 CAGR |
|---|---|---|---|---|---|---|---|---|
| **Real estate investment** | | | | | | | | |
| Real estate investment (RMB billion) | 13.5 | 14.7 | 20.3 | 27.4 | 39.6 | 58.5 | 77.6 | 33.8% |
| **Supply of residential properties** | | | | | | | | |
| Total GFA of residential properties completed (million sq.m.) | 1.91 | 1.49 | 3.30 | 4.53 | 3.55 | 4.63 | 4.54 | 15.5% |
| **Demand of residential properties** | | | | | | | | |
| Total GFA of residential properties sold (million sq.m.) | 2.19 | 3.37 | 3.96 | 4.04 | 4.61 | 7.84 | 6.63 | 20.3% |
| Total GFA of residential properties under construction (million sq.m.) | N/A | N/A | 19.0 | 25.0 | 26.0 | 33.7 | 38.1 | 19.0%*(Note)* |
| **Price level of residential properties** | | | | | | | | |
| Average selling price of residential properties (RMB per sq.m.) | 3,838 | 4,554 | 4,919 | 6,603 | 6,162 | 6,598 | 6,369 | 8.8% |

*Notes: N/A means not applicable or not available; CAGR of GFA of residential properties under construction is based on data from 2010 to 2014, data in 2014 comprise of tentative figures from Quanzhou Statistics Handbook and data from CREIS*

*Sources: Quanzhou Statistical Yearbook, the basic overview of the operation of the real estate market in Quanzhou, CREIS (China Real Estate Index System), Quanzhou Statistics Handbook, DTZ*

### Development potential of Quanzhou

In recent years, fuelled by the rapid development in Quanzhou and surrounding regions including Shishi, Jinjiang and Huian, Quanzhou Ring-Bay (泉州環灣) and Xiang Bay (向灣) are starting to bear fruitful results. In 2013, new addition of commodity property supply in Quanzhou is mainly concentrated in Jiangnan, Qiaonan, Donghai and Chengdong sections. In addition to urban areas, newly added commodity property supply in regions including Jinjiang and Huian mainly concentrated at the junction of Quanzhou area. Ring-Bay (泉州環灣) and Xiang Bay (向灣) have become clear blueprints for urban development. 2014 represents a year of Quanzhou ring-bay planning and construction. The launch of 440 projects is preliminarily envisaged. Following the imminent completion of the construction of major infrastructure including high-speed rail stations in Huian and a cross-sea bridge in Quanzhou Bay, new stimulus will be added to Quanzhou ring-bay construction and development.

According to the "Twelfth Five Year Plan" of Huian County, the county's built area is required to reach 28 sq.km. by 2015, with urbanisation rate of up to 61%. The achievement of the goal of building medium-tier cities and the enhancement of urbanisation rate are set to foster the development of the property market, especially beefing up the demand for the residential market.

Being a key project under the "Medium-to-long-term Railway Network Plan", Huian West Station is an integral part of Fuzhou-Xiamen Railway. The construction of Huian West Station will offer Huian and surrounding areas access to collection and distribution transportation systems, which will help establish closer connections with Huian regions and other districts, promote the economic and social development of Huian, and accelerate the construction of new city districts in Huian. This will play positive part in flourishing the regional real estate market.

***Land prices in Quanzhou***

The residential land market in Quanzhou fluctuated significantly from 2008 to 2014. Contrasting to only one case of land transaction in 2008, transaction volume from 2009 to 2011 went up substantially. There was vast residential land supply throughout the country in 2011. Residential land supply in Quanzhou reached 113 transactions during the same year, without big fluctuations in the average accommodation value of the transactions. Due to the implementation of a series of regulation policy on the property market by the country in 2011, the number of land transactions in 2012 decreased sharply, while that in 2013 and 2014 were kept at similar level of the previous years. With respect to accommodation value, except that the average accommodation value reached a relatively higher end of approximately RMB1,414 per sq.m. in 2009 and approximately RMB1,840 per sq.m. in 2014 due to a higher concentration of land supply in key urban area, the average accommodation value remained basically flat during the rest of the years, indicating that the land market in Quanzhou remained relatively stable in terms of price despite greater volatility in transaction volume. Transactions in the residential land market from 2008 to 2014 are set out in the table below:

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| No. of land transactions | 1 | 16 | 91 | 113 | 62 | 57 | 56 |
| Land transfer price (RMB million) | 147 | 2,548 | 9,836 | 15,283 | 8,455 | 7,693 | 11,666 |
| Site area for construction (sq.m.) | 32,725 | 661,749 | 2,727,745 | 4,559,484 | 2,705,674 | 2,385,427 | 2,752,949 |
| Planned GFA (sq.m.) | 128,872 | 1,801,528 | 9,343,346 | 14,579,072 | 7,939,119 | 6,842,191 | 6,316,459 |
| Average accommodation value (RMB per sq.m.) | 1,140 | 1,414 | 1,052 | 1,048 | 1,052 | 1,124 | 1,840 |
| Average premium rate (%) | 37.4 | 58.4 | 14.9 | 9.6 | 2.5 | 9.0 | 5.2 |

*Source: CREIS (China Real Estate Index System)*

**Competitive landscape in the overall residential market in Quanzhou**

With increasing competitiveness of Quanzhou city over the years, an ever-growing number of well-respected properties players have established their presence in Quanzhou. Local properties players of Quanzhou have also sustained relatively strong momentum of development.

Set out below is a table showing the top five rankings of property developers in Quanzhou with reference to their respective sales in 2014.

| Rank | Name of property developers | Number of projects | Sales of number of suites | Sales area *(sq.m.)* | Sales amount *(RMB)* | % of total sales amount of the Quanzhou market *(%)* |
|---|---|---|---|---|---|---|
| 1 | Company A | 5 | 1,146 | 126,487 | 1,437,029,300 | 3.4 |
| 2 | Company B | 1 | 904 | 105,697 | 1,140,419,500 | 2.7 |
| 3 | Company C | 1 | 161 | 54,287 | 1,061,015,300 | 2.4 |
| 4 | Company D | 1 | 524 | 50,762 | 496,636,200 | 1.2 |
| 5 | Company E | 1 | 155 | 37,676 | 488,278,100 | 1.2 |

*Source: CREIS (China Real Estate Index System)*

According to the top 50 ranking in terms of the sales amount in Quanzhou from CREIS, the top 5 developers accounted for 55% of the sales amount among these 50 developers. Also, over half of the top 50 developers are based locally. The property market of Quanzhou has provided an environment which enables local developers to develop and compete with foreign developers. In addition, when compared to the total sales amount of all the developers within Quanzhou, the sum of the sales amount of the top 50 property developers only accounts for 20% of the total sales amount within Quanzhou. It shows that the property market in Quanzhou is fragmented, with no developer (or a few developers) in particular dominating the market.

Set out below is a table showing the top ten rankings of property developers in Quanzhou with reference to their sales areas in 2014 as extracted from the top 50 rankings of property developers in Quanzhou from CREIS.

| Rank | Name of property developers | Number of projects | Sales of number of suites | Sales area *(sq.m.)* | Sales amount *(RMB)* |
|---|---|---|---|---|---|
| 1 | Company A | 5 | 1,146 | 126,487 | 1,437,029,300 |
| 2 | Company B | 1 | 904 | 105,697 | 1,140,419,500 |
| 3 | Company C | 1 | 161 | 54,287 | 1,016,015,300 |
| 4 | Company D | 1 | 524 | 50,762 | 496,636,200 |
| 5 | Company F | 1 | 406 | 48,236 | 367,071,700 |
| 6 | Company G | 2 | 381 | 43,490 | 428,242,900 |
| 7 | Company H | 1 | 381 | 42,076 | 350,545,000 |
| 8 | Company E | 1 | 155 | 37,676 | 488,278,100 |
| 9 | Company I | 1 | 310 | 33,861 | 289,933,000 |
| 10 | Company J | 1 | 287 | 26,369 | 229,243,800 |

*Source: CREIS (China Real Estate Index System)*

Based on the above extract of information from CREIS, the proposed Directors believe that the sales area of the Binjiang International Project in 2014 of 55,830.95 sq.m., shall enable the Target Group to be placed at between 2nd and 3rd in the rank table.

Local developers entered into the market of Quanzhou at an early stage. They have obtained a relatively higher market share in the property market and are able to acquire better-located land lots. Also, their brand names are more widely known. The excellent aspects of their development projects such as higher-quality residences and better residential environment are recognized.

Looking at the Quanzhou market in general, price level is still the most influential factor. It is especially true for individuals with fundamental demand on residential properties. In addition to price level, the quality of the residential properties and the residential environment are becoming increasingly important in the views of buyers when purchasing the properties.

### Entry barriers

The entry barriers of the property market in Quanzhou include three aspects: restriction on acquiring land lots, brand reputation and information asymmetry. Firstly, developers that are already in the market have acquired land lots whose locations are relatively better, leaving behind those land lots which are less attractive in terms of their locations. As the best land lots are already taken away, it would be more difficult for new developers to compete in the property market. Secondly, the products and reputation of existing developers have gained a certain level of recognition in the market. Individuals tend to prefer residential projects which are developed by developers they are familiar with. As for new entering developers, they have to endure for a period when their brand names are getting known in the market. Thirdly, every region has its own customs and traditions. In different districts in Quanzhou and its surrounding counties, the target of focus of the residential properties vary and differ from each other. New entering developers would need a relatively longer period to collect relevant information and adapt to different markets.

## YANGZHOU

### Overview of the city

Yangzhou is a third-tier city located in the central region of Jiangsu Province and on the northern bank of the Yangtze River. The total area of Yangzhou is 6,634 sq.km. The urban area of Yangzhou is approximately 2,000 sq.km. It is one of the metropolitan cities in Nanjing and is one of the Yangtze River Delta cities. It borders Taizhou and Zhenjiang, and is adjacent to Shanghai. Yangzhou has a pleasant environment with beautiful scenery. With the living standard continuing to improve, the disposable income per capita reached RMB33,605 in 2014.

### Overview of economic development of Yangzhou

During the period of 2008–2014, the economy of Yangzhou went well. The regional GDP continued to increase and the annual growth rates maintained at double-digit. In 2014, the regional GDP of Yangzhou reached approximately RMB370 billion as compared to approximately RMB157 billion in 2008, showing a CAGR of approximately 15.4%. The economic indicators are as follows:

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2008–2014 CAGR |
|---|---|---|---|---|---|---|---|---|
| Regional GDP (RMB billion) | 157 | 186 | 221 | 263 | 293 | 325 | 370 | 15.4% |
| Regional GDP per capita (RMB) | 35,233 | 41,406 | 48,955 | 58,950 | 65,692 | 72,774 | 82,654 | 15.3% |
| Urban disposable income per capita (RMB) | 17,398 | 19,416 | 21,766 | 24,780 | 28,001 | 30,690 | 33,605 | 11.6% |
| Regional population (million) | 4.60 | 4.59 | 4.59 | 4.60 | 4.58 | 4.60 | 4.61 | 0.0% |
| Fixed asset investment (RMB billion) | 95 | 106 | 133 | 148 | 178 | 203 | 242 | 16.9% |

*Sources: Statistical Bulletin of National Economics and Social Development of Yangzhou, DTZ*

According to the "Twelfth Five-Year Plan for National Economic and Social Development of Yangzhou" (揚州市國民經濟和社會發展第十二個五年規劃綱要), Yangzhou will be in the phase of enhancement of living standards during the period of the Twelfth Five-Year Plan. It is expected that by 2015, the regional GDP of the city is expected to reach approximately RMB450 billion with an average annual growth of 12%; the regional GDP per capita will reach approximately RMB100,000; and the total fixed asset investment will reach over RMB300 billion with an average annual growth of 20%.

### Property market in Yangzhou

As an important hub city in the Yangtze River Delta region, Yangzhou's real estate development is facing new opportunities. Due to the rapid economic development, disposable income per capita continued to rise. The demand for as well as desire to invest in residences gradually rose, forming a strong demand for residences. In addition, with the regional economic development, infrastructure continued to be improved. Transportation projects including high-speed railway, intercity railway, light railway and regional high-speed network have been launched successively. In particular, the construction plan of the Yangzhou subway line nos. 1 and 2 were completed in June 2014. It is expected that the construction of the Yangzhou subway line nos. 1 and 2 will commence in the 2nd quarter of 2016. Meanwhile, the high-speed railway will be in service in 2016, along with those in other cities such as Taizhou and Nantong. As a result, the temporal and spatial distance between cities within the region will be greatly reduced, which will be a catalytic effect in the functional integration and resources sharing among the cities.

Since 2011, Jiangsu Provincial Government announced the "Notice on Related Issues of Improving Regulation of the Property Market by the State Council General Office and carried through by the Provincial Government Office" (省政府辦公廳貫徹國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) and requested the cities within Jiangsu Province to enforce sales restriction if the local market was over heated. Nanjing imposed the sales restriction whereas Yangzhou had not. However, the overall residential investment atmosphere was cooled down afterward. According to "Notice on Maintaining the Healthy Development of the Property Market of the City" (關於保持我市房地產市場健康發展的通知) issued on 20 September 2014 by the Nanjing local government, the restriction on purchase of residential properties in Nanjing has been fully removed. The impact of this relaxation has yet to study but it will favour the overall residential property market atmosphere, including the demand and transaction volume, in Jiangsu Province.

According to "Notice on the Adjustment of the Down Payment Ratio of the Housing Provident Fund Loans of the City" (關於調整我市住房公積金貸款首付比例的通知) released by Yangzhou Housing Provident Fund Management Centre (揚州市住房公積金管理中心) on 22 April 2015, down payment for 1st home purchasers would be reduced from 30% to 20%. The policy should encourage demand for 1st home purchasers of residential properties in Yangzhou.

The real estate investment in Yangzhou increased from approximately RMB13.8 billion in 2008 to approximately RMB36.0 billion in 2014, representing a CAGR of approximately 17.3%. The total GFA of residential properties under construction experienced a notable increase of approximately 22.9% between 2012 and 2013. The supply of residential properties, as reflected by the GFA of residential properties completed, grew at a CAGR of approximately 2.3% between 2008 and 2014.

As a result of the release of "Notice on Related Issues on Improving Regulation of the Property Market by the State Council General Office and carried through by the Provincial Government Office" (省政府辦公廳貫徹國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) which aimed to slow down the growth of the residential property market, the demand of residential properties in Yangzhou as represented by the total GFA of residential properties sold witnessed a drop in 2011. As the effect of the policy diluted, the demand regained a rising momentum in 2012 and 2013, with increases of approximately 5.7% and 19.9% respectively. Throughout the most of 2014, the demand was under the effects of regulatory policies announced in 2013 which continued to suppress the prices in the property market. Although the People's Bank of China and China Banking Regulatory Commission subsequently announced in September 2014 to relax mortgage financing, the overall demand in Yangzhou in 2014 still witnessed a year-over-year drop of approximately 11.5%.

The demand for residential properties in Yangzhou between 2008 and 2014 increased at a CAGR of approximately 12.1%, which is growing faster than the supply of residential properties during the same period. As a result, the average selling price of residential properties in Yangzhou rose from approximately RMB3,447 per sq.m. in 2008 to approximately RMB6,472 per sq.m. in 2014, representing an overall increase of approximately 87.8% during the period. From 2012 to 2014, the average selling price had experienced only a slight increase in growth, as the effect of the macro policies in 2011 suppressing the residential price growth became apparent.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2008–2014 CAGR |
|---|---|---|---|---|---|---|---|---|
| **Real estate investment** | | | | | | | | |
| Real estate investment (RMB billion) | 13.8 | 13.0 | 16.5 | 19.9 | 23.6 | 31.6 | 36.0 | 17.3% |
| **Supply of residential properties** | | | | | | | | |
| Total GFA of residential properties completed (million sq.m.) | 4.20 | 4.34 | 3.72 | 3.67 | 4.40 | 4.75 | 4.81 | 2.3% |
| **Demand of residential properties** | | | | | | | | |
| Total GFA of residential properties sold (million sq.m.) | 2.88 | 4.67 | 5.82 | 5.08 | 5.37 | 6.44 | 5.70 | 12.1% |
| Total GFA of residential properties under construction (million sq.m.) | 10.0 | 10.6 | 11.3 | 13.1 | 14.0 | 17.2 | 19.9 | 12.2% |
| **Price level of residential properties** | | | | | | | | |
| Average selling price of residential properties (RMB per sq.m.) | 3,447 | 4,254 | 4,682 | 6,007 | 6,025 | 6,190 | 6,472 | 11.1% |

*Sources:* *Statistical Bulletin of National Economics and Social Development of Yangzhou, CREIS (China Real Estate Index System), DTZ*

## Development potential of Yangzhou

According to "Master Plan of Yangzhou City (2010–2020) (揚州市城市總體規劃(2010–2020))" issued by Yangzhou Planning Bureau, the future planning of Yangzhou will follow the strategy of "Connecting the East, Optimising the West, Extending the South", the details are as follows:

— Connecting the East: Strengthening transportation docking, enhancing comprehensive service capabilities, and promoting the urban spatial and functional integration of Yangzhou and Jiangdu.

— Optimizing the West: Optimising the land use functions, improving public services and ancillary facilities, and promoting the balance between residence and employment.

— Extending the South: Optimising and improving the functions of various industries, increasing the intensity of land development and strengthening the interactive development between the city and the industries.

In the future, the southern region, where the Cullinan Bay Project is located in, will be developed in terms of: optimizing various functions of industries, increasing the intensity of land development, and strengthening the interactive development between the city and industries.

According to the Plan, the advantages in infrastructure and land resources will be utilised comprehensively. The constructions in the industrial development zone in the southern region and the South Park of Hanjiang Development Area will be intensified. The categories of industries in the southern region of the city will be optimised to become a clustered area for new and high-tech industries and an important logistics base. In addition, residential ancillary facilities such as high-class clubhouse, heated swimming pool, car parking lots and technological facility etc are being constructed. The production and living standard in the area along the Yangtze River will be improved. The layout of urban land use will be optimised and interaction between the city and industries will be developed.

The southern part of Yangzhou where The Cullinan Bay Project is located in will rely on new and high-tech industries and logistics, as well as pushing forward the import of industrial population and related ancillary construction. It will emerge as a new hot zone for real estate development in Yangzhou. With the supportive development plan formulated by the local government, this zone is a hot spot in the future development. Along with the launch of a number of property development projects whose selling performance is particularly of note, a much-needed boost has been given to the overall environment and supporting facilities, garnering increasing awareness and obtaining exceptional widespread recognition for the development prospects of the zone.

The robust demand for home purchases explores a broader prospect: The food technology zone (食品科技園) of the project offers a vast flurry of job opportunities. Thanks to the further improvement of transportation facilities, there is ever-rising connectivity between Chengnan zone (城南板塊), one of the five zones in Yangzhou, and urban zone. Thus, families of expatriate technicians have much greater chance of settling down in Chengnan zone.

***Land prices in Yangzhou***

During the period from 2008 to 2014, the land supply in Yangzhou maintained a steady growth, yet the trend of the total transaction price showed fluctuation.

According to the information from China Real Estate Index System on the land transaction market of Yangzhou from 2008 to 2014, the average accommodation value increased from approximately RMB733 per sq.m. in 2008 to approximately RMB2,078 per sq.m. in 2013 as a result of the overall development of the property market and the strong desire of developers of acquiring the land. Under the influence of the macro-economic policy, the sales amounts of residential properties were seen to be even lower than the purchasing price of the land. Thus the profitability of the residential properties was limited, which caused uncertainty in investing into the property market. In 2014, a higher concentration of land supply in suburban area led to a decrease in the average accommodation value. In the future, due to the uncertainty of the short-term market, the price of residential land supply will not be expected to have large fluctuation.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| No. of land transactions | 36 | 63 | 54 | 49 | 64 | 59 | 46 |
| Land transfer price (RMB million) | 2,960 | 6,946 | 11,577 | 10,692 | 9,982 | 12,706 | 7,600 |
| Site area for construction (sq.m.) | 2,034,086 | 2,850,471 | 3,849,688 | 2,619,328 | 2,887,252 | 2,964,672 | 2,957,286 |
| Planned GFA (sq.m.) | 4,315,144 | 5,302,478 | 5,821,166 | 5,090,552 | 5,443,355 | 6,088,314 | 6,502,116 |
| Average accommodation value (RMB per sq.m.) | 733 | 1,310 | 1,988 | 2,100 | 1,795 | 2,078 | 1,168 |
| Average premium rate (%) | 14.2 | 32.7 | 34.4 | 37.0 | 7.7 | 17.4 | 3.5 |

*Source: CREIS (China Real Estate Index System)*

**Competitive landscape in the overall residential market in Yangzhou**

In recent years, with the speedy development of Yangzhou and the outward shift of the center of the city, the residential market throughout the city is also booming swiftly. In 2011, given that multiple rounds of macro-control policies on the residential real estate were put in place in major cities across the country by the State, the demand from developers and home buyers was reined-in. Recently, along with the gradual release of the purchase limitation around the country, the overall residential real estate market remains on the track of steady performance.

Currently, Yangzhou's residential market is mainly divided into five zones, namely Chengbei zone (城北板塊), Chengdong zone (城東板塊), Laocheng zone (老城區板塊), Chengnan zone (城南板塊) and Chengxi zone (城西板塊). A number of local developers in Yangzhou have established firmer presence in Yangzhou.

Set out below is a table showing the top five rankings of property developers with reference to their respective sales in 2014.

| Rank | Name of property developers | Number of projects | Sales of number of suites | Sales area *(sq.m.)* | Sales amount *(RMB)* | % of total sales amount of the Yangzhou market % |
|---|---|---|---|---|---|---|
| 1 | Company K | 3 | 753 | 80,457 | 748,230,900 | 1.3 |
| 2 | Company L | 2 | 798 | 81,242 | 620,366,900 | 0.9 |
| 3 | Company M | 1 | 515 | 58,286 | 522,646,000 | 0.8 |
| 4 | Company N | 1 | 668 | 66,107 | 483,075,100 | 0.7 |
| 5 | Company O | 1 | 414 | 43,625 | 457,254,800 | 0.5 |

*Sources: CREIS (China Real Estate Index System), DTZ*

According to the top 50 ranking in terms of the sales amount in Yangzhou from CREIS, the top 5 developers accounted for 34% of the sales amount among those 50 developers. Also over half of the top 50 developers are based locally. The property market of Yangzhou has provided an environment for local developers to develop and compete with foreign developers. In addition, when compared to the total sales amount of all the developers within Yangzhou, the sum of the sales amount of the top 50 property developers accounted for approximately 23% of the total sales amount within Yangzhou, showing that the property market in Yangzhou is fragmented, with no developer (or a few developers) in particular dominating the market.

The market position of the Target Group's property development project in Yangzhou, The Cullinan Bay Project, is high-end residential property coupled with an array of top-notch clubhouse facilities. It is adjacent to a large-sized complex of a food science and technology park with an area of 200,000 sq.m., comprising sizeable commercial space, a five-star hotel and Grade A office space. Involving a total investment of RMB1,178 million, the technology park is divided into five centers: technology and research and development center, inspection and detection center, display and exhibition center, conference and training center and investment services center. According to the information provided in its official website, the technology park is expected to be fully completed in 2016. The food science and technology park is seen to be a good ancillary facility for the Cullinan Bay Project. In the future, it can provide residents of The Cullinan Bay Project with various living and catering needs, causing the price of The Cullinan Bay Project to rise. Also, the people working in the offices within the park may choose to reside in The Cullinan Bay Project, thus further driving up the residential demand of the Project.

**Entry barriers**

The entry barriers of the real estate market in Yangzhou include two major aspects: brand reputation and land resources. Firstly, domestic and local well-known developers in Yangzhou have built up their brand reputation, which would have positive influence on the preference of property buyers, and make it more difficult for new developers to enter into the market. Meanwhile, buyers generally assess a developer in terms of the prices, quality and locations of the real estate projects they have developed. In terms of land resources, developers who have long based their business in Yangzhou have gained more information and understanding of the land market in Yangzhou compared to newly-entered developers. As a result, they would have advantages in the acquisition of land over new developers.

## OUTLOOK

### PRC

From 2008 to 2014, the China GDP witnessed an upward trend. It is expected that the trend will continue and the fundamental demand in the property market will benefit from the expanding economy in the future.

As mentioned in the paragraph headed "Overview of the PRC Property Market" above, various policies have been announced in September 2014 and March 2015 to stimulate the investment demand of the property market. The property market has experienced a rebounce in the first half of 2015. According to the data from National Bureau of Statistics of China, in the first half of 2015, the demand of residential properties, represented by the GFA of residential properties sold, was approximately 443,893,800 sq.m. representing a year-over-year increase of approximately 4.5% compared to the first half of 2014.

**Quanzhou and Yangzhou**

From 2008 to 2014, the regional GDPs of Quanzhou and Yangzhou both witnessed a steady growth, which are in line with the overall China economy. It is expected that the regional GDPs will continue to be expanding and the fundamental demand for residential properties in Quanzhou and Yangzhou will be supported.

In Quanzhou, the "Opinions on Stabilizing Housing Consumption and Supporting Fundamental Housing Demand" (關於穩定住房消費支持剛性住房需求的實施意見) issued on 31 March 2015, which announced the increase of Housing Provident Fund loan allowance for 1st home purchasers, will support the fundamental demand for residential properties. According to CREIS, the average selling price of residential properties in Quanzhou in the first half of 2015 was RMB6,661 per sq.m., representing an increase of approximately 10% as compared to the second half of 2014 despite a decrease of residential GFA sold in the first half of 2015. With the supportive policies above, it is expected that the price level of the residential property market in Quanzhou will be relatively stable.

In Yangzhou, as a result of the release of the national policies imposed in September 2014 and March 2015, together with "Notice on the Adjustment of the Down Payment Ratio of the Housing Provident Fund Loans of the City" (關於調整我市住房公積金貸款首付比例的通知) issued by Yangzhou Housing Provident Fund Management Centre in April 2015 which announced the increase of Housing Provident Fund loan allowance for 1st home purchasers, the fundamental demand of the residential properties in Yangzhou will be supported. According to CREIS, the GFA of residential properties sold in Yangzhou in the first half of 2015 reached approximately 2,963,600 sq.m., representing an increase of approximately 15% as compared to the first half of 2014, despite a slight price adjustment in 2015 Q1 due to seasonal impact and bounce back in 2015 Q2. With the supportive policies above, it is anticipated that the demand and price for residential properties in Yangzhou will be stable.

With the further downward adjustment of the official borrowing and saving rates, lowering of the down payment for 2nd home purchasers borrowing from Housing Provident Fund loan, together with the loosening of restrictions on foreign investment announced in August 2015, the demand and average price level for residential properties in Quanzhou and Yangzhou will be sustainable.

## BUSINESS DEVELOPMENT

The history of the Target Group can be traced back to January 2005 when Mr. Shie and Mr. Tsoi acquired 45% and 55% of the issued share capital of the Target Company at a consideration of HK$4,500,000 and HK$5,500,000, respectively, by using their own funds. Both of Mr. Shie and Mr. Tsoi have extensive knowledge and experience in property development in the PRC. They became business partners and acquired the Target Company for the purpose of developing the Binjiang International Project. The Target Company held the entire equity interest in 福建省惠安縣中總商住區建設有限公司 (Fujian Huian China General Commercial & Residential Property Construction Company Limited*) ("**Fujian Huian Construction Company**") which is a limited liability company established in the PRC.

In February 2006, Fujian Huian Construction Company merged with 福建惠安縣良波實業有限公司 (Fujian Huian Liangbo Property Company Limited*) ("**Huian Liangbo Company**"), a limited liability company established in the PRC, to form Hui An China General (the "**Merger**"). Prior to the Merger, Fujian Huian Construction Company was wholly-owned by the Target Company while Huian Liangbo Company was owned by Mr. Cai Jianliu and Mr. Hong Lianji as to 55% and 45% respectively. Mr. Cai Jianliu is the younger brother of Mr. Tsoi whereas Mr. Hong Lianji is an Independent Third Party. The Merger and the establishment of Hui An China General have been duly approved by the Quanzhou Foreign Trade and Economic Cooperation Bureau (泉州市對外貿易經濟合作局).

Fujian Huian Construction Company was engaged in the business of construction, sale and lease of properties and held the land use rights of four parcels of land of an aggregate site area of 63,217.4 sq.m. located in Huian County, Quanzhou, the Fujian Province. Huian Liangbo Company was engaged in the wholesale and retail business of mechanical equipment, metal products and domestic construction materials and held the land use rights of two parcels of land of an aggregate site area of 16,878 sq.m. located in Huian County, Quanzhou, the Fujian Province, which are adjacent to the land owned by Fujian Huian Construction Company.

As a result of the Merger, Hui An China General was established on 22 February 2006 and the entire equity interest of which was owned by the Target Company, Mr. Cai Jianliu and Mr. Hong Lianji as to 98.387%, 0.887% and 0.726%, respectively. Huian Liangbo Company and Fujian Huian Construction Company were duly deregistered on 15 February 2006 and 20 February 2006, respectively. Hui An China General acquired the land use rights owned by Fujian Huian Construction Company and Huian Liangbo Company through the Merger for the development of the Binjiang International Project. Hui An China General is principally engaged in the development and sale of properties and ancillary facilities in Huian County, Quanzhou, Fujian Province.

In February 2007, Hui An China General entered into a land acquisition agreement with the Bureau of Land and Resources of Huian County (惠安縣國土資源局) for purchase of a parcel of land of a site area of 1,273 sq.m. for developing the Binjiang International Project.

For the purpose of developing The Cullinan Bay Project, Yangzhou Dehui was established in August 2012. Subsequently, Hengde entered into a land acquisition agreement with the Bureau of Land and Resources of Yangzhou (揚州市國土資源局) for the acquisition of two parcels of land with an aggregate site area of 81,749.27 sq.m. for developing The Cullinan Bay

Project. Pursuant to the land acquisition agreement, it was agreed that upon the establishment of Yangzhou Dehui, the land use rights certificate in relation to The Cullinan Bay Project could be registered under Yangzhou Dehui's name.

Hui An China General and Yangzhou Dehui were established for the property development in Quanzhou and Yangzhou, respectively. Hui An China General is the residential property developer of the Binjiang International Project which is located in Quanzhou and the construction of which was commenced in April 2006. The construction of the Binjiang International Project was completed in January 2014. Yangzhou Dehui is the residential property developer of The Cullinan Bay Project which is located in Yangzhou and the construction of which was commenced in October 2013.

The following is a summary of the key milestones in the development of the Target Group's property development projects:

| Year | Event |
|---|---|
| January 2005 | Acquisition of land held by Fujian Huian Construction Company through the acquisition of shares in the Target Company by Mr. Shie and Mr. Tsoi |
| February 2006 | Acquisition of land for developing the Binjiang International Project through the Merger |
| April 2006(1) | Commencement of the construction of Phase 1 of the Binjiang International Project |
| May 2006(1) | Commencement of the construction of Phase 2 of the Binjiang International Project |
| August 2006(1) | Commencement of the construction of Phase 3 of the Binjiang International Project |
| October 2006(3) | Commencement of the pre-sale of Phase 1 of the Binjiang International Project |
| February 2007 | Entry into a land acquisition agreement by Hui An China General with the Bureau of Land and Resources of Huian County (惠安縣國土資源局) for the Binjiang International Project |
| December 2007(3) | Commencement of the pre-sale of Phase 2 and Phase 3 of the Binjiang International Project |
| May 2008(2) | Completion of the construction of Phase 1 of the Binjiang International Project |
| May 2009(2) | Completion of the construction of Phase 2 of the Binjiang International Project |
| August 2010(2) | Completion of the construction of Phase 3 of the Binjiang International Project |

| Year | Event |
|---|---|
| October 2010(1) | Commencement of the construction of Stage 1 of Phase 4 of the Binjiang International Project |
| June 2011(3) | Commencement of the pre-sale of Stage 1 of Phase 4 of the Binjiang International Project |
| February 2012(1) | Commencement of the construction of Stage 2 of Phase 4 of the Binjiang International Project |
| August 2012 | Entry into a land acquisition agreement by Hengde with the Bureau of Land and Resources of Yangzhou (揚州市國土資源局) for The Cullinan Bay Project |
| November 2012(3) | Commencement of the pre-sale of Stage 2 of Phase 4 of the Binjiang International Project |
| May 2013(2) | Completion of the construction of Stage 1 of Phase 4 of the Binjiang International Project |
| October 2013(1) | Commencement of the construction of Stage 1 of Phase 1 of The Cullinan Bay Project |
| January 2014(2) | Completion of the construction of Stage 2 of Phase 4 of the Binjiang International Project |
| May 2014(1&3) | Commencement of the construction of Stage 2 of Phase 1 of The Cullinan Bay Project |
| | Commencement of the pre-sale of Stage 1 of Phase 1 of The Cullinan Bay Project |
| May 2015(2) | Completion of the construction of Stage 1 of Phase 1 of The Cullinan Bay Project |
| July 2015(3) | Commencement of pre-sale of Stage 2 of Phase 1 of The Cullinan Bay Project |

*Notes:*

1. It refers to the date when construction of the first residential building of such stage/phase of the project is commenced.

2. It refers to the date when construction of the last residential building of such stage/phase of the project is completed. For avoidance of doubt, completion of construction takes place when examination of properties is passed.

3. It refers to the date when the pre-sale permit of the first residential building of such stage/phase of the project is issued.

## CORPORATE DEVELOPMENT

*Target Company*

The Target Company was incorporated in Hong Kong on 1 September 1992 as a limited liability company with an authorised share capital of HK$10,000,000 divided into 10,000,000 shares of HK$1.00 each. It is an investment holding company.

On 1 September 1992, Asiaworld Internationale Group Inc. and Pan Ching Ru (as initial subscribers and both being Independent Third Parties) subscribed for 5,500,000 shares and 4,500,000 shares of the Target Company respectively.

On 5 July 2004, Asiaworld Internationale Group Inc. and Pan Ching Ru transferred 5,500,000 shares and 4,500,000 shares of the Target Company to Guo Tingzhi and Guo Jingqing (both being Independent Third Parties) for a consideration of HK$5,500,000 and HK$4,500,000, respectively. As a result, the entire issued share capital of the Target Company was held by Guo Tingzhi (as to 55%) and Guo Jingqing (as to 45%) respectively.

On 5 November 2004, Guo Tingzhi and Guo Jingqing transferred 2,500,000 shares and 4,500,000 shares of the Target Company to China Money International Limited (being an Independent Third Party) for a consideration of HK$2,500,000 and HK$4,500,000, respectively. As a result, the entire issued share capital of the Target Company was held by Guo Tingzhi (as to 30%) and China Money International Limited (as to 70%) respectively.

On 17 January 2005, China Money International Limited transferred 4,500,000 shares of the Target Company to Mr. Shie for a consideration of HK$4,500,000, which was determined with reference to the par value of the shares in the Target Company. On the same date, China Money International Limited and Guo Tingzhi transferred 2,500,000 shares and 3,000,000 shares of the Target Company to Mr. Tsoi, for a consideration of HK$2,500,000 and HK$3,000,000, respectively, which were determined with reference to the par value of the shares in the Target Company. As a result, the entire issued share capital of the Target Company was held by Mr. Tsoi (as to 55%) and Mr. Shie (as to 45%) respectively. The above-mentioned transfers of shares in the Target Company were properly and legally completed and settled.

*Hui An China General*

Hui An China General was established in the PRC on 22 February 2006 as a limited liability company by way of the Merger. As a result of the Merger, the entire equity interest of Hui An China General was owned by the Target Company, Mr. Cai Jianliu and Mr. Hong Lianji as to 98.387%, 0.887% and 0.726% respectively. Mr. Cai Jianliu is the younger brother of Mr. Tsoi while Mr. Hong Lianji is an Independent Third Party.

The PRC Legal Advisers confirmed that the registered capital of Hui An China General has been fully paid up and Huian Liangbo Company and Fujian Huian Construction Company were duly deregistered on 15 February 2006 and 20 February 2006, respectively.

*Houde Enterprise*

Houde Enterprise was established in the PRC on 20 August 2014 as a limited liability company. The registered capital of Houde Enterprise is RMB10,000,000, the entire amount of which was contributed by cash by Hui An China General.

The PRC Legal Advisers confirmed that the registered capital of Houde Enterprise has been fully paid up.

*Hengde*

Hengde was established in the PRC on 2 July 2012 as a limited liability company. The entire registered capital of Hengde of RMB10,000,000 was contributed in cash by 福建建弘投資有限公司 (Fujian Jianhong Investment Company Limited*) ("**Jianhong Investment**"), which is a limited liability company established in the PRC and was an investment holding company indirectly held by Mr. Shie and Mr. Tsoi. Hengde is principally engaged in project investment.

The PRC Legal Advisers confirmed that the registered capital of Hengde has been fully paid up.

*Yangzhou Dehui*

Yangzhou Dehui was established in the PRC on 17 August 2012 as a limited liability company. It is principally engaged in the development and sale of properties and construction of ancillary facilities. The initial registered capital of Yangzhou Dehui is RMB50,000,000, of which RMB9,900,000 and RMB100,000 was contributed in cash by Hengde and 揚州德輝置業有限公司 (Yangzhou Dehui Property Company Limited*) ("**Yangzhou Property Company**") on 16 August 2012.

On 20 October 2012, Yangzhou Property Company transferred 1% of the equity interest in Yangzhou Dehui to Hengde for a consideration of RMB100,000, which was determined with reference to the actual amount of registered capital of the Yangzhou Dehui contributed by Yangzhou Property Company at the time when the equity interest was transferred. Upon completion of the transfer, the entire equity interest in Yangzhou Dehui was held by Hengde.

The PRC Legal Advisers confirmed that the above-mentioned transfer of equity interest in Yangzhou Dehui was properly and legally completed and settled.

On 22 October 2012, the remaining balance of the registered capital of Yangzhou Dehui of RMB40,000,000 was contributed in cash by Hengde.

On 22 February 2013, the registered capital of Yangzhou Dehui increased from RMB50,000,000 to RMB83,000,000. The additional registered capital of RMB33,000,000 was contributed in cash by Hengde.

On 12 March 2013, the registered capital of Yangzhou Dehui further increased from RMB83,000,000 to RMB100,000,000. The additional registered capital of RMB17,000,000 was contributed in cash by Hengde.

On 24 November 2014, the registered capital of Yangzhou Dehui further increased from RMB100,000,000 to RMB388,000,000. The additional registered capital of RMB288,000,000 was contributed by Hengde through debt-to-equity swap.

The PRC Legal Advisers confirmed that the registered capital of Yangzhou Dehui has been fully paid up.

*Yangzhou Detai*

Yangzhou Detai was established in the PRC on 2 September 2013 as a limited liability company. It is principally engaged in the provision of property management service. The entire registered capital of Yangzhou Detai of RMB1,000,000 was contributed in cash by Yangzhou Dehui.

The PRC Legal Advisers confirmed that the registered capital of Yangzhou Detai has been fully paid up.

## REORGANISATION

In preparation of the Acquisition, the Target Group has carried out the following restructuring steps:

### (1) Establishment of Houde Enterprise

Houde Enterprise was established as a limited liability company under the laws of the PRC on 20 August 2014. The registered capital of Houde Enterprise is RMB10,000,000. The sole shareholder of Houde Enterprise is Hui An China General.

### (2) Acquisition of the entire equity interest in Hengde by Houde Enterprise

On 9 October 2014, Jianhong Investment (as seller) and Houde Enterprise (as purchaser) entered into an equity transfer agreement, pursuant to which Jianhong Investment transferred the entire equity interest in Hengde to Houde Enterprise at a consideration of RMB10 million, which was determined with reference to the registered capital of Hengde. The consideration was settled in cash.

Upon completion of the transfer of equity interest in Hengde as contemplated under the above-mentioned transfer on 9 October 2014, the entire equity interest in Hengde was held by Houde Enterprise. As advised by the PRC Legal Advisers, such transfer of equity interest was legally and properly completed and settled.

**(3) Assignment of loans to the Target Company by the Vendors**

On 23 October 2014, the Target Company and the Vendors entered into a deed of assignment (the "**Deed of Assignment**"), pursuant to which Mr. Shie and Mr. Tsoi assigned their interests, rights and benefits in certain loans due from Hengde in the amount of approximately RMB207,955,000 (equivalent to approximately HK$264,103,000) and RMB170,145,000 (equivalent to approximately HK$216,084,000), respectively, to the Target Company in consideration for the allotment and issue of 5,500,000 shares and 45,000,000 shares of the Target Company, respectively. The aforesaid consideration shares were allotted and issued to Mr. Shie and Mr. Tsoi on 23 October 2014.

Upon the allotment and issue of the consideration shares as contemplated under the Deed of Assignment, the entire issued share capital of the Target Company was held by Mr. Shie and Mr. Tsoi as to 50% each.

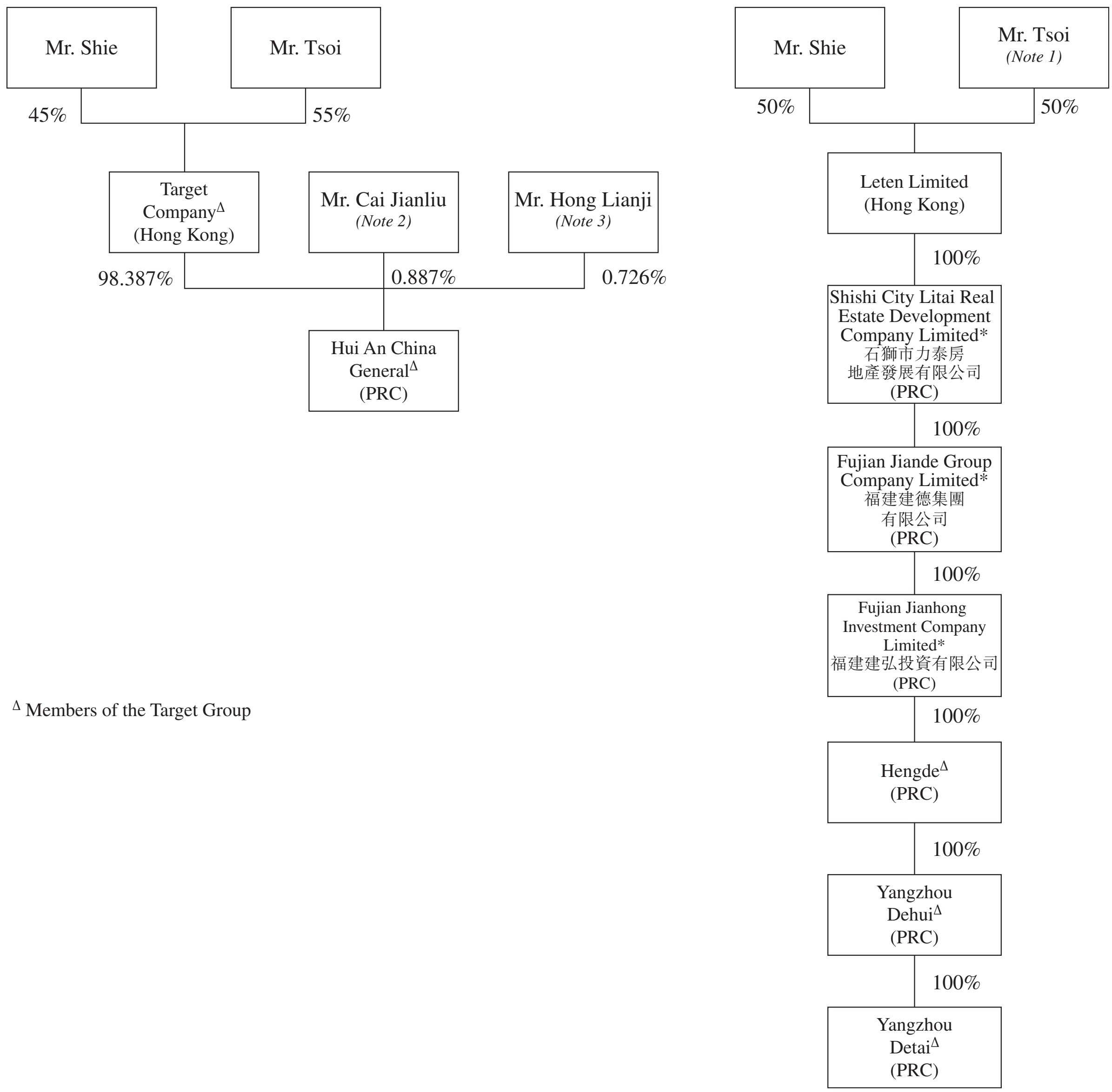
**(4) Incorporation of Fame Build and Talent Connect**

Fame Build was incorporated in the British Virgin Islands on 16 June 2014 as a limited liability company with a maximum of 50,000 shares of US$1.00 each. It is an investment holding company. On 23 October 2014, Mr. Shie subscribed one share of Fame Build, being the total number of issued share of Fame Build.

Talent Connect was incorporated in the British Virgin Islands on 13 June 2014 as a limited liability company with a maximum of 50,000 shares of US$1.00 each. It is an investment holding company. On 23 October 2014, Mr. Tsoi subscribed one share of Talent Connect, being the total number of issued share of Talent Connect.

Fame Build and Talent Connect will be used to hold the Consideration Shares to be issued by the Company pursuant to the Acquisition.

The following chart sets out the corporate and shareholding structure of the Target Group before the completion of the restructuring in preparation for the Acquisition:

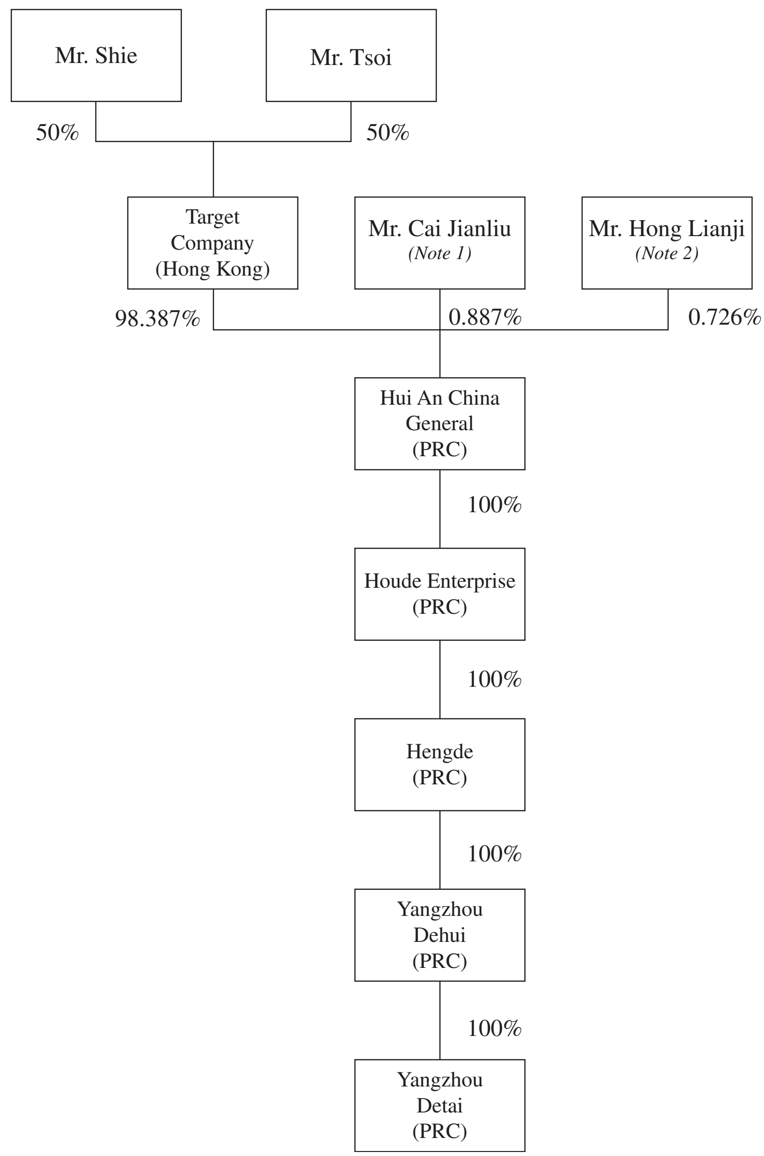



*Note 1:* The shares of Leten Limited were held on trust by Ms. Tse Lai Fung, the wife of Mr. Tsoi, in favour of Mr. Tsoi.

*Note 2:* Mr. Cai Jianliu is the younger brother of Mr. Tsoi.

*Note 3:* Mr. Hong Lianji is an Independent Third Party.

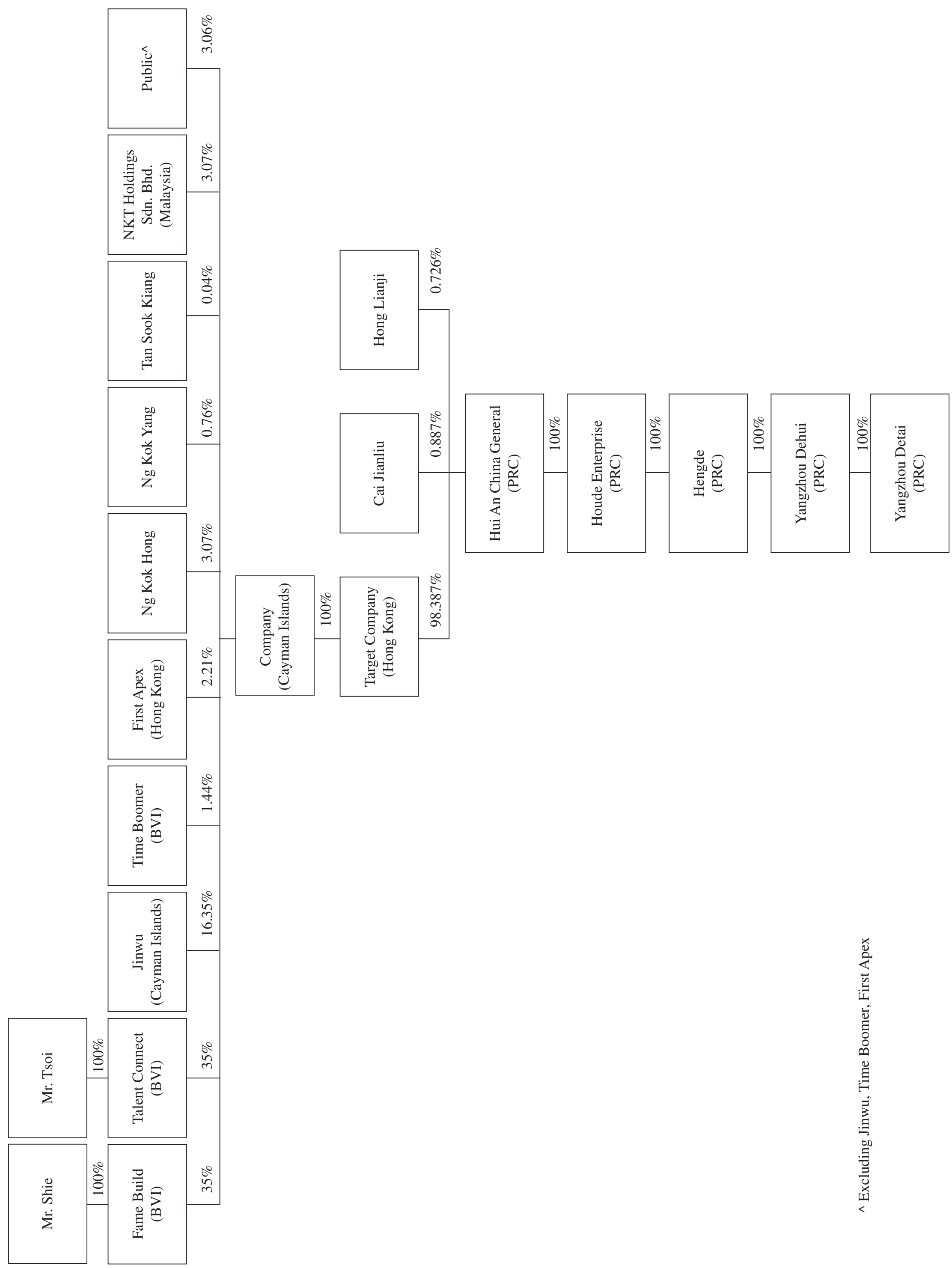
The following chart sets out the corporate and shareholding structure of the Target Group after the completion of the restructuring in preparation for the Acquisition:




*Note 1:* Mr. Cai Jianliu is the younger brother of Mr. Tsoi.

*Note 2:* Mr. Hong Lianji is an Independent Third Party.

The following chart sets out the corporate and shareholding structure of the Target Group after the Proposed Restructuring assuming all the Existing Shareholders subscribe for the [REDACTED]:



## COMPLIANCE WITH THE RELEVANT PRC LAWS AND REGULATIONS

As advised by the PRC Legal Advisers, the establishment and each change in the equity interests of the Target Group have obtained necessary approval and registration (if required) and have complied with the relevant PRC legal requirements.

### M&A Rules

On 8 August 2006, the Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**") was jointly promulgated by six ministries and commissions, including MOFCOM, CSRC and SAFE, implemented on 8 September 2006 and amended on 22 June 2009 by MOFCOM.

According to Article 2 of the M&A Rules, "merger and acquisition of domestic enterprises by foreign investors" referred to in the M&A Rules shall mean that a foreign investor purchases the equity interest of a shareholder in a domestic non-foreign-invested enterprise ("**domestic company**") or subscribes for increased capital of a domestic company so as to convert such domestic company into a foreign-invested enterprise ("**merger and acquisition of equity interest**"); or, a foreign investor establishes a foreign-invested enterprise, through which it purchases and operates the assets of a domestic enterprise by agreement, or, a foreign investor purchases the assets of a domestic enterprise by agreement and then invests such assets to establish a foreign-invested enterprise and operates the assets ("**merger and acquisition of assets**"). According to Article 11 of the M&A Rules, the merger and acquisition of a domestic company with a related party relationship by a domestic company, enterprise or individual in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or individual shall be subject to examination and approval by MOFCOM. The parties involved shall not use domestic investment by foreign invested enterprises or other methods to circumvent the aforesaid requirements.

Hui An China General was directly established by the Target Company, which is a company incorporated in Hong Kong. As advised by the PRC Legal Advisers, since the mere establishment of Hui An China General did not involve any acquisition of equity interest in domestic non-foreign-invested enterprises by foreign investors or any acquisition of assets of domestic enterprises by foreign investors through foreign-invested enterprises, the M&A Rules did not apply and no approval or consent from the CSRC or any other PRC government authority is required in relation to the Acquisition and the restructuring in preparation of the Acquisition. Thus, no consultation with the CSRC was conducted by the PRC Legal Advisers.

### SAFE Registration

On 21 October 2005, the SAFE promulgated the Notice on Relevant Issues Relating to the Administration of Foreign Exchange of Financing and Return Investment Activities by Domestic Residents Conducted via Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the "**Circular 75**"), according to which, a PRC resident who establishes or takes control of a special purpose company abroad to effect foreign exchange registration with local foreign exchange bureau. While injecting assets or equity interests that a domestic resident owns in a domestic enterprise into a special purpose company abroad (the "**SPV**"), or carrying out offshore equity financing after injecting such assets or equities into such SPV, a domestic resident shall amend the registration of offshore investment related foreign exchange to reflect the net assets or equity interests that he/she holds in the SPV. Circular 75 has been repealed by the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment and Financing and Inbound Investment via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**Circular 37**") on 14 July 2014. Pursuant to the Circular 37, which was promulgated by the SAFE and became effective on 14 July 2014, a PRC citizen residing in the PRC (a "**PRC Resident**") must register with the local branch of SAFE before he contributes assets or equity interests in an overseas special purpose vehicle, which is directly established or controlled by the PRC Resident for the purpose of overseas investment or financing. As advised by the PRC Legal Advisers, both of the Circular 75 and the Circular 37 did not apply because Mr. Shie and Mr. Tsoi are not PRC residents or citizens.

## OVERVIEW

The Target Group is a residential property developer primarily focusing on the development and sale of residential properties in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province of the PRC through its two project companies, namely, Hui An China General and Yangzhou Dehui. It specialises in the development and sale of high-rise residential properties with ancillary retail shops in cities with high economic growth potential, in particular the third and fourth tier cities in the PRC. According to the Market Research Report, the GDP of Quanzhou has increased to RMB573 billion in 2014 from RMB280 billion in 2008, representing a CAGR of approximately 12.7%. Meanwhile, the GDP of Yangzhou has increased to RMB370 billion in 2014 from RMB157 billion in 2008, representing a CAGR of approximately 15.4%. Such fast paced economic development has accelerated the demand for residential properties in Quanzhou and Yangzhou and, in turn, the GFA of residential properties sold in Quanzhou and Yangzhou grew at a CAGR of approximately 20.3% and 12.1% from 2008 to 2014 respectively.

As at the Latest Practicable Date, the property portfolio of the Target Group comprised two property development projects, namely (i) the Binjiang International Project in Quanzhou, Fujian Province and (ii) The Cullinan Bay Project in Yangzhou, Jiangsu Province. The Binjiang International Project consists of 4 phases, all of which have been completed. The Cullinan Bay Project consists of 2 phases, of which Stage 1 of Phase 1 has completed construction and commenced pre-sale of properties, Stage 2 of Phase 1 has commenced construction and pre-sale of properties, while Phase 2 has yet to commence construction. As at 31 July 2015, the Binjiang International Project and The Cullinan Bay Project have an aggregate GFA of approximately 434,996 sq.m. of completed properties, an aggregate GFA of approximately 112,214 sq.m. of properties under development and an aggregate planned GFA of approximately 105,890 sq.m. of properties held for future development.

The proposed Directors believe that the success of the Target Group is attributable to their commitment to high quality properties and their attention to details. The Binjiang International Project was accredited the "Top Ten Model Residence Park in the PRC 2006* (2006中國十大典範公園住宅)", "The Best Supreme Model Residence in the PRC 2006* (2006中國最佳超級戶型典範住宅)", The Cullinan Bay Project received the awards of "Property with Best Potential in Yangzhou 2014* (2014年度揚州最具潛力樓盤)" and the "Model Property of Yangzhou — Property Brand Value Ranking 2014* (2014房地產品牌價值榜城市典範名盤)". See the paragraph headed "— Awards and recognitions" in this section for further details.

The business strategy of the Target Group is to focus on developing quality residential properties accompanied with a living community to customers in cities with high economic growth potential, in particular the third and fourth tier cities in the PRC. The Target Group devotes its operational focus on identifying and acquiring suitable locations and sites for development, planning and design of property development projects and formulating sales and marketing strategy. The Target Group engages qualified contractors, construction supervision companies, sales agencies and property management companies to provide design, construction, sales and marketing and property management services and supervises their performance. The overall project development process is comprehensively managed and monitored by the Target Group.

The Target Group's revenue was recognised upon completion and delivery of the properties to the customers. The Target Group only completed and generated revenue from the sale of properties of the Binjiang International Project during the Track Record Period. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the revenue of the Target Group was approximately RMB90.6 million, RMB203.7 million, RMB256.5 million and RMB61.3 million, respectively, and the profit and total comprehensive income attributable to owners of the Target Company was approximately RMB15.0 million, RMB26.8 million, RMB35.1 million and RMB15.7 million, respectively.

## COMPETITIVE STRENGTHS

The proposed Directors believe that their ability to capture future growth opportunities is attributable to the following key competitive strengths:

### Geographical and market advantages of Quanzhou and Yangzhou

During the Track Record Period, the Target Group conducted its business in Quanzhou and Yangzhou. The Target Group enjoys the geographical advantage of both cities as Quanzhou is located in the southeastern part of Fujian Province and is an important transportation hub among other major cities in Fujian Province including Fuzhou, Xiamen and Zhangzhou, while Yangzhou is located in central Jiangsu Province and borders the provincial capital of Nanjing with major expressways including the Beijing-Shanghai Expressway, the Nanjing-Nantong Expressway and the Yangzhou-Liyang Expressway running across the city. Further, both cities are well served by railways and airports which connect them to other major cities and provinces.

According to the Market Research Report, the demand for residential properties in terms of total GFA sold grew at a CAGR of approximately 20.3% and 12.1% from 2008 to 2014 in Quanzhou and Yangzhou, respectively. Comparing with the overall demand for residential properties in the PRC in terms of total GFA sold which grew at a CAGR of approximately 10.0% from 2008 to 2014, the demand in residential properties in Quanzhou and Yangzhou grew at a faster pace. The Target Group, being able to capture these opportunities in a timely manner, has successfully developed and is developing its high-quality property development projects in Quanzhou and Yangzhou respectively, and is expected to leverage on these advantages to further develop residential properties in other cities in Fujian Province and Jiangsu Province.

### An experienced management team

The management team of the Target Group includes skilled personnel with an average of about eight years of experience in the real estate industry. Mr. Shie and Mr. Tsoi are both familiar with the PRC real estate market with about 11 years of experience in management and property development and have in-depth market knowledge in the property market development in the PRC. Such expertise enables the Target Group to capture opportunities, contributes to the long-term development of the Target Group and has placed the Target Group in better position in city and site selection for acquiring quality land for future property development. Mr. Wu Zhisong, a proposed executive Director, is a qualified intermediate economist in taxation and a qualified intermediate accountant of the PRC and has about nine years of experience in financial management of property development companies. The senior management members of the Target Group all have significant experience and expertise in the fields of marketing, construction, financial management and human resources management, and extensive experience in real estate development and property operation and management. For example, Mr. Wang Jingdong, the deputy general manager of Hui An China General, is a senior engineer and a certified constructor in the PRC and has about ten years of experience in the real estate development industry. Please see the section headed "Directors and senior management of the Enlarged Group" in this circular for further details.

The proposed Directors believe that the collective in-depth industry knowledge and experience of the management team of the Target Group is a primary contributing factor for the Target Group's past achievements, and will continue to play a key role in the future of the Target Group. The proposed Directors further believe, under the leadership and experience of the management of the Target Group and leveraging on the success of the Binjiang International Project, the Target Group will be able to select suitable development sites for future development.

**High quality residential properties with a living community**

The Target Group is committed to distinguish its high quality residential properties with a living community. The Binjiang International Project has been successfully developed with such living community with comprehensive ancillary facilities, including retail shops, kindergarten, clubhouse, swimming pool and car parking spaces, which provide its customers with high quality living space and potential price appreciation by raising the overall value of the surrounding community and fully tapping the value of land the Target Group acquired at competitive price. The Target Group is devoted to creating a quality living community accompanied by retail shops, clubhouse and various types of recreational facilities. In order to further improve the living environment and the surrounding of the properties, each of the Binjiang International Project and The Cullinan Bay Project has an actual/planned greening rate of 43% and 35% respectively. Moreover, the Target Group's customers are ensured with comprehensive, reliable and detail-oriented professional property management services. Each of the Binjiang International Project and The Cullinan Bay Project had received various awards from local governmental authorities and/or local media.

By delivering high quality residential properties with a living community to customers, the Target Group has through its increased market presence and word-of-mouth recommendations from customers established itself as a reputable residential property developer in Quanzhou and Yangzhou. The proposed Directors believe that corporate recognition and reputation of the Target Group are the primary reasons that customers purchased properties from the Target Group.

The proposed Directors further believe that their ability and experience in developing quality living community will support the Target Group's future development, and help achieving economies of scale, build local brand awareness and obtain local government support during the development process and for future projects.

**Established reputation and corporate recognition**

The Target Group has grown rapidly since its development of the Binjiang International Project in 2006 as driven by a number of factors including, among others, the insight and experience of the proposed Directors and the management of the Target Group, and the design and planning of the residential properties. The Target Group has also received various awards and recognitions, which have proven the success of the Target Group. The proposed Directors believe that the success of the Binjiang International Project has helped establishing the Target Group's reputation as a quality residential property developer and enhanced corporate recognition of the Target Group. For examples, the Binjiang International Project was accredited "The Best Waterfront Residence in the PRC 2006* (2006中國最佳水岸住宅)" and the "Provincial Model of Property Management 2012* (2012年度全省物業管理示範項目)" while The Cullinan Bay Project was accredited as the "Model Property of Yangzhou — Property Brand Value Ranking 2014* (2014房地產品牌價值榜城市典範名盤)". Further, the proposed Directors believe that the experience and success in offering quality residential properties in Quanzhou and Yangzhou will enable the Target Group to further penetrate into the residential property markets in Quanzhou and Yangzhou and will provide a platform for the Target Group to replicate its success in other regions in the future.

## BUSINESS STRATEGIES

The Enlarged Group intends to seek sustainable growth by pursuing the following principal strategies:

**Continue to acquire land for residential property development in prime locations in cities with high economic growth potential, in particular the third and fourth tier cities in the PRC**

The Target Group has been committed to developing high quality residential property development projects. The Target Group chose Quanzhou and Yangzhou to conduct their business in view of their geographical and market advantages and potential investment opportunities in the property markets. The Enlarged Group intends to continue to leverage on the Target Group's past experience in identifying and acquiring land situated in prime locations in cities with high economic growth potential, in particular the third and fourth tier cities in the PRC. The proposed Directors are of the view that prime locations, such as places that are close to transportation network, schools, parks, hotels, administrative regions and commercial centres, are of higher potential investment opportunities.

Having considered the pace of urbanisation in the PRC and the higher economic growth in the third and fourth tier cities in the PRC than the overall economic growth in the PRC, the proposed Directors are of the view that there are more business opportunities for residential property development in the third and fourth tier cities in the PRC. Under the plan on urbanisation of the PRC government, rural villagers are migrating to urban areas and the urban population are increasing. See the section headed "Industry overview" in this circular for further details about the urbanisation in the PRC. The proposed Directors consider that the urbanisation in the PRC and the increasing urban population will generate a constant demand for residential properties in such urban areas. The proposed Directors further believe that with the re-development planning of old towns in the third and fourth tier cities in the PRC, the supply of land for residential property development would increase and the Enlarged Group will be able to capture opportunities to acquire land for residential property development and expand its market share in the residential property market in these cities.

Additionally, comparing to the average growth rate in GDP of the PRC, third and fourth tier cities have higher growth rate in GDP in recent years. According to the Market Research Report, Quanzhou and Yangzhou had a higher overall GDP growth rate with a CAGR of approximately 12.7% and 15.4% respectively during the period from 2008 to 2014 as compared to the overall nominal GDP growth rate of the PRC was of a CAGR of approximately 12.5% for the same period. The proposed Directors believe that the living conditions in these cities will continue to improve in line with the accelerated economic development and the continual growth of GDP in these cities and will drive the demand for quality residential properties. The Enlarged Group will be able to capture opportunities to expand its market share in cities with high economic growth potential in particular the third and fourth tier cities in the PRC.

In the meantime, the Enlarged Group will continue to explore business opportunities in other regions of the PRC in order to expand the geographical coverage of its projects and capture the benefit of the economic growth in other regions in the PRC.

**Continue to focus on providing quality residential properties with a living community to customers**

The Enlarged Group is committed to abiding by its goal of providing quality housing to its customers. This includes creating a more comfortable and convenient living environment enriched by ancillary facilities (such as retail shops, clubhouse and car parking spaces) and professional property management services. The Enlarged Group will continue to broaden its ancillary facilities and services and look for opportunities to cater to the growing needs of its customers. The Enlarged Group will monitor market movements closely and study the needs of its customers to improve the living community.

**Strengthen its corporate recognition and presence in the property market**

During the Track Record Period, the Target Group had advertised its properties through wide range of advertisement (including the use of billboards, pamphlets and leaflets). The Enlarged Group intends to further develop such marketing efforts with the aim of enhancing its corporate visibility by extending its advertising campaigns across multiple platforms and increasing placement of advertisements through different channels such as newspapers, magazines, television, online, outdoor billboards and public transport.

**Continue to develop existing property development projects and acquire land reserves to sustain future growth**

The proposed Directors intend to implement a prudent and disciplined corporate strategy to promote steady and sustainable growth of the Enlarged Group. Leveraging on the success of the Binjiang International Project, to promote its long-term growth, the Target Group acquired two parcels of land located in Yangzhou, Jiangsu Province, the PRC in August 2012 through public auction with a site area of approximately 81,749 sq.m. to develop The Cullinan Bay Project, which is a residential property development project comprising two phases. The proposed Directors are of the view that the current properties under development and land reserve are sufficient for the Target Group's future development up to 2017. See the paragraph headed "— Property development projects of the Target Group — Future development and plan" in this section for further details.

The Target Group has implemented strict land acquisition protocol and exercised prudent approach in land auctions, refraining from paying excessive premium for any parcel of land. When selecting land, the Target Group focuses on factors such as price, risks and potential profitability and it mainly invests in mainstream projects that cater to the needs of the mass market. The Target Group also closely monitors acquisition opportunities and focuses on the economic growth of the third and fourth tier cities in order to capture opportunities to acquire quality land at reasonable prices.

In order to expand the geographical coverage of the Target Group's property development to sustain future growth, the Enlarged Group will continue to identify potential land parcels suitable for its residential property development projects and acquire its land reserves in Fujian Province and Jiangsu Province and other cities with high economic growth potential, in particular the third and fourth tier cities in the PRC. The Enlarged Group will continue to acquire land through various means, such as public tender, auction and listing-for-sale organised by the relevant PRC governmental authorities or acquisition of controlling equity interests in entities that hold land use rights. The management of the Target Group would take into account a number of factors in selecting new markets for expansion, such as local geographical size, population, overall economic development and potential competition in the market. As at the Latest Practicable Date, the Target Group had yet to identify land for extending its market foothold but will strive to look for suitable land in cities with high economic growth potential at a competitive cost to sustain its long-term growth. The proposed Directors expect to fund the Enlarged Group's expansion plans with internal resources and bank borrowings.

**Continue to exercise prudent financial control in order to ensure sustainable growth and sufficient financial resources**

The Enlarged Group aims to maintain an organised management structure after the Resumption and continue to exercise fiscal prudence in the operation of its business, including setting detailed financial policies and guidelines. In order to maintain sufficient financial resources to ensure steady and sustainable long-term growth, the Enlarged Group will actively monitor its capital and cash positions through budget planning including, among others, regular review of project expenditure report, regular analysis on key indicators such as construction costs and cash flows. The proposed Directors believe that, by adhering to such prudent financial management strategies and increasing sources of capital financing, the Enlarged Group will be able to maintain a healthy capital structure, capture market opportunities to expand its business operations and build up a platform for steady and sustainable long-term growth.

### Attract, retain and motivate talented personnel by offering competitive remuneration packages

The Target Group relies on its staff and management to carry out project management and supervision of third-party suppliers, contractors and external sales agents to ensure quality services. Therefore, the Enlarged Group is committed to building a professional and highly specialised team with strong execution capability that shares its values, vision and corporate culture. The proposed Directors believe that the success and future growth strategy of the Enlarged Group depends on its ability to attract and retain talented professionals, particularly experienced individuals.

To attract and retain talented professionals, the Enlarged Group will offer competitive remuneration packages to its employees. The Enlarged Group will also continue to place great emphasis on the enhancement of its operation team's knowledge and keep abreast of the property development industry-related information through encouraging their staff to attend seminars and trainings. The Enlarged Group may offer its employees a wide range of performance incentives, including performance-based bonuses, to better align its employees' interests and to foster a higher level of recognition and approval of its corporate value and culture.

## PROPERTY DEVELOPMENT PROJECTS OF THE TARGET GROUP

### Overview of the projects

The Target Company is an investment holding company which owns 98.387% of the equity interests in Hui An China General. After completion of the reorganisation as set out in the section headed "History and background of the Target Group" in this circular, Houde Enterprise, Hengde, Yangzhou Dehui and Yangzhou Detai became subsidiaries of the Target Company.

The following map shows the geographical locations and key information of development of the projects of the Target Group as at 31 July 2015:


**Yangzhou**

The Cullinan Bay Project

| Type | Total GFA (sq.m.) |
|---|---|
| Completed | 40,294.94 |
| Under Development | 112,213.55 |
| Future Development | 105,890.00 |

**Quanzhou**

Binjiang International Project

| Type | Total GFA (sq.m.) |
|---|---|
| Completed | 394,701.13 |
| Under Development | 0 |
| Future Development | 0 |

As at the Latest Practicable Date, the Target Group had two property development projects, namely (i) the Binjiang International Project located in Huian County, Quanzhou, Fujian Province; and (ii) The Cullinan Bay Project located in Yangzhou, Jiangsu Province. These two projects mainly include residential properties with ancillary retail shops.

**Project classification**

The property development projects of the Target Group are developed in multiple phases and each phase can be further divided into different stages of development. The property development projects of the Target Group can be categorised into three types according to the stages of development:

- Completed properties — properties of a project are considered as completed upon the issuance of the report on examination of completed construction. As at the Latest Practicable Date, all properties of the Target Group under the Binjiang International Project and Stage 1 of Phase 1 of The Cullinan Bay Project were classified as completed properties;

- Properties under development — properties of a project are considered as under development when the Target Group has received the required land use right certificate and construction work commencement permit but has not received the report on examination of completed construction. As at the Latest Practicable Date, all properties of the Target Group under Stage 2 of Phase 1 of The Cullinan Bay Project were classified as properties under development; and

- Properties held for future development — properties of a project are considered as held for future development when the Target Group has received the required land use rights certificate, or has signed the relevant land use rights grant contract, but has not yet obtained the construction work commencement permit. As at the Latest Practicable Date, all properties of the Target Group under the Phase 2 of The Cullinan Bay Project were classified as properties held for future development.

The Target Group's classification of projects reflects the basis on which it operates its business. A property development project may include multiple phases and each phase is at a different stage of development. Each property development project phase may be subject to one or multiple land use rights certificates, construction land planning permits, construction work planning permits, construction work commencement permits, pre-sale permits and other permits and certificates that are issued at different stages throughout their development. The Target Group's classification of projects is not directly comparable with the classification of properties in "Property Valuation of the Enlarged Group" in Appendix IV to this circular and the "Accountants' Report of the Target Group" in Appendix I to this circular.

The table below sets forth the Target Group's classification of projects, and the corresponding classification of projects in the Property Valuation Report and the Accountants' Report:

| **The Target Group's classification** | **Classification in the Property Valuation Report** | **Classification in the Accountants' Report** |
|---|---|---|
| — Completed properties | Properties held for sale and investment properties | Properties held for sale and investment properties |
| — Properties under development | Properties under development | Properties under development |
| — Properties held for future development | Properties under development | Properties under development |

## GFA calculation

The saleable GFA figures, for the purpose of this circular, are derived from permits or reports issued by the relevant government authorities at various stages of a project. Where the Target Group has obtained the pre-sale permits for the projects, the saleable GFA information in respect of these project phases refers to the total GFA in such pre-sale permits.

The planned GFA figures, for the purpose of this circular, are derived from the project approvals from government and the latest estimate and development plans of the Target Group.

## Summary information on the Target Group's property development projects

The Target Group has obtained all the relevant land use rights certificates for its completed properties, properties under development and properties held for future development.

The table below sets out a summary of the Target Group's property development projects under various stages of development with different purpose of usage as at 31 July 2015:

| | | COMPLETED | | | | UNDER DEVELOPMENT | | | | FUTURE DEVELOPMENT |
|---|---|---|---|---|---|---|---|---|---|---|
| **Project name & development phase** | **Construction site area** *(Note 1)* *(sq.m.)* | **GFA completed** *(Note 2)* *(sq.m.)* | **GFA sold** *(Note 3)* *(sq.m.)* | **Saleable GFA remaining unsold** *(sq.m.)* | **Saleable GFA** *(Note 4)* *(sq.m.)* | **GFA under development** *(Note 5)* *(sq.m.)* | **GFA pre-sold** *(Note 6)* *(sq.m.)* | **Saleable GFA remaining unsold** *(sq.m.)* | **Saleable GFA** *(Note 7)* *(sq.m.)* | **Planned GFA** *(Note 8)* *(sq.m.)* |
| **Binjiang International Project** | 83,399.00 *(Note 17)* | | | | | | | | | |
| Phase 1 | | | | | | | | | | |
| Residential | | 90,799.49 | 89,458.12 | 1,341.37 | 90,799.49 | — | — | — | — | — |
| Retail | | 2,324.59 | 228.42 | 2,096.17 | 2,324.59 | — | — | — | — | — |
| Kindergarten *(Note 9)* | | 2,833.32 | — | — | — | — | — | — | — | — |
| Car park *(Notes 10 and 12)* | | 18,007.25 | — | — | — | — | — | — | — | — |
| Ancillary *(Note 11)* | | 3,675.26 | — | — | — | — | — | — | — | — |
| Phase 2 | | | | | | | | | | |
| Residential | | 61,947.20 | 53,395.10 | 8,552.10 | 61,947.20 | — | — | — | — | — |
| Retail | | 1,019.45 | 498.30 | 521.15 | 1,019.45 | — | — | — | — | — |
| Clubhouse *(Note 13)* | | 1,121.47 | — | — | — | — | — | — | — | — |
| Car park *(Note 10)* | | 14,374.67 | — | — | — | — | — | — | — | — |
| Ancillary *(Note 11)* | | 32.67 | — | — | — | — | — | — | — | — |
| Phase 3 | | | | | | | | | | |
| Residential | | 78,107.74 | 77,187.40 | 920.34 | 78,107.74 | — | — | — | — | — |
| Retail | | 6,032.02 | 5,465.12 | 566.90 | 6,032.02 | — | — | — | — | — |
| Car park *(Notes 10 and 14)* | | 14,860.18 | — | — | — | — | — | — | — | — |
| Ancillary *(Note 11)* | | 2,037.20 | — | — | — | — | — | — | — | — |

| Project name & development phase | COMPLETED | | | | | UNDER DEVELOPMENT | | | | FUTURE DEVELOPMENT |
|---|---|---|---|---|---|---|---|---|---|---|
| | Construction site area *(Note 1)* *(sq.m.)* | GFA completed *(Note 2)* *(sq.m.)* | GFA sold *(Note 3)* *(sq.m.)* | Saleable GFA remaining unsold *(sq.m.)* | Saleable GFA *(Note 4)* *(sq.m.)* | GFA under development *(Note 5)* *(sq.m.)* | GFA pre-sold *(Note 6)* *(sq.m.)* | Saleable GFA remaining unsold *(sq.m.)* | Saleable GFA *(Note 7)* *(sq.m.)* | Planned GFA *(Note 8)* *(sq.m.)* |
| Phase 4 (Stage 1) | | | | | | | | | | |
| Residential | | 52,011.20 | 49,852.07 | 2,159.13 | 52,011.20 | — | — | — | — | — |
| Retail | | 2,159.64 | 436.36 | 1,723.28 | 2,159.64 | — | — | — | — | — |
| Car park *(Notes 10 and 15)* | | 5,514.26 | — | — | — | — | — | — | — | — |
| Ancillary *(Note 11)* | | 1,736.81 | — | — | — | — | — | — | — | — |
| Phase 4 (Stage 2) | | | | | | | | | | |
| Residential | | 25,915.54 | 25,391.23 | 524.31 | 25,915.54 | — | — | — | — | — |
| Retail | | 4,798.06 | 3,547.07 | 1,250.99 | 4,798.06 | — | — | — | — | — |
| Car park *(Note 10)* | | 5,203.09 | — | — | — | — | — | — | — | — |
| Ancillary | | 190.02 | — | — | — | — | — | — | — | — |
| **Subtotal** | | 394,701.13 | 305,459.19 | 19,655.74 | 325,114.93 | — | — | — | — | — |
| **The Cullinan Bay Project** | 81,749.27 *(Note 18)* | | | | | | | | | |
| Phase 1 (Stage 1) | | | | | | | | | | |
| Residential | | 22,372.20 | 16,850.72 | 5,395.55 | 22,246.27 | — | — | — | — | — |
| Retail | | 3,842.64 | — | — | — | — | — | — | — | — |
| Car park | | 4,606.14 | — | — | — | — | — | — | — | — |
| Clubhouse & ancillary *(Note 11)* | | 9,473.96 | 673.94 | 2,387.99 | 3,061.93 | — | — | — | — | — |
| Phase 1 (Stage 2) | | | | | | | | | | |
| Residential | | — | — | — | — | 78,731.56 *(Note 19)* | — | — | 19,656.51 | — |
| Car park | | — | — | — | — | 22,255.00 | — | — | — | — |
| Ancillary | | — | — | — | — | 11,226.99 | — | — | — | — |
| Phase 2 | | | | | | | | | | |
| Residential | | — | — | — | — | — | — | — | — | 80,151.00 *(Note 20)* |
| Car park *(Note 16)* | | — | — | — | — | — | — | — | — | 14,164.90 |
| Ancillary *(Note 11)* | | — | — | — | — | — | — | — | — | 11,574.10 |
| **Subtotal** | | 40,294.94 | 17,524.66 | 7,783.54 | 25,308.20 | 112,213.55 | — | — | 19,656.51 | 105,890.00 |
| **Total** | 165,148.27 | 434,996.07 | 322,983.85 | 27,439.28 | 350,423.13 | 112,213.55 | — | — | 19,656.51 | 105,890.00 |

*Notes:*

1. Information for "Construction site area" is the site area used for development and construction of the entire project and is based on the construction land planning permit of the relevant projects.

2. Information for "GFA completed" is based on the building ownership certificates or the properties surveyor's reports of the Binjiang International Project or the Cullinan Bay Project.

3. "GFA sold" represents the properties that were sold to the customers under sale and purchase agreements and the properties have been or to be delivered to the customers.

4. "Saleable GFA" of completed properties comprises the sum of (i) GFA sold and (ii) saleable GFA remaining unsold.

5. Information for "GFA under development" of properties under development is based on construction work planning permits of The Cullinan Bay Project.

6. "GFA pre-sold" represents the properties that were pre-sold to the customers under sale and purchase agreements but the properties have not been delivered to the customers.

7. "Saleable GFA" of properties under development comprises the sum of (i) GFA pre-sold and (ii) saleable GFA remaining unsold; and is based on the pre-sale permits of The Cullinan Bay Project.

8. Information for "Planned GFA" of properties for future development is based on the project approvals from government in respect of The Cullinan Bay Project.

9. The area of the kindergarten is leased to an education operator (an Independent Third Party) under a lease agreement.

10. The Target Group is currently leasing part of the car parking space to independent third parties.

11. This comprises above-ground ancillary GFA and semi-underground ancillary GFA held by the Target Group for purposes other than residential and retail use and are primarily amenities not saleable.

12. Such car parking space comprises underground civil air defence area of 3,955.46 sq.m..

13. Recreational facilities (including a gym room and a swimming pool) are provided in the clubhouse. The management of the Target Group has no intention to sell the clubhouse.

14. Such car parking space comprises underground civil air defence area of 13,655.23 sq.m..

15. Such car parking space comprises underground civil air defence area of 3,709.27 sq.m..

16. Such car parking space comprises underground civil air defence area of 8,959.90 sq.m..

17. According to the land use rights certificates of the Binjiang International Project, the site area for development of residential properties is 81,368.40 sq.m..

18. As the construction of the Phase 2 of The Cullinan Bay Project has not yet commenced, the relevant construction land planning permit has not been issued. Such site area is based on the relevant land use rights certificates of The Cullinan Bay Project.

19. It is planned that Stage 2 of Phase 1 of The Cullinan Bay Project would comprise residential properties of 78,731.56 sq.m. which will become saleable after the Target Group obtains the relevant pre-sale permits.

20. It is planned that Phase 2 of The Cullinan Bay Project would comprise residential properties of 80,151.00 sq.m. which will become saleable after the Target Group obtains the relevant pre-sale permits.

**Property portfolio summary**

The following table sets forth the categories of the Target Group's property portfolio with different purpose of usage as at 31 July 2015:

| Usage | GFA completed | GFA under development | GFA planned for future development |
|---|---|---|---|
| | *(sq.m.)* | *(sq.m.)* | *(sq.m.)* |
| Residential | 331,153.37 | 78,731.56 | 80,151.00 |
| Retail | 20,176.40 | — | — |
| Kindergarten | 2,833.32 | — | — |
| Clubhouse | 1,121.47 | — | — |
| Car park [1] | 62,565.59 | 22,255.00 | 14,164.90 |
| Ancillary [2] | 17,145.92[3] | 11,226.99 | 11,574.10 |
| Total | 434,996.07 | 112,213.55 | 105,890.00 |

*Notes:*

1. This comprises underground civil air defence area of 30,279.86 sq.m. in aggregate.

2. This comprises above-ground ancillary GFA and semi-underground ancillary GFA held by the Target Group for purposes other than residential and retail use and are primarily amenities not saleable.

3. This includes clubhouse area.

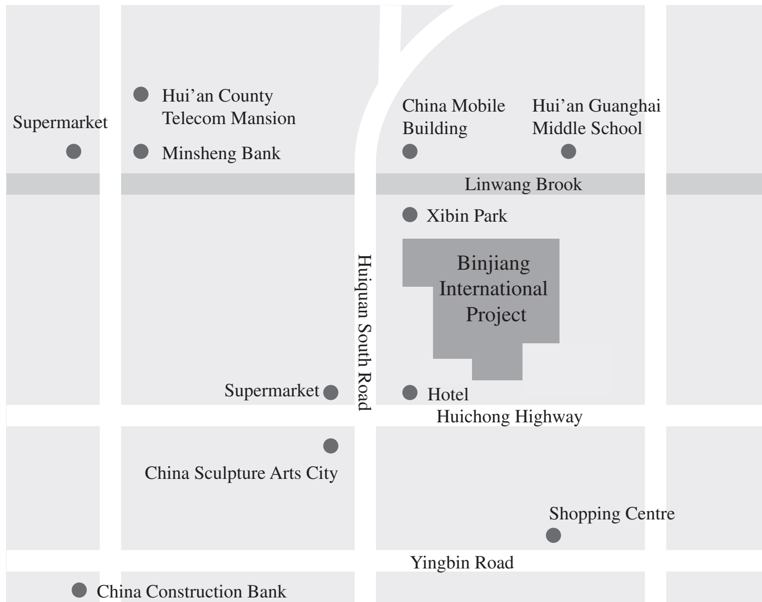
**Description of the property development projects**

*Binjiang International Project*

The Binjiang International Project is a residential project consisting of high-rise residential buildings, ancillary retail shops, kindergarten, clubhouse, swimming pool and car parking spaces located in the intersection of 324 National Highway and Xibin Park (溪濱公園) in Huian County, Quanzhou, Fujian Province, the PRC with a completed GFA of approximately 394,701 sq.m.. There are supermarkets, commercial complex, hotels and schools in the surrounding areas of the project. Hui An China General is the residential property developer of this project.

Based on the Target Group's internal records, the total development costs (including land acquisition costs, construction costs and capitalised interest) incurred in relation to the development and construction of the Binjiang International Project was approximately RMB949.4 million. The land acquisition costs for the Binjiang International Project had been fully paid as advised by the PRC Legal Advisers.

The following map shows the location of the Binjiang International Project in Huian County:




The greening rate and plot ratio of the Binjiang International Project are 43% and 3.89 respectively. The project has a total construction site area of approximately 83,399 sq.m.. The Target Group developed the project in four phases comprising 18 blocks of high-rise residential buildings with an aggregate completed GFA of approximately 394,701 sq.m. and comprising residential area of approximately 308,781 sq.m., retail shops area of approximately 16,334 sq.m., kindergarten of approximately 2,833 sq.m., clubhouse of approximately 1,121 sq.m. and aboveground and underground ancillary area (comprising car parking spaces and area for ancillary facilities) of approximately 65,631 sq.m.. As at the Latest Practicable Date, all phases were completed with details as follows:

| **Phase** | **Project type** | **Number of residential and ancillary retail shops units** | **Actual construction period** | **Actual pre-sale commencement date** | **Status of construction** |
|---|---|---|---|---|---|
| Phase 1 | Residential | 605 | April 2006–May 2008 | October 2006 | Completed |
| Phase 2 | Residential | 394 | May 2006–May 2009 | December 2007 | Completed |
| Phase 3 | Residential | 830 | August 2006–August 2010 | December 2007 | Completed |
| Phase 4 | Residential | | | | |
| — Stage 1 | | 469 | October 2010–May 2013 | June 2011 | Completed |
| — Stage 2 | | 295 | February 2012–January 2014 | November 2012 | Completed |

Phase 1 of this project has an aggregate saleable GFA of approximately 93,124 sq.m., comprising 579 residential units with an aggregate saleable GFA of approximately 90,799 sq.m. and 26 ancillary retail shops with an aggregate saleable GFA of approximately 2,325 sq.m.. Phase 1 of this project was completed in October 2008. As at 31 July 2015, 571 residential units with an aggregate saleable GFA of approximately 89,458 sq.m. and three ancillary retail shops with an aggregate saleable GFA of approximately 228 sq.m. had been sold or pre-sold.

Phase 2 of this project has an aggregate saleable GFA of approximately 62,966 sq.m., comprising 382 residential units with an aggregate saleable GFA of approximately 61,947 sq.m. and 12 ancillary retail shops with an aggregate saleable GFA of approximately 1,019 sq.m.. Phase 2 of this project was completed in July 2009. As at 31 July 2015, 339 residential units with an aggregate saleable GFA of approximately 53,395 sq.m. and seven ancillary retail shops with an aggregate saleable GFA of approximately 498 sq.m. had been sold or pre-sold.

Phase 3 of this project has an aggregate saleable GFA of approximately 84,140 sq.m., comprising 772 residential units with an aggregate saleable GFA of approximately 78,108 sq.m. and 58 ancillary retail shops with an aggregate saleable GFA of approximately 6,032 sq.m.. Phase 3 of this project was completed in July 2010. As at 31 July 2015, 763 residential units with an aggregate saleable GFA of approximately 77,188 sq.m. and 47 ancillary retail shops with an aggregate saleable GFA of approximately 5,465 sq.m. had been sold or pre-sold.

Stage 1 of Phase 4 of this project has an aggregate saleable GFA of approximately 54,171 sq.m., comprising 444 residential units with an aggregate saleable GFA of approximately 52,011 sq.m. and 25 ancillary retail shops with an aggregate saleable GFA of approximately 2,160 sq.m.. Stage 1 of Phase 4 of this project was completed in May 2013. As at 31 July 2015, 430 residential units with an aggregate saleable GFA of approximately 49,852 sq.m. and four ancillary retail shops with an aggregate saleable GFA of approximately 437 sq.m. had been sold or pre-sold.

Stage 2 of Phase 4 of this project has an aggregate saleable GFA of approximately 30,714 sq.m, comprising 272 residential units with an aggregate saleable GFA of approximately 25,916 sq.m. and 29 ancillary retail shops with an aggregate saleable GFA of approximately 4,798 sq.m. Stage 2 of Phase 4 of this project was completed in January 2014. As at 31 July 2015, 259 residential units with an aggregate saleable GFA of approximately 25,392 sq.m. and 12 ancillary retail shops with an aggregate saleable GFA of approximately 3,547 sq.m. had been sold or pre-sold.

The following table sets out details of the development costs and source of funds of the Binjiang International Project incurred as at 30 June 2015:

| Project phases | Development costs incurred *(RMB million)* Land acquisition costs paid *(Note 1)* | Construction and development costs and capitalised finance costs paid *(Notes 2 & 3)* | Construction and development costs and capitalised finance costs to be paid *(Notes 2 & 3)* | Estimated further development costs to complete the relevant phase *(RMB million)* *(Note 4)* | Total development costs *(RMB million)* *(Note 5)* |
|---|---|---|---|---|---|
| **The Binjiang International Project** | | | | | |
| Phase 1 | 13.4 | 201.0 | 1.3 | — | 215.7 |
| Phase 2 | 9.0 | 176.0 | 2.5 | — | 187.5 |
| Phase 3 | 18.0 | 223.9 | 1.4 | — | 243.3 |
| Stage 1 of Phase 4 | 7.2 | 179.2 | 1.2 | — | 187.6 |
| Stage 2 of Phase 4 | 4.2 | 107.5 | 3.6 | — | 115.3 |
| **Total** | **51.8** | **887.6** | **10.0** | **—** | **949.4** |

*Notes:*

(1) The land acquisition costs paid for each phase represents the attributable land premium paid by the Target Group pursuant to the relevant land use right grant contract apportioned according to the actual site area of the relevant phase, plus other costs related to land acquisition such as tax.

(2) Construction and development costs include direct and indirect construction costs, other costs relating to ancillary facilities and capitalised interest. The amount of construction and development costs to be paid were mainly retention money payable to construction works completed.

(3) Capitalised finance costs are borrowing costs incurred in respect of bank and other borrowings obtained specifically for financing the property development. All finance costs incurred for construction works were paid as at 30 June 2015.

(4) The estimated further development costs to complete the project represent the estimated further construction and development costs and capitalised finance costs to complete the project excluding the land premium which has already been settled in full by the Target Group pursuant to the relevant land use right grant contract.

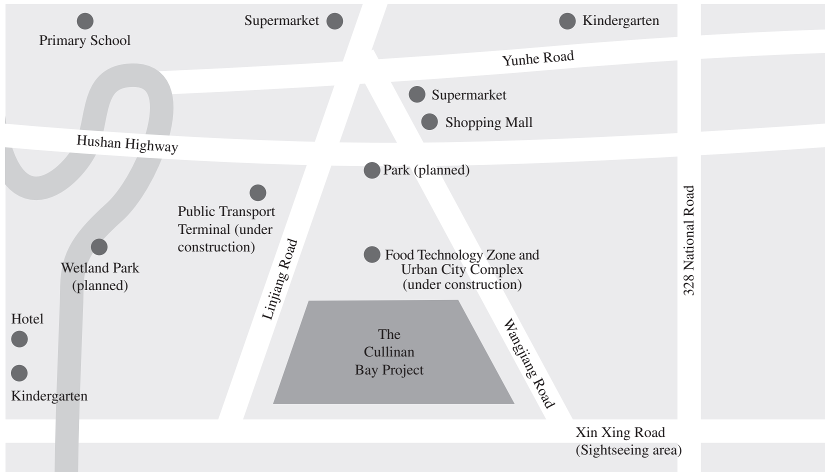
(5) This represents the sum of (i) land acquisition costs paid, (ii) construction and development costs and capitalised finance costs to be paid, (iii) construction and development costs and capitalised finance costs paid and (iv) estimated further development costs to complete the project. The Target Group financed the development costs by bank borrowings, capital contribution advanced by the shareholders of the Target Group and internally generated funds.

*The Cullinan Bay Project*


Leveraging on the success of the Binjiang International Project, in August 2012, the Target Group acquired two parcels of land located in Yangzhou, Jiangsu Province, the PRC for the development of The Cullinan Bay Project. As at 31 July 2015, The Cullinan Bay Project has an aggregated completed GFA of approximately 40,295 sq.m., a GFA under development of approximately 112,214 sq.m. and a planned GFA of approximately 105,890 sq.m.. The Cullinan Bay Project is a residential development project consisting primarily of high-rise residential buildings with ancillary retail shops and clubhouse located in the west of Wangjiang Road, north of Dingxing Road and east of Linjiang Road in Yangzhou, Jiangsu Province, the PRC. Yangzhou Dehui is the residential property developer of this project.

Based on the Target Group's internal records, the total development costs (including land costs, construction costs and capitalised interest) incurred up to 30 June 2015 in relation to the development of The Cullinan Bay Project was approximately RMB615.9 million.

The following map shows the location of The Cullinan Bay Project in Yangzhou:




The planned greening rate and plot ratio of The Cullinan Bay Project is 35% and 2.30 respectively. The project has a total construction site area of approximately 81,749 sq.m.. The Target Group is developing the project in two phases comprising 15 blocks of high-rise residential buildings with an aggregate completed GFA of approximately 40,295 sq.m., an aggregate GFA of approximately 112,214 sq.m. held under development and an aggregate planned GFA of approximately 105,890 sq.m. held for future development. The Cullinan Bay Project will comprise residential area of approximately 181,255 sq.m., retail shops of approximately 3,843 sq.m. and above-ground and underground ancillary areas (comprising car parking space, clubhouse and area for ancillary facilities) of approximately 73,301 sq.m..

The project consisted of two phases. As at the Latest Practicable Date, the Target Group was developing Stage 2 of Phase 1 of the project and the details of the project are as follows:

| **Phase** | **Project type** | **Number of residential and ancillary retail shops units** | **Actual/Planned construction period** | **Actual/Planned pre-sale commencement date** | **Status of construction** |
|---|---|---|---|---|---|
| Phase 1 | | | | | |
| — Stage 1 | Residential | 231 | October 2013–May 2015 | May 2014 | Completed |
| — Stage 2 | Residential | 736 | May 2014–December 2016 | July 2015 | Property under development |
| Phase 2 | Residential | 802 | March 2016–December 2017 | November 2016 | Property held for future development |

The construction of Stage 1 of Phase 1 of this project is completed and has an aggregate completed GFA of approximately 40,295 sq.m., comprising 216 residential units with an aggregate completed GFA of 22,372 sq.m., 15 ancillary retail shops of 3,843 sq.m., car parking space of 4,606 sq.m. and above-ground and semi-underground ancillary areas (comprising clubhouse and area for ancillary facilities) of approximately 9,474 sq.m.. The Target Group commenced pre-sale in May 2014. As at 31 July 2015, 166 residential units with an aggregate saleable GFA of approximately 17,525 sq.m. had been pre-sold. The Target Group completed the construction of Stage 1 of Phase 1 of this project in May 2015.

Stage 2 of Phase 1 of this project is under development and has an aggregate GFA of approximately 112,214 sq.m., comprising 736 residential units with an aggregate GFA of approximately 78,732 sq.m. and aboveground and underground ancillary area of approximately 33,482 sq.m.. The Target Group commenced pre-sale in July 2015 and expects to complete the construction of Stage 2 of Phase 1 of this project by December 2016.

Phase 2 of this project is currently held for future development and is expected, upon completion, to have an aggregate GFA of approximately 105,890 sq.m., comprising approximately 802 residential units with an aggregate GFA of approximately 80,151 sq.m. and ancillary facilities of approximately 25,739 sq.m.. The Target Group expects to commence pre-sale in November 2016 and complete the construction of Phase 2 of this project by December 2017.

According to the land acquisition agreement entered into between the Target Group and the Bureau of Land and Resources of Yangzhou (the "**Yangzhou Land Bureau**") in August 2012, the construction completion shall take place on or before 7 August 2015 and a daily penalty of 0.1% of the land acquisition cost (being approximately RMB327,000) will be imposed by the Yangzhou Land Bureau if construction completion cannot take place on or before the deadline. The Target Group entered into a supplemental agreement (the "**Supplemental Agreement**") with the Yangzhou Land Bureau in September 2015, pursuant to which it is confirmed that as affected by (i) the delay in design planning work of a road near the land where The Cullinan Bay Project is located and (ii) the delay in completion of the local government's land resettlement work, the construction completion of The Cullinan Bay Project was delayed. The Yangzhou Land Bureau agreed to amend the construction completion deadline to 7 August 2016. The PRC Legal Advisers confirmed that the Supplemental Agreement is legal, valid and enforceable. The Yangzhou Land Bureau has confirmed that no penalty will be imposed on the Target Group due to the delay in construction completion. According to the construction plan of the Target Group taken into account the above delay matters which are out of the control of the Target Group, the construction of the last phase of The Cullinan Bay Project will be completed by December 2017. The Target Group will apply to the Yangzhou Land Bureau for an extension of the construction completion deadline before 7 August 2016. The Sponsor and the PRC Legal Advisers had an interview with the Yangzhou Land Bureau and the Yangzhou Land Bureau confirmed that there would be no legal impediment to grant the extension of construction completion deadline to the Target Group. The PRC Legal Advisers also confirmed that (i) they are not aware of any legal impediment for the Target Group to obtain the Yangzhou Land Bureau's approval to extend the construction completion deadline, (ii) no penalty will be imposed on the Target Group in connection with its failure to complete the construction before 7 August 2015 and (iii) the possibility of imposition of the penalty on the Target Group in relation to the construction to be completed by December 2017 is remote.

Based on the Target Group's estimate, the total development cost (including the land acquisition costs) for The Cullinan Bay Project would be approximately RMB1.4 billion. The proposed Directors intend to fund the construction cost for The Cullinan Bay Project by internally generated funds and bank borrowings.

**Future development and plan**

The proposed Directors intend to implement a prudent and disciplined corporate strategy to promote steady and sustainable growth of the Target Group. In May 2014, the Target Group commenced the pre-sale of Phase 1 of The Cullinan Bay Project. The proposed Directors are of the view that the current properties under development and land reserve are sufficient for the Target Group's future development up to 2017.

Set out below is an actual/planned development schedule of The Cullinan Bay Project:

| | **Actual/Planned commencement date of construction** | **Actual/Planned pre-sale commencement date** | **Actual/Planned completion date of construction** | **Planned delivery date of properties** |
|---|---|---|---|---|
| The Cullinan Bay Project | | | | |
| — Stage 1 of Phase 1 | October 2013 | May 2014 | May 2015 | June 2016 |
| — Stage 2 of Phase 1 | May 2014 | July 2015 | December 2016 | June 2017 |
| — Phase 2 | March 2016 | November 2016 | December 2017 | June 2018 |

The Target Group will continue to identify potential land parcels suitable for its development projects and expand its land reserves in Fujian Province and Jiangsu Province and other cities with high economic growth potential, in particular the third and fourth tier cities in the PRC in order to sustain its growth. It will also continue to acquire land through various means, such as public tender, auction and listing-for-sale organised by the relevant PRC governmental authorities or acquisitions of controlling equity interests in entities that hold land use rights. As at the Latest Practicable Date, the Target Group had yet to identify land for extending its market foothold but will strive to look for suitable land in cities with high economic growth potential at a competitive cost to sustain its long-term growth. The proposed Directors expect to fund its expansion plans with internal resources and bank borrowings.

The following table sets out details of the development costs of The Cullinan Bay Project incurred or estimated to be incurred as at 30 June 2015:

| | Development costs incurred *(RMB million)* | | | | | Schedule of further development costs to be incurred (Estimated) *(RMB million) (Note 6)* | |
|---|---|---|---|---|---|---|---|
| **Project phases** | **Land acquisition costs paid** *(Note 1)* | **Construction and development costs and capitalised finance costs paid** *(Notes 2&3)* | **Construction and development costs and capitalised finance costs to be paid** *(Notes 2&3)* | **Estimated further development costs to complete the relevant phase** *(RMB million) (Note 4)* | **Total development costs** *(RMB million) (Note 5)* | **Six months ending 31 December 2015** | **Year ending 31 December 2016 and after** |
| **The Cullinan Bay Project** | | | | | | | |
| — Stage 1 of Phase 1 | 50.8 | 122.4 | 18.7 | 31.3 | 223.2 | 14.1 | 17.2 |
| — Stage 2 of Phase 1 | 150.3 | 71.7 | 50.6 | 345.4 | 618.0 | 64.8 | 280.6 |
| — Phase 2 | 135.8 | 14.0 | 1.6 | 431.8 | 583.2 | — | 431.8 |
| **Total** | 336.9 | 208.1 | 70.9 | 808.5 | 1,424.4 | 78.9 | 729.6 |

*Notes:*

(1) The land acquisition costs paid for each phase represents the attributable land premium paid by the Target Group pursuant to the relevant land use right grant contract apportioned according to the actual site area of the relevant phase, plus other costs related to land acquisition such as tax.

(2) Construction and development costs includes direct and indirect construction costs, other costs relating to ancillary facilities and capitalised interest.

(3) Capitalised finance costs are borrowing costs incurred in respect of bank and other borrowings obtained specifically for financing the property development.

(4) The estimated further development costs to complete the project represents the estimated further construction and development costs and capitalised finance costs to complete the project excluding the land premium which has already been settled in full by the Target Group pursuant to the relevant land use right grant contract.

(5) This represents the sum of (i) land acquisition costs paid, (ii) construction and development costs and capitalised finance costs to be paid, (iii) construction and development costs and capitalised finance costs paid and (iv) estimated further development costs to complete the project. The Target Group financed the development costs by bank borrowings, capital contribution advanced by the shareholders of the Target Group and internally generated funds.

(6) The Target Group intends to finance the future development costs by internal resources and bank borrowings. For further details, please refer to the section headed "Financial information of the Target Group — Liquidity and capital resources — Working capital" in this circular.

Based on the Target Group's internal estimates, records, existing project plans and/or the relevant construction and/or development contracts as at 30 June 2015, it is estimated that the total payment of further development costs in relation to The Cullinan Bay Project will amount to approximately RMB78.9 million for the six months ending 31 December 2015 and approximately RMB729.6 million for the year ending 31 December 2016 and thereafter.

Although the abovementioned are the current management's plan with respect to the Target Group's capital expenditures on The Cullinan Bay Project, such plan may change as a result of a change in circumstances and the actual amount of expenditures set out above may vary from the estimated amount of expenditures due to market conditions, competition and other factors. As the Target Group continue to expand, the Enlarged Group may also incur additional capital expenditures. The Target Group's ability to obtain additional funding for its future capital expenditures is subject to a variety of uncertainties, including future results of operations, financial condition and cash flows, economic, political and other conditions, conditions in the debt and equity capital markets and industry conditions.

**Civil air defence area**

According to the relevant PRC laws and regulations, new buildings in cities should contain certain basement areas which may be used for civil air defence purposes in time of war. The Binjiang International Project has a total civil air defence GFA of approximately 21,320 sq.m., calculated based on the civil air defence GFA designed for the properties which were completed as at 31 July 2015. As at the Latest Practicable Date, the Target Group did not sell or lease any of the civil air defence area. The civil air defence areas of the Binjiang International Project are generally used as car parking space in peace time. No area in the Phase 1 of The Cullinan Bay Project will be designated for civil air defence purposes; however, Phase 2 of The Cullinan Bay Project will contain civil air defence areas of approximately 8,960 sq.m. as approved by the Civil Defence Bureau of Yangzhou* (揚州市民防局). It is intended that the civil defence areas of The Cullinan Bay Project will be generally used as car parking space in peace time. The proposed Directors believe that the total civil defence area of the projects of the Target Group is insignificant to the total properties and business operation, and the Target Group does not face material risks associated with such civil defence area.

In the event that the PRC government declares a state of war, the PRC Government may take over civil air defence areas as shelters. In accordance with the Civil Air Defence Law, investors in civil defence area are permitted to use (including lease), manage the civil defence property in time of peace and profit therefrom. The Target Group will comply with the Civil Air Defence Law and the permit for use of civil defence areas in peace time when obtained in all material aspects and will consult its external legal advisers as to PRC laws from time to time to ensure compliance. In relation to the civil defence areas in the Binjiang International Project, the Target Group will monitor the property management company to ensure maintenance, management and repairment of the ancillary facilities of the civil air defence areas in good condition. The Target Group will also adopt measures striving to maintain, manage and repair the civil air defence areas of The Cullinan Bay Project to keep civil air defence areas in good condition.

The PRC Legal Advisers have advised the Target Group that, the business operations of the Target Group with regard to the civil defence areas have complied with the applicable PRC laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

**Land resettlement and idle land**

During the Track Record Period, the Target Group did not engage in any land resettlement operations as there was no need to carry out any such resettlement operations when the land on which the Binjiang International Project and The Cullinan Bay Project is situated was first acquired. Further, as advised by the PRC Legal Advisers, the Binjiang International Project and The Cullinan Bay Project have been developed by phases in accordance with the project approval from government and accordingly, there is no issue of idle land under the applicable PRC laws and regulations and there is no risk of forfeiture of the relevant land use rights granted or an idle land penalty being imposed on the Target Group.

**Kindergarten**

As an ancillary facility to the Binjiang International Project, a 3-storey kindergarten school has been built in Phase 1 of the Binjiang International Project with a total GFA of approximately 2,833 sq.m.. The kindergarten school was leased to an education operator, an Independent Third Party, which provides bilingual kindergarten schooling to children residing in the local community. According to the lease agreement, the kindergarten school has been leased to the education operator for a term of 20 years commencing from September 2010 at a rent determined with reference to the ancillary nature of the property, which is payable on an annual basis.

**Licences and permits**

In relation to the permits and certificates relating to land use rights and property development, save for the properties which are held for future construction or under construction, the PRC Legal Advisers have advised that the Target Group has obtained all requisite certificates for development, construction and sale of properties, including land use rights certificates, construction land planning permits, construction work planning permits, construction work commencement permits and pre-sale permits and the Target Group has completed all necessary registration or is currently in the course of carrying out all necessary registration with the relevant authorities before such authorities can issue individual property ownership certificates for the customers of the Binjiang International Project.

As advised by the PRC Legal Advisers, the Target Group has obtained all necessary licences and permits for its business operation. The table below sets out a list of major licences held by the subsidiaries of the Target Group as at the Latest Practicable Date:

| Entity | Name of the licence/ permit | Issuing authority | Issuance date | Expiry date |
|---|---|---|---|---|
| Hui An China General | Qualification Certificate for Real Estate Development Enterprise (class 3)* (《中華人民共和國房地產開發企業資質證書》(三級)) | Housing and Urban-Rural Development of Quanzhou* (泉州市住房和城鄉建設局) | 12 August 2013 | 11 August 2016 |
| Yangzhou Dehui | Interim Qualification Certificate for Real Estate Development Enterprise (class 2)* (《中華人民共和國房地產開發企業暫定資質證書》(二級)) | Housing and Urban-Rural Development of Jiangsu Province* (江蘇省住房和城鄉建設廳) | 15 February 2015 | 28 January 2016 |
| Yangzhou Detai | Qualification Certificate for Property Management Enterprise (class 3)* (《中華人民共和國物業服務企業資質證書》) | Housing Security and Real Estate Administrative Bureau of Yangzhou* (揚州市住房保障和房產管理局) | 11 December 2014 | N/A |

## PROPERTY DEVELOPMENT PROCESS

The project development process of the Target Group includes, among other things, city and site selection, land acquisition, project design and planning, project financing, construction, quality control and construction supervision, sales and marketing, delivery and after-sales services and property management.

The diagram below outlines and summarises the core elements of the Target Group's typical project development process:

**City and Site Selection**

- Conduct site visits and collect relevant market information
- Select project site in a specific city
- Prepare a research report

↓

**Project Planning and Preparatory Work**

- Prepare a feasibility report
- Land acquisition
- Pre-construction planning
- Project design
- Project financing

↓

**Construction**

- Select construction contractors
- Procure raw materials
- Select construction supervisor and perform quality control
- Construction

↓

**Sales and Marketing**

- Conduct marketing research
- Formulate and implement marketing strategies
- Manage external sales agents to implement marketing strategies and conduct sales

↓

**Delivery and After-sale Service**

- Inspect completed units before delivery
- Deliver properties to customers
- Provide property management services by property management company engaged by the Target Group
- Collect and respond to customers' feedbacks

**City and Site Selection**

City and site selection and evaluation process is an important stage in property development and is one of the keys to the success of a property development project. The Target Group considers the following factors in its city selection process, among others:

- geographical size, population and overall economic development;
- supply of and demand for properties in the local market; and
- competitive landscape, including the identity, size and development plans of existing and potential competitors and pricing of competing projects.

In selecting the project site in a specific city, the Target Group mainly considers the following factors:

- site area and the location of the site, in particular its proximity and accessibility to city centres or commercial districts;
- the site's level of importance in the city's future development plans;
- whether the site is connected to robust transportation infrastructure and supporting facilities currently existing or planned by the local government; and
- overall cost structure of the potential property development, including, among other things, whether the site is ready for development without substantial demolition of existing structures.

The proposed Directors are primarily responsible for the decision making of site selection for the property development projects of the Target Group. Before a parcel of land is acquired by the Target Group for project development, the proposed Directors, together with the senior management of the Target Group, would conduct site visits and collect relevant market information including, among others, potential market demand for properties in the region, the relevant government plans and policies concerning future development of the region and potential competition from other property developers in the region.

**Project Planning and Preparatory Work**

After the Target Group has identified a potential site, it would commence its project planning and preparatory work. Such work generally includes:

- feasibility study report preparation;
- land acquisition;
- pre-construction planning;

- project design; and
- project financing.

*Feasibility study report preparation*

Before the Target Group determines to acquire a piece of land, the Target Group generally engages market researchers (being Independent Third Parties) to conduct research on the potential demand for properties at the target site, assessing market competition and formulating preliminary project feasibility study reports for review. During the Track Record Period, the Target Group had engaged one market researcher to conduct feasibility study on The Cullinan Bay Project.

*Land acquisition*

The Target Group acquired land use rights primarily by the following methods:

- acquiring land from the local government through public tender, auction or listing for-sale; or
- acquiring or merging companies holding land with land use rights.

The land use rights of the Binjiang International Project was acquired by the Target Group by way of shares acquisition of company which indirectly held such land use rights in January 2005 and acquisition of land use rights from the local government in February 2007, while the land use rights of The Cullinan Bay Project was acquired by the Target Group from the local government through public auction in August 2012. As advised by the PRC Legal Advisers, the Target Group had obtained the land use rights certificates for both the land of the Binjiang International Project and The Cullinan Bay Project.

Property developers must pay land premium to the PRC government for acquisition of land from it. As advised by the PRC Legal Advisers, all land premium for the land of the Binjiang International Project and The Cullinan Project had been fully paid. The PRC government issues the land use rights certificate to the residential property developer after receipt of the land premium and application for such certificate from the residential property developer. The land use rights grant contracts normally grant a term of 70 years for residential properties, 40 years for commercial properties and 50 years for comprehensive-use properties.

*Pre-construction planning*

According to the applicable PRC laws and regulations, after a property developer has obtained land use rights for project development, it must obtain necessary government approvals before commencing the planning and construction of the project. Such approvals include:

- construction land planning permit, which allows a property developer to conduct survey, planning and design of a parcel of land; and

- construction work planning permit, which is the evidence of approval by the competent government authority of the overall planning and design of a project submitted by a property developer.

During the Track Record Period and as at the Latest Practicable Date, the Target Group did not experience any material delays in obtaining the aforesaid certificates and permits.

*Project design*

Project design reflects the specific market positioning and project planning. The Target Group conducts market research on the customers in the target market, defines the market positioning of the project and determines the design budget. Afterwards, the Target Group selects external design firms to perform detailed design work, including architectural design, landscape design, interior design and ancillary facility design. The Target Group carefully selects external design firm based on factors such as type of property development, design concept, location and project size. Throughout the design process, the Target Group works closely with the external design firm to ensure the project design reflects the desired market positioning and to prepare a detailed design proposal for approval by the relevant PRC government authorities. The approved design proposal would become the basis for the construction of the relevant project phase. The proposed Directors confirm that the external design firms engaged by the Target Group are Independent Third Parties.

During the Track Record Period, the Target Group worked with two external design firms. The agreements entered into with these external design firms provide the general terms and conditions governing transactions between the Target Group and these external design firms. The usual salient terms of such agreement are as follows:

- Payment terms: The Target Group shall pay the service fee to the external design firm by instalments upon completion of various stages of the project design or construction work.

- Termination:

  — If the agreement is terminated by the Target Group before the external design firm commences any design work, the external design firm shall be entitled to forfeit the deposit paid by the Target Group pursuant to the agreement.

  — If the agreement is terminated by the Target Group at the time when the external design firm has commenced design work of a relevant stage, the external design firm shall be entitled to (i) 50% of the service fee of the relevant stage if less than half of the design work of the relevant stage has been done; or (ii) 100% of the service fee of the relevant stage if more than half of the design work of the relevant stage has been completed.

  — If the agreement is terminated by the external design firm, the external design firm shall pay to the Target Group an amount which is equivalent to two times of the deposit paid by the Target Group pursuant to the agreement.

During the Track Record Period and up to the Latest Practicable Date, the Target Group had not entered into any long term agreement with its external design firms and did not have any material dispute with its external design firms, and the Target Group did not encounter unsatisfactory work performed by its external design firms or design failure.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the project design costs incurred for the external design firms amounted to approximately RMB1.3 million, RMB2.7 million, RMB2.6 million and RMB0.3 million, respectively.

*Project Financing*

During the Track Record Period, the Target Group funded the land acquisition costs and construction costs with internally generated funds and bank borrowings.

**Construction**

The engineering department of the Target Group is responsible for, among others, selecting construction contractors, procurement of construction materials or approving the procurement of construction materials by its construction contractors, quality control of construction work and supervising the construction work performed by the construction contractors. The engineering department of the Target Group comprised 11 staff members as at the Latest Practicable Date. The construction of the Binjiang International Project is led by Mr. Wang Jingdong who is the deputy general manager of Hui An China General and a qualified senior engineer and a certified constructor in the PRC. The construction of The Cullinan Bay Project is led by Mr. Tao Naibao who is the manager of the engineering department of Yangzhou Dehui and a qualified senior engineer in the PRC.

The Target Group outsources all the construction work to construction contractors located in the PRC. In respect of the main building construction contractors, the Target Group worked with four construction contractors for main construction during the Track Record Period. Other than main construction including construction of buildings and civil engineering, the Target Group also engaged other contractors to carry out various construction work including landscaping, water and electricity installation, equipment installation and exploration engineering.

During the Track Record Period, main construction contractors were typically selected through tender process by the Target Group, taking into account the professional qualifications, reputation and track record of the construction contractors. The Target Group has established policy to govern the contractor selection and management process.

The Target Group usually enters into construction work agreements with the construction contractors. Such agreements provide the general terms and conditions governing transactions between the Target Group and the construction contractors. Under such agreements, the construction contractors are required to ensure the relevant quality standards and construction schedules. The construction contractors are required to provide periodic progress report to the Target Group so that the Target Group can closely monitor the construction progress.

The Target Group usually pays the construction fees to the construction contractors by stage of completion, and may pay up to 90% to 97% of the total construction fees upon completion and examination of the construction work. The remaining balance of 3% to 10% of the total construction fees shall be paid at the end of the touchup and maintenance period.

The proposed Directors confirm that all of the construction contractors engaged by the Target Group during the Track Record Period were Independent Third Parties. During the Track Record Period and up to the Latest Practicable Date, the Target Group had not entered into any long term agreement with any of its construction contractors and did not have any material dispute with its construction contractors, and the Target Group was not subject to any material loss as a result of unsatisfactory work performed by its construction contractors or construction delay.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the construction cost incurred for construction contractors amounted to approximately RMB112.2 million, RMB128.1 million, RMB93.0 million and RMB58.0 million, respectively.

*Procurement*

The construction contractors are generally responsible for purchasing construction materials such as steel, concrete mix, bricks and flooring unless otherwise stated in the relevant agreement entered into between the Target Group and the construction contractor. Those construction contractors are required to procure the construction materials according to the requirements as stipulated in the relevant agreement. The construction materials are normally sourced from domestic suppliers in the PRC. The construction contractors would submit samples of construction materials to the relevant government authority for approval before commencement of construction.

The Target Group has established a procurement process aimed at giving economies of scale in production, enhancing its bargaining power, ensuring consistent construction material quality and controlling its costs. The Target Group does not normally maintain construction material inventory and order these materials only on an as needed basis.

For construction materials purchased by the Target Group, payments are normally made in stages in accordance with the terms and conditions stipulated in the contracts and payment terms granted by its suppliers and vary depending on a number of factors, including the relationship with the suppliers and the transaction volume. The Target Group is normally required to settle payment within 90 days from the invoice date, which are normally provided after the materials have passed the relevant quality control inspection processes and those of the construction supervision companies. The Target Group did not experience any shortages or delays in the supply of raw materials which had a material impact on its operations during the Track Record Period and up to the Latest Practicable Date.

*Quality Control and Construction Supervision*

The Target Group focuses on quality control of its projects. The following sets forth some of the important measures or procedures of the Target Group for quality control:

- the construction contracts typically contain warranties with respect to quality and timely completion of the construction projects by the construction contractors;

- in compliance with the relevant PRC laws and regulations, the Target Group engages certified construction supervision companies to monitor and supervise the project construction. These construction supervision companies conduct quality and safety control checks on all materials and workmanship on-site and supervise the progress of construction, work site safety and the construction schedule; and

- in the event that the construction contractors are required to procure part of the construction materials or equipment for the construction, the Target Group specifies the brands of certain major materials or equipment or designates qualified suppliers from which its construction contractors may source such materials or equipment.

During the Track Record Period, the Target Group worked with two construction supervision companies which are Independent Third Parties to monitor and supervise the construction work. The construction supervision companies were selected by the Target Group based on the professional qualifications, reputation and track record of the construction supervision companies. The Target Group also selected its construction supervision companies through tender process, taking into account of their qualifications.

Each of the construction supervision companies engaged by the Target Group for each of the Binjiang International Project and The Cullinan Bay Project has obtained the Real Property Construction Supervision Class A Qualification (《房屋建築工程監理甲級》). During the Track Record Period, the fees incurred related to the construction supervision companies engaged by the Target Group amounted to approximately RMB110,000, RMB254,000, RMB599,000 and RMB108,000 respectively.

The Target Group usually enters into construction supervision agreements with the construction supervision companies. Such agreements provide the general terms and conditions governing transactions between the Target Group and the construction supervision companies. Under the agreements, the construction supervision companies shall conduct quality control checks on all construction materials and monitor construction progress and the relevant construction completion schedules. The construction supervision companies are required to provide periodic supervision report to the Target Group so that the Target Group can closely monitor the supervision work of the construction supervision companies.

The usual salient terms of the construction supervision agreements are generally as follows:

- Payment terms: The Target Group shall pay up to 85% of the total fees to the construction supervision companies generally according to the construction progress, and pay the remaining balance of 15% of the total fees upon completion of the construction supervision work.

- Termination: The construction supervision agreements shall be terminated by either the Target Group or the construction supervision companies by giving to the other 42 days' prior notice in writing.

During the Track Record Period and up to the Latest Practicable Date, the Target Group had not entered into any long term agreement with any construction supervision company and did not encounter any material quality issues, nor was it subject to any material claims in this regard.

**Sales and Marketing**

*External sales agents*

The Target Group engages external sales agents to assist in its sales and marketing efforts on a phase-by-phase/stage-by-stage basis. The Target Group's internal sales and marketing personnel is responsible for formulating and supervising the execution of its sales and marketing strategies, while the external sales agents are responsible for implementing such strategies and conducting sales, which includes preparing marketing materials, conducting marketing campaigns, recommending unit selling prices and coordinating and monitoring the Target Group's relationship with the media. The Target Group has internal guidelines for conducting sales and would monitor the sale performance of the external sales agents closely.

The Target Group selects its external sales agents based on their qualification, experience in the local market and the amount of commission they charge. The Target Group pays commission to its external sales agents based on the number of sales made by such external sales agents in accordance with the contracts made between the Target Group and the external sales agents. Such contracts also provide the general terms and conditions governing transactions between the Target Group and the external sales agents. Under the contracts, the external sales agents shall promote the sale of the Target Group's properties according to the prices set out by the Target Group exclusively during a specified period of time. The key terms of the agreements include the scope of work, duration of services, scope of authorisation, fees, payment, rewards and punishment and consequences upon breaches of the terms.

The usual salient terms of the contracts entered into between the Target Group and the external sales agents are as follows:

- Exclusivity: The agent shall usually be entitled to an exclusive right to promote and sell the properties of the Target Group during a specified period of time.

- Payment term: The Target Group shall pay to the agent a commission fee ranged from 0.8% to 2.0% based on the aggregate transaction value of residential and retail units sold by the agent on a monthly basis.

- Termination: The contract could be terminated before the expiry of its term by either party; however, such party may have to pay a compensation fee to another party according to the contract terms.

During the Track Record Period and up to the Latest Practicable Date, the Target Group engaged four external sales agents. The proposed Directors confirm that the external sales agents are Independent Third Parties. As advised by the PRC Legal Advisers, the external sales agents engaged by the Target Group possess the relevant qualification. During the Track Record Period, the commission fee incurred related to the external sales agents of the Target Group amounted to approximately RMB2.7 million, RMB3.0 million, RMB1.4 million and RMB0.8 million respectively.

*Pricing*

The Target Group prices its properties based on a number of factors, such as types, features, locations of the properties and the supply and demand condition of the local market. The external sales agent proposes to the Target Group on the unit selling prices based on its regular market survey, the prices of properties in close proximity to the Target Group's properties and the location, landscape and environment of the specific property. The senior management, the internal sales and marketing personnel would set the unit selling prices of properties for the external sales agents and they would discuss and evaluate the effectiveness of the Target Group's marketing strategies.

*Pre-sale*

The Target Group typically conducts pre-sale of its properties prior to the completion of a phase or a stage of the project, subject to satisfaction of certain requirements set forth in the laws and regulations governing the pre-sale of properties. Under the Law of the PRC on Urban Real Estate Administration (中華人民共和國城市房地產管理法) and the Measures for the Administration of Pre-sale of Commodity Buildings (城市商品房預售管理辦法), certain conditions must be fulfilled before pre-sale activities of a particular property may commence, including:

- the full payment of land premium and obtaining the relevant land use rights certificate;

- the obtaining of the relevant permits required for the planning and construction of the property;

- the amount already invested in the project must not be less than 25% of the total amount to be invested in the project;

- the expected completion date and delivery date of the construction work have been fixed; and

- it has obtained the pre-sale permit from the relevant local government authorities.

The PRC Legal Advisers have advised that during the Track Record Period and up to the Latest Practicable Date, the Target Group had obtained all the pre-sale permits before pre-sale of its properties in accordance with the relevant laws and regulations applicable to the pre-sale of properties in the PRC. Please refer to the section headed "Summary of principal PRC legal and regulatory provisions" in Appendix V to this circular for further details of the applicable PRC laws and regulations.

In general, the Target Group enters into a standard sale and purchase agreement with its customers, which specifies information such as the property units to be sold, GFA of the property to be sold, purchase price, method of payment and expected date of delivery of the completed property.

*Payment arrangements*

A customer may purchase the property either by a lump sum payment, instalments, with mortgage loan financing or payment via housing provident fund accounts. The customer shall pay at least 30% of the purchase price with his or her own funds as down payment upon the execution of the sale and purchase agreement and pay the remaining purchase price normally within three months after the execution of the sale and purchase agreement either with his or her own funds or a mortgage loan including loans from housing provident fund permitted under the current PRC laws and regulations.

According to the accounting policy of the Target Group, the Target Group recognises revenue from sales of properties when the construction of the relevant properties has been completed and the properties have been delivered to the purchasers.

The Target Group issues payment request letter to each customer who fails to make payment when such payment becomes due. According to the terms of the sale and purchase agreement, the Target Group may choose to bring a legal action or arbitration proceeding against such customer to recover the default payment as well as default penalty. Moreover, when recovery of the default payment is not possible, the Target Group may choose to rescind the sale and purchase agreement and re-sell the property. In such case, the customer is still subject to the default penalty. During the Track Record Period and up to the Latest Practicable Date, the Target Group did not encounter material default by customers.

*Guarantee to banks*

Customers may purchase properties and finance such purchase with mortgage loans. During the Track Record Period, the Target Group provided guarantees to the banks in connection with its customers' mortgage loans to finance their purchase of the pre-sold residential properties on a provisional basis. The Target Group's guarantee is released at the earlier of (i) the bank receiving the individual property ownership certificate of the relevant property from the customer as security for the mortgage loan; and (ii) the full settlement of mortgage loans by the customers. If any customer defaults on his or her payment obligations under the mortgage loan during the terms of such guarantee, the bank has the right to, among others, sell such customer's property or request the Target Group to fulfill such payment obligation. As advised by the PRC Legal Advisers, the Target Group is entitled to collect such default payment from the customers when the Target Group settles the default payment at the bank's request. As confirmed by the proposed Directors, the Target Group generally does not conduct any independent credit evaluation of its customers. Instead, it relies on the credit evaluation conducted by the mortgagee banks on such customers. As at 30 June 2015, the Target Group's outstanding balance of the mortgage loans guaranteed by the Target Group was approximately RMB351.5 million. The PRC Legal Advisers have advised that these guarantees provided by the Target Group are legal, valid and enforceable under the relevant laws and regulations of the PRC. During the Track Record Period and up to the Latest Practicable Date, default payments in an aggregate amount of approximately RMB438,000 were made to the bank(s) for fulfilling the payment obligations under the guarantee and the Target Group has subsequently collected the default payments in an aggregate amount of RMB365,000 from its customers.

### Delivery and After-sale services

*Delivery of properties*

The Target Group closely monitors the construction progress of its properties and endeavor to deliver the properties to customers within the time frame stipulated in the respective sale and purchase agreements. Under the relevant PRC laws and regulations and as stipulated in the respective sale and purchase agreements, the Target Group is required to pass the construction completion inspection prior to the delivery of properties to the purchasers. As advised by the PRC Legal Advisers, the properties of the Target Group had passed the construction completion inspection prior to the delivery of properties to its customers during the Track Record Period.

The Target Group shall deliver properties to its customer before a specified date after the property development project has passed the requisite completion and inspections. However, if the Target Group fails to deliver the properties to the customer on the date of delivery stipulated in the respective sale and purchase agreement, the Target Group is obliged to pay a compensation fee of a certain percentage of the purchase price. The proposed Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, there was no material failure to deliver properties to its customers according to the agreed schedules due to the Target Group's fault.

The Target Group shall complete all necessary registration with the relevant authorities before such authorities can issue individual property ownership certificates (namely, Strata-title Building Ownership Certificates (分戶產權證)) and the Target Group also offers assistance to its customers for applying for the Strata-title Building Ownership Certificate (分戶產權證) by providing the requisite information to the local title registration office.

*After-sales services*

The Target Group provides comprehensive after-sales services, including assistance to the customers in respect of mortgage applications, registration of the sale and purchase agreements, delivery of properties and obtaining property title certificates.

Staff of the Target Group would contact the customers to obtain feedback from customers after delivery of the properties. Customers may file complaints through the property management company. The marketing department of the Target Group attends to customer complaints in a timely manner which are mainly related to the renovation or workmanship of furnished units. The proposed Directors confirmed that the Target Group did not receive any material complaints from its customers during the Track Record Period and up to the Latest Practicable Date.

*Warranties and Returns*

The Target Group provides warranties with respect to its properties in compliance with relevant regulatory requirements. In particular, the Target Group provides the following warranties, among others, for its residential properties:

- 5-year warranties for defects relating to waterproofing of property surfaces, walls, kitchens and bathrooms;
- 2-year warranties with respect to any peeling of wall surfaces and ceiling plasters, cracking of flooring and sanding of a large area;
- 1-year warranties with respect to cracking of doors and windows, and damage to metal hardware; and
- 2-month warranties with respect to clogging or pipes.

All warranty periods commence on the day of the delivery of the relevant properties.

In general, the warranties provided by the Target Group are in line with the warranties which its construction contractors provide to the Target Group. If the warranties provided by the construction contractors exceed the coverage periods mentioned above, the Target Group will also provide warranties with such longer coverage periods.

The Target Group does not provide warranties with respect to defects that are caused by third parties or improper use, defects resulting from natural disasters, equipment modified or installed after the delivery of properties, or indoor fragile items such as glass, mirrors, light bulbs and window sills.

The construction contractors of the Target Group are responsible for warranties in respect of their work and they are required to maintain the relevant quality standards. In general, the Target Group retains 3% to 10% of the cost of a project as retention monies for approximately one to five years, which shall be used to cover any contingent expenses that may be incurred as a result of any construction defects. When construction defects arise and if the construction contractors cannot repair the defects in a timely manner, the Target Group may repair the defects and deduct the costs incurred from the retention monies. The Target Group is only responsible for costs relating to maintenance work where no responsible third parties are identified. During the Track Record Period, no cost relating to maintenance work was paid by the Target Group. The proposed Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, there was no incident where the retention monies were less than the amount required to be paid to repair construction defects and there was no incident of deduction of retention money by the Target Group, therefore, no provisions are maintained with respect to warranties.

In general, the Target Group allows for return of the properties under the following circumstances:

- material delay in the delivery of the properties which exceed the periods stipulated in the relevant sale and purchase agreements;
- material quality defects with respect to the properties (e.g. material structural defects);
- material discrepancies in the GFA of the properties delivered as compared to the GFA stipulated in the sale and purchase agreements; or
- material changes made by the Target Group to the design of the properties which result in changes in areas such as property type, dimension and spatial orientation.

The proposed Directors confirm that there was no incident of return of properties during the Track Record Period and up to the Latest Practicable Date.

The Target Group confirms that the progress of construction of properties was in line with schedule as at the Latest Practicable Date and nothing has come to its attention that there would be any material delay in the scheduled completion and delivery of properties. The PRC Legal Advisers also confirmed that they are not aware of any legal impediment for the Target Group to obtain all the relevant permits, approval and certificates for the delivery of the properties in 2015 and 2016.

**Property Management Services**

The Target Group selects a property management company to provide property management services for the Binjiang International Project. The Target Group enters into an agreement with a property management company, pursuant to which the property management company shall be responsible for all aspects of the day-to-day management of the property, including the management, repairing and maintenance of the common area of the estate covering all ancillary facilities and car parking space. The term of the property management agreement commenced in November 2009. It shall end on the date when a new property management agreement is entered into between an owners' committee of the estate and a property management company. The management fees of the property management company are borne by the users of the properties (including the customers of the Target Group and the education operator of the kindergarten). The Target Group also grants to the property management company the rights to use and manage the car parking space and swimming pool at nil consideration for a term of five years commencing from November 2009. The proposed Directors confirm that it is the intention of the Target Group to use the car parking space and the swimming pool itself when the grant reaches its expiry. The Target Group commenced to earn rental income from leasing certain of the car parking space of the Binjiang International Project to independent third parties in January 2015.

The property management company was selected by the Target Group based on its qualifications, reputation and track record of property management. The management of the Target Group works closely with the property management company to ensure quality property management. The proposed Directors confirm that the property management company for the Binjiang International Project is an Independent Third Party.

As advised by the PRC Legal Advisers, the Target Group engaged the property management company by entering into an agreement with prior approval from the relevant government authority, which complies with the relevant regulations in the PRC. Further, although the property management company did not possess the required level of qualification for property management, as advised by the PRC Legal Advisers, the Target Group shall have no liability arising therefrom whereas the relevant property management company is subject to a fine. Should the property management company fails to continue to provide property management services for the Target Group in the future, the proposed Directors would be able to identify other property management companies with required qualification as substitute.

Yangzhou Detai provides property preliminary management services to Phase I of The Cullinan Bay Project.

## SETTLEMENT THROUGH PERSONAL BANK ACCOUNTS

### (A) Background

During the Track Record Period and until 1 June 2014, Hui An China General, one of the subsidiaries of the Target Company, used 17 personal bank accounts opened with different branches of eight PRC banks (the "**Personal Bank Accounts**") under the name of its general manager, Mr. Wang Delin, for settlement of corporate funds (the "**Arrangements**") including the receipt of customers' payments for the purchase of properties.

Banks in the PRC are generally open five days a week (Monday to Friday) to process transactions of corporate clients and seven days a week (Monday to Sunday) to process transactions of individual clients. Further, banks in the PRC generally would only process transactions of corporate clients during their office hours (being 9:00 a.m. to 5:00 p.m.) while they would process transactions of individual clients during their non-office hours when the transactions are carried out through the use of automated teller machines, debit cards or online banking service.

According to the sale and purchase agreement of the Target Group, the customer shall pay deposit on the date of signing of the sale and purchase agreement. If the deposit was paid to the Target Group's corporate accounts during non-office hours of banks, the Target Group would not be able to check and confirm such payments by its customers in a timely manner. Moreover, there were customers paying a visit to the properties of the Target Group and making purchase decisions during weekends. If customers made payment to the corporate accounts of the Target Group after office hours on Friday, the Target Group would be required to withhold the properties and check and confirm such payment on the following Monday to see whether the customers honour their payment obligations. However, when our customers made payment to the Personal Bank Accounts, the designated accounting staff of the finance department of Hui An China General would receive mobile-phone text messages from banks upon receipt of payments. Subsequently and on the same day, the accounting staff of the finance department would notify the cashier of the finance department to issue acknowledgement of receipts to our customers based on the text messages and inform the sales department to confirm and complete the relevant sales transactions.

In order to confirm payment by the customers promptly, prevent losing any potential customer and procure the relevant pre-sale or sale transactions, the management of the Target Group is of the view that it is important to confirm payment of customers on a same-day basis. With the use of the Personal Bank Accounts, operation flexibility of the Target Group would be enhanced as the Target Group would be able to check and confirm its customers' payments and carry out settlements during non-office hours of banks for corporate clients. Mr. Tsoi and Mr. Shie (who are the proposed executive Directors and the directors of Hui An China General) considered that the use of the Personal Bank Accounts was a choice of payment and settlement method to enhance operational flexibility.

With regard to the receipt of payments from customers for the purchase of properties, the Target Group generally used (a) the corporate accounts to receive payments via housing fund accounts of customers and payments from banks under mortgage loan financing and (b) the Personal Bank Accounts to receive deposits and payments from customers which are not made under mortgage loan financing. Nevertheless, the Target Group operated the Personal Bank Accounts in the same way as that of the corporate accounts of the Target Group.

The proposed executive Directors, based on their respective market understanding, consider that it is a common practice for PRC property developers in the proximity area in Quanzhou and Huian county to enter into similar arrangement for use of personal bank accounts to receive customers' payments for purchase of properties. During the Sponsor's visits to certain major property development projects in both Quanzhou and Huian county, the Sponsor was advised that these property developers also used personal bank accounts for receipt of customers' payments for purchase of properties and, thus, concurs with the view of the proposed executive Directors.

**(B) Internal control measures for the Arrangements and personnel involved**

The Target Group had adopted the following internal control measures since June 2006 when the first Personal Bank Account was opened (i) to ensure that all funds deposited in the Personal Bank Accounts were used solely for the Target Group's operation in accordance with the relevant PRC laws and regulations and were not misappropriated by any entity or individual; (ii) to segregate duties of authorising, executing, monitoring and book keeping of fund transfer from the Personal Bank Accounts; and (iii) to prevent incident of fraud, misappropriation of funds, money laundering or tax evasion:

(a) the Target Group had entered into written agreements with Mr. Wang Delin on the dates when the Personal Bank Accounts were opened during the period from 2006 to 2013 to regulate the use of the Personal Bank Accounts, pursuant to which it was agreed and confirmed that (i) the Personal Bank Accounts could only be operated under the instructions of the Target Group; (ii) all the beneficial interests in the savings and deposits in the Personal Bank Accounts were solely owned by the Target Group; (iii) all the bank books, debit cards, security devices and passwords of the

Personal Bank Accounts were kept and safeguarded by designated personnel of the Target Group other than Mr. Wang Delin; (iv) Mr. Wang Delin was not allowed to report the loss of nor replace or re-apply for the bank books, debit cards, security devices and passwords of the Personal Bank Accounts with the banks without prior approval from the Target Group; (v) all the information from the banks in relation to the Personal Bank Accounts shall be passed to the Target Group in a timely manner; and (vi) in the event of any breach of the terms of the agreements, policy of the Target Group or the relevant laws and regulations of the PRC by Mr. Wang Delin which results in the Target Group lossing funds in any of the Personal Bank Accounts, the Target Group shall be entitled to take legal actions against Mr. Wang Delin. As confirmed by the Target Group, there was no incident of breach of any terms of the said agreements or any policy of the Target Group by Mr. Wang Delin. The PRC Legal Advisers have advised that these agreements made between the Target Group and Mr. Wang Delin were legal, valid and enforceable under the relevant laws and regulations of the PRC. Please refer to the paragraph headed "— Settlement through personal bank accounts — (H) Legal consequence of the Arrangements" in this section for further advice of the PRC Legal Adviser on the legality of these agreements.

(b) all bank books, debit cards, security devices and passwords of the Personal Bank Accounts were kept and safeguarded by designated personnel of Hui An China General other than Mr. Wang Delin. The designated cashier of the finance department of Hui An China General had possession of the bank books and debit cards while the manager of the finance department of Hui An China General was responsible for keeping the security devices and passwords. The designated cashier and the finance manager of Hui An China General were jointly responsible for all the operation of the Personal Bank Accounts;

(c) the designated accounting staff of the finance department of Hui An China General was responsible for monitoring the operation of the Personal Bank Accounts, keeping records of the Personal Bank Accounts and making corresponding accounting entries in the accounting system of the Target Group for the movements of the Personal Bank Accounts. At the end of each month, the accounting staff would perform monthly bank reconciliation or checking of the bank statements of the Personal Bank Accounts against the Target Group's accounting ledger. The aforesaid accounting entries and month-end bank reconciliation or checking would be reviewed and approved by the manager of the finance department of Hui An China General. Such accounting and record keeping procedures in respect of the Personal Bank Accounts were operated in the same way as that of the corporate accounts of the Target Group;

(d) in order to ensure that pre-sale proceeds received by the Target Group are used only for settlement of construction fees and other related expenses as permitted under the Fujian Interim Measures on Administration of Pre-sale of Commodity Property (福建省商品房預售管理暫行辦法) (the "**Permitted Costs**"), the Target Group has internal control policies on approving payments to third parties, contractors and its shareholders respectively. Regardless of whether the payment would be made through the Personal Bank Accounts or corporate accounts of the Target Group, the relevant departments requesting for payments (in particular, the engineering department for settlement of construction costs) would be required to complete the payment requisition forms and gather the supporting documents such as purchase or construction contracts and billing invoices, which would be submitted to the finance department. The accounting staff of the finance department would review and check the accuracy of the payment requisition forms and relevant supporting documents. Only when the manager of the finance department and the general manager had approved the payment, the designated cashier who was responsible for keeping bank books and debit cards as well as the manager of finance department who was responsible for keeping security devices and passwords would settle the payments to third parties and contractors accordingly. Relevant payment records would be kept by the finance department and the accounting staff would make accounting entries accordingly.

The Target Group also had internal policy to ensure proper record of pre-sale proceeds and utilisation of pre-sale proceeds only for settlement of the Permitted Costs as permitted under the relevant PRC laws and regulations. The cashier of the finance department would record all the pre-sale proceeds received from customers on a timely manner, whereas the accounting staff of the finance department would review and check the record to ensure its completeness and accuracy. For any utilisation of pre-sale proceeds to settle the Permitted Costs, the accounting staff of the finance department would also check the payment requisition form and supporting documents submitted by the engineering department to ensure that the fund was used for settlement of the Permitted Costs only. The manager of the finance department and the general manager would approve the use of funds when there were documents showing that the funds were only used for settlement of the Permitted Costs. Subsequent to the settlement of the Permitted Costs out of pre-sale proceeds, the finance department would update the balance of pre-sale proceeds accordingly. Mr. Tsoi and Mr. Shie confirmed that the pre-sale proceeds received by the Target Group during the Track Record Period were only used for settlement of the Permitted Costs.

Based on the due diligence work performed by the Sponsor, which include, among others, (i) having discussed with the management of the Target Group regarding the Arrangement; (ii) having discussed with the Reporting Accountants of the Target Group and understood that they had performed extensive audit procedures and coverage in respect of the use of the Personal Bank Accounts for issuance of the Accountant's Report with unqualified opinion as a whole; (iii) reviewing the internal control policy of the Target Group; and (iv) reviewing the Target Group's accounting records in respect of the pre-sales proceeds received from customers and the Construction Costs incurred during the Track Record Period by (a) cross-checking the net amount between pre-sales proceeds received and the Construction Costs incurred against the Group's bank statements records; and (b) reviewing the breakdown of pre-sales proceeds received and used by the Target Group and the relevant transaction documents, the Sponsor is not aware that the pre-sale proceeds were not used for settlement of Construction Costs permitted under the relevant PRC laws and regulations.

(e) as the Target Group used and operated the Personal Bank Accounts in the same way as its corporate accounts, the authorisation procedures on approving the use of funds in the Personal Bank Accounts and the corporate accounts were the same. Subsequent to the completion of approval procedure on payments to third parties, contractors and its shareholders as set out above, the manager of the finance department had the authority to give instructions on the use of the funds in the Personal Bank Accounts and the corporate accounts. Such authorisation procedures and authority are set out in the internal policy of the Target Group; and

(f) to ensure that all bank-in, bank-out and transfer of funds using the Personal Bank Accounts were fully supported by the relevant transactions of the Target Group and to prevent money laundering, embezzlement of funds or anonymous funds from being deposited into or withdrawn from the Personal Bank Accounts, the Target Group had internal guidelines to check the fund movements of the Personal Bank Accounts against the supporting documents. In respect of the receipt of pre-sales and sales proceeds from customers using the Personal Bank Accounts, the cashier would check the bank-in slips for funds deposited into the Personal Bank Accounts against the relevant sales transaction documents such as the sale and purchase agreements. Customers were required to present their identification proof when signing the sale and purchase agreement. In respect of transfer of funds from the Personal Bank Accounts, the accounting staff would gather all the relevant documents such as construction progress report and supplier's invoice and obtain internal approval from the manager of the finance department before the funds were withdrawn.

Mr. Tsoi and Mr. Shie believe that the internal control measures adopted and implemented by the Target Group were effective and they confirm that no incident of fraud, misappropriation of funds, money laundering or tax evasion has been occurred.

**(C) Opening of the Personal Bank Accounts**

The Personal Bank Accounts were opened during the period from 2006 to 2013 and were opened solely for the purpose of receiving payments from customers for the purchase of properties. More than one Personal Bank Account was opened because transfer of funds between bank accounts of the customers and bank accounts of the Target Group which were opened with the same bank would allow immediate settlement of funds and avoid bank charges on inter-bank transfers. The management of the Target Group confirmed that the Target Group could minimise its expenses by avoiding bank charges on inter-bank transfers although such impact was minimal to the Target Group.

The Personal Bank Accounts were opened only in the name of Mr. Wang Delin given that Mr. Wang Delin is the only director of Hui An China General who resides in Huian County and also takes up the top level management role as general manager of Hui An China General responsible for managing the day-to-day business operation and overseeing all departments of Hui An China General, therefore, having Mr. Wang Delin to hold the Personal Bank Accounts in his name would ensure differentiation between the personnel holding the Personal Bank Accounts and the personnel of the finance department involving in authorising, executing, monitoring and book keeping of funds of the Personal Bank Accounts. Further, as Mr. Wang

Delin had been the general manager, director and vice chairmen of Hui An China General since its establishment in February 2006, he owed his duties to Hui An China General according to the articles of association of Hui An China General and shall discharge his duties faithfully. Moreover, Mr. Shie and Mr. Tsoi considered that Mr. Wang Delin possesses a strong character and is reliable and trustworthy.

### (D) Use of the Personal Bank Accounts

During the Track Record Period, apart from using the Personal Bank Accounts for receiving payments from customers (including receipt of pre-sale proceeds from customers, receipt of sale proceeds from customers and refund of pre-sale or sale proceeds to customers), the Personal Bank Accounts were also used for the following purposes only: (i) settling payments (including construction costs and operating expenses) due to suppliers; and (ii) settling amounts due to and from its shareholders, as the Target Group used and operated the Personal Bank Accounts in the same way as its corporate accounts. The Target Group normally made payments to suppliers and the Target Group's shareholders using the Target Group's corporate accounts. As the Target Group used the Personal Bank Accounts in the same way as its corporate accounts, both of the Target Group's corporate accounts and the Personal Bank Accounts were used to make payments to suppliers and the Target Group's shareholders. The management of the Target Group confirmed that the Personal Bank Accounts were used to make payments to suppliers and the Target Group's shareholders when there were available funds in the accounts.

### (E) Number of transactions, amount involved and the nature of fund-flows

For the years ended 31 December 2012, 2013 and 2014, the Target Group entered into 279, 153 and 22 transactions with its customers with the use of the Personal Bank Accounts for receipt of pre-sale proceeds for properties sold at pre-sale period in the aggregate amount of approximately RMB57.0 million, RMB50.6 million and RMB9.0 million, respectively, representing (i) approximately 27.9%, 30.0% and 7.0% of the total amount of funds received from its customers, respectively, and (ii) approximately 40.8%, 39.2% and 11.1% of the total amount of pre-sale proceeds received from its customers, respectively. For the six months ended 30 June 2015, the Target Group did not enter into any transaction with its customers with the use of the Personal Bank Accounts. Over the same periods, it entered into 80, 55 and 26 transactions with its customers with the use of the Personal Bank Accounts for receipt of sale proceeds for completed properties in the aggregate amount of approximately RMB26.3 million, RMB26.1 million and RMB16.3 million, respectively, representing (i) approximately 12.9%, 15.5% and 12.6% of the total amount of funds received from its customers, respectively, and (ii) approximately 40.6%, 65.2% and 34.1% of the total amount of sale proceeds received from its customers, respectively. During the years ended 31 December 2012, 2013 and 2014, the Target Group also refunded the pre-sale proceeds or sale proceeds to its customers with the use of the Personal Bank Accounts in respect of 3, 1 and 1 property(ies) in the aggregate amount of approximately RMB0.7 million, RMB0.4 million and RMB0.2 million, respectively.

For the years ended 31 December 2012, 2013 and 2014, the Target Group entered into 7, 8 and 6 transactions with its third party suppliers with the use of the Personal Bank Accounts for settling construction costs in the aggregate amount of approximately RMB76.9 million, RMB53.5 million and RMB6.1 million, respectively, representing approximately 58.8%, 33.4% and 6.5% of the total payments under the Target Group's contracts with third party suppliers, respectively. Over the same periods, it made payments to other third party suppliers for settling operating expenses (such as utility fees and purchase of office equipments and furniture) in the aggregate amount of nil, approximately RMB0.2 million and RMB0.5 million, respectively.

For the years ended 31 December 2012, 2013 and 2014, the Target Group had received funds from its shareholders in the aggregate amount of approximately RMB15.4 million, RMB38.6 million and RMB17.0 million, respectively, and had settled amounts due to its shareholders in the aggregate amount of approximately RMB47.6 million, RMB64.6 million and RMB10.5 million, respectively.

For the years ended 31 December 2012, 2013 and 2014, the maximum daily balance in the Personal Bank Accounts in aggregate were approximately RMB31.7 million, RMB24.5 million and RMB16.0 million, respectively.

**(F) Ownership of the funds deposited into the Personal Bank Accounts**

The Target Group had entered into agreements with the registered holder of the Personal Bank Accounts, Mr. Wang Delin, to regulate the use of the Personal Bank Accounts as mentioned above. The PRC Legal Advisers reviewed the terms of the agreements and are of the view that these agreements were legal, valid and enforceable under the PRC laws and regulations, and all the beneficial interests in the savings and deposits in the Personal Bank Accounts were solely owned by the Target Group pursuant to the terms of the agreements. Having considered the above, the PRC Legal Advisers further advised that the Target Group as the beneficial owner of the funds has the right to own and use the funds in the Personal Bank Accounts according to the Property Law of the PRC (中國物權法). Further, based on the facts that the funds are monies received by the Target Group during its course of business and are owned by the Target Group, the PRC Legal Advisers are of the view that the Target Group shall include the bank balances of the Personal Bank Accounts in the Target Group's bank balances and cash according to the Accounting Law of the PRC (中國會計法) which requires an enterprise to adopt accounting procedures and record the financial aspects of its business transactions.

**(G) Transfer of funds between the Personal Bank Accounts and the Target Group's corporate accounts and the nature of fund-flows**

Since the savings and deposits in the Personal Bank Accounts were solely owned by the Target Group and the Target Group used the Personal Bank Accounts as its own bank accounts, the Target Group transferred funds from the Personal Bank Accounts to the corporate accounts of the Target Group when it required funds to settle payments using its corporate accounts, for instance, where the payment of tax must be settled using the corporate accounts and some suppliers requested the Target Group to settle payment using corporate accounts. On the other hand, the Target Group deposited funds into the Personal Bank Accounts or transferred funds among different Personal Bank Accounts in order to maintain sufficient funds in the Personal Bank Accounts to facilitate payment to its suppliers.

At the time when the Target Group closed all the Personal Bank Accounts in August 2014, it transferred the entire bank balances in the Personal Bank Accounts to its corporate accounts.

**(H) Legal consequence of the Arrangements**

As advised by the PRC Legal Advisers, the use of the Personal Bank Accounts for settlement of corporate funds including receipt of pre-sale proceeds for purchase of properties was not in compliance with relevant PRC laws and regulations. As advised by the PRC Legal Advisers:

(a) according to the Company Law of the PRC (公司法), companies cannot establish any account book in addition to those required by law and no account can be opened in the name of any individual for keeping company's assets. However, no legal consequence of such breach was provided by the Company Law of the PRC;

(b) according to the Law on Commercial Banks of the PRC (商業銀行法), if a private bank account is opened for the funds of an unit, the People's Bank of China may impose on the user of the private bank account a fine with an amount between RMB50,000 and RMB500,000;

(c) according to the Opinion on Supervision of Funds from Pre-sale of Commodity Housing Units (泉州市商品房預售資金監督管理工作實施意見) (the "**Opinion**") promulgated by the Housing and Urban Construction Bureau of Quanzhou City* (泉州市住房和城鄉建設局), all the funds received from pre-sale of commodity housing units shall be deposited into designated bank acounts of the property developer. If there is any non-compliance with the said requirement, the relevant governmental authority may order the property developer to rectify the incident and suspend its business during the rectification period, and may cancel the developer's qualification certifcate to develop properties; and

(d) in addition to the Opinion, the Measures on Administration of Pre-sale of Urban Commodity Property (城市商品房預售管理辦法) promulgated by the Ministry of Construction* (中華人民共和國建設部) and the Fujian Interim Measures on Administration of Pre-sale of Commodity Property (福建省商品房預售管理暫行辦法) promulgated by the Construction Bureau of Fujian Province* (福建省住房和城鄉建設局) are also applicable in regulating the receipt of pre-sale proceeds using designated bank accounts of the property developer. However, the Opinion is the only applicable rule indicating legal consequences for not using designated bank accounts of the property developer to receive pre-sale proceeds.

Please refer to the paragraph headed "— Legal proceedings and compliance — Compliance" in this section for details of the breach, potential consequences and rectification measures taken by the Target Group.

The PRC Legal Advisers have further advised that (i) these agreements made between the Target Group and Mr. Wang Delin shall be governed by the Contract Law of the PRC (合同法) and (ii) according to the Contract Law of the PRC, a contract shall become voidable under the Contract Law of the PRC if it contravenes any laws and administrative regulations which is of mandatory nature and indicates that the contravention of such laws and administrative regulations shall result in a contract being void. The PRC Legal Advisers are of the view that, as the provisions under the Company Law of the PRC (公司法), the Laws of Commercial Banks of the PRC (商業銀行法), the Opinion on Supervision of Funds from Pre-sale of Commodity Housing Units (泉州市商品房預售資金監管管理工作實施意見) and Measures on Administration of Pre-sale of Urban Commodity Property (城市商品房預售管理辦法) concerning the use of Personal Bank Accounts do not indicate that the contravention of such laws and regulations shall result in a contract being void, the agreements made between the Target Group and Mr. Wang Delin shall remain legal, valid and enforceable under the Contract Law of the PRC. The PRC legal advisers of the Sponsor concurs with the view of the PRC Legal Advisers.

The PRC Legal Advisers have also advised that the underlying transactions conducted through the Personal Bank Accounts were legal, valid and enforceable under the PRC laws and regulation according to the Construction Law of the PRC (建築法), the Contract Law of the PRC (合同法) and the Measures on the Administration of Pre-sale of Urban Commodity Property.

The Target Group has obtained a written confirmation from the Housing and Town Construction Bureau of Huian County* (惠安縣住房與城鄉建設局) in November 2014 confirming that Hui An China General completed the rectification of the non-compliance on 27 August 2014 and has been in compliance with the regulation regarding funds received from pre-sale of commodity housing units, and that it would not impose penalty on Hui An China General for the said non-compliance and the business of Hui An China General will not be suspended and its licence for property development would not be revoked. Moreover, the Housing and Town Construction Bureau of Quanzhou* (泉州市住房和城鄉建設局) and the Housing and Town Construction Bureau of Fuijian Province* (福建省住房和城鄉建設廳) confirmed in January 2015 that they agreed with the aforesaid confirmation issued by the Housing and Town Construction Bureau of Huian County. As advised by the PRC Legal Advisers, the Housing and Town Construction Bureau of Huian County* (惠安縣住房與城鄉建設局), the Housing and Town Construction Bureau of Quanzhou* and the Housing and Town Construction Bureau of Fujian Province* have the authority and are competent to issue the above confirmations.

### (I) Remedial actions

At the time of opening the Personal Bank Accounts, Mr. Tsoi and Mr. Shie, both being the proposed executive Directors, had knowledge about the Arrangements since they were the directors of Hui An China General; however, they did not realise that the Arrangements were not in compliance with the relevant laws and regulations of the PRC. Mr. Tsoi was involved in approving the opening of the Personal Bank Accounts in his capacity as the chairman of Hui An China General, in the same way as for opening of corporate accounts. Mr. Tsoi and Mr. Shie were involved to oversee the overall operation of the Target Group and ascertain that relevant receipts and payments under the Arrangements were made in accordance with the internal guidelines regardless of the settlement method. The Arrangements involved Mr. Wang Delin who opened the Personal Bank Accounts under his name, and the cashier, accounting staff and finance manager of Hui An China General who operated the Personal Bank Accounts as described above. Once the proposed executive Directors became aware of the fact that the Arrangements might not be in compliance with the relevant laws and regulations of the PRC, they promptly sought legal advice from the PRC Legal Advisers and took appropriate remedial actions as further described below.

**(J) Cessation of the Arrangements and operational and financial impact of the cessation**

In rectifying such non-compliance, the Target Group has ceased to use the Personal Bank Accounts to settle corporate funds since 1 June 2014. All the balances in the Personal Bank Accounts had been transferred to the corporate accounts of the Target Group and all the Personal Bank Accounts were closed in August 2014.

After the cessation of the Arrangements, the Target Group only used its corporate accounts for receipt of payments from its customers. In order to minimise operational impact which may be caused by the cessation of the Arrangements, the Target Group has entered into agreements with two banks which provide self-service terminal for settlement of funds using debit cards issued by different banks. In other words, customers having bank accounts with different banks can use the Target Group's self-service terminal to settle funds. Such arrangement allows the Target Group to check and confirm payment by customers during both office and non-office hours of banks. The Target Group intends to enter into agreement with other bank(s) which provide(s) self-service terminal services when necessary.

The proposed Directors consider that the cessation of the Arrangements only affects the operational flexibility of the Target Group and such operational impact has been lessened by the aforesaid arrangement with the bank. Given that the cessation of the Arrangements does not affect the sales of properties of the Target Group, the proposed Directors consider that the cessation of the Arrangements does not affect the financial performance of the Target Group.

**(K) Enhanced internal control measures to prevent future re-occurrence**

To prevent future re-occurrence of the use of personal bank accounts for settlement of corporate funds, the Target Group has also enhanced its internal control measures:

(a) the Target Group has revised its internal control manual to require all the receipts and payments must be made through corporate accounts and no personal bank account could be opened and used. Such manual was implemented and became effective on 1 September 2014 and staff of the Target Group had been notified;

(b) the managers of the finance department of the Target Group shall, under the supervision of Mr. Wu Zhisong (details of his biography are set out in the section headed "Directors and senior management of the Enlarged Group — Proposed Directors — Executive Directors" in this circular), a proposed executive Director, closely monitor all members of the Target Group to ensure that no personal bank account is opened and used by any member of the Target Group by (i) checking all accounting records to detect whether any personal bank account is involved in the receipt or payment of funds; and (ii) reviewing all bank statements of the corporate accounts of the Target Group to detect any abnormal or unauthorised transfer of funds. In case of any indication of use of personal bank accounts for receipt or payment of funds by any member of the Target Group, they should report to Mr. Wu Zhisong immediately;

(c) the Enlarged Group will continue to engage an independent internal control consultant to conduct internal control review annually after the Resumption; and

(d) the proposed Directors have attended a training session conducted by the PRC Legal Advisers on the legal and regulatory requirements applicable to the business operations of the Enlarged Group. The Enlarged Group will establish a compliance committee comprising of two proposed independent non-executive Directors and one proposed executive Director to oversee regulatory compliance matters. It will also engage external professional advisers and seek professional advices for compliance with regulatory requirements from time to time, and provide the proposed Directors, senior management and employees involved with training, development programs and/or updates regarding the legal and regulatory requirement semi-annually after the Resumption. Please also refer to the paragraph headed "— Legal proceedings and compliance — Internal control measures" in this section for further details.

**(L) Reviews by the independent internal control consultant on the internal control measures for the Arrangements and effectiveness of the enhanced internal control measures**

The independent internal control consultant of the Company, ZHONGHUI ANDA Risk Services Limited (the "**Internal Control Consultant**") performed (i) initial internal control reviews in August 2014; (ii) performed follow-up reviews in September and October 2014; and (iii) performed extended follow-up reviews in April, May and August 2015. The Internal Control Consultant was engaged by the Target Group in the provision of corporate governance and internal control review services since August 2014. It has provided corporate governance and internal control review services to over 10 companies listed on the Stock Exchange, including property development and property management business.

During the initial review, the Internal Control Consultant reviewed the internal control measures implemented by the Target Group regarding the Arrangements. The internal control review work performed by the Internal Control Consultant included, among others, (i) reviewing the internal control manual in respect of the Arrangements and the written agreements relating to the Arrangements; (ii) conducting interviews with finance manager and accounting staff of Hui An China General for the receipt and payment procedures, authorisation and book keeping of the Personal Bank Accounts with reference to the walkthrough samples; (iii) performing samples test of controls on supporting documents including bank advices, invoices and acknowledgement of receipts to ascertain the proper implementation of the internal control measures in respect of the Arrangements; and (iv) reviewing samples of book records of the major Personal Bank Accounts. The Internal Control Consultant has identified that, among others, the Personal Bank Accounts were operated according to the agreements relating to the Arrangements made between the Target Group and Mr. Wang Delin, the Personal Bank Accounts were used and operated under the instructions of the Target Group and Mr. Wang Delin has no right to access or control the Personal Bank Accounts as discussed in the paragraph headed "Settlement through Personal Bank Accounts — (B) Internal control measures for the Arrangements and personnel involved" in this section. Moreover, the Internal Control Consultant also identified that the segregation of duties of authorising, executing and book keeping of the Personal Bank Accounts were properly maintained that, the designated cashier kept the bank books or debit cards while the manager of the finance department kept the passwords and security devices, and the records of the Personal Bank Accounts were properly maintained and corresponding accounting entries had been made in the accounting system of the Target Group. As the internal control measures were properly implemented, no material internal control deficiency in respect of the Arrangements was found by the Internal Control Consultant.

The Internal Control Consultant confirmed that during the follow-up reviews, (i) all the Personal Bank Accounts have been closed by Mr. Wang Delin in August 2014 and the balances of the Personal Bank Accounts had been transferred to the corporate accounts of the Target Group; (ii) the Target Group has revised its internal control manual to require that all the receipt and payment for business operations must be made through corporate accounts in the future and such revised manual has been distributed to all staff of the Target Group; and (iii) corporate accounts were used for settlement of funds of the Target Group. The Internal Control Consultant performed extended follow-up reviews for the implementation of the Target Group's enhanced internal control measures for a period of one year from 1 September 2014 to 31 August 2015 (the "Review Period"). During the extended follow-up reviews, (i) all Personal Bank Accounts opened for the Arrangements were closed; (ii) no pre-sales proceeds was deposited into any personal bank account subsequent to the cessation of the Arrangements; (iii) all the receipt and payment for business operations have been made through corporate accounts; and (iv) corporate accounts were used for settlement of fund of the Target Group. The Internal Control Consultant concluded that the Target Group's enhanced internal control measures during the Review Period are adequate and effective to prevent future re-occurrence of the use of personal bank accounts for fund settlement or transfer of the Target Group.

The Sponsor has (i) discussed with the management of the Target Group to understand the enhanced internal control measures, including the revised internal control manual; (ii) reviewed the report prepared by the Internal Control Consultant on their testing results on the enhanced internal control measures that corporate accounts were used for settlement of funds of the Target Group during their follow-up reviews; and (iii) interviewed the Internal Control Consultant and discussed, among others, its qualification, scope of work and methodologies adopted for the internal control reviews. Having considered the above, the Sponsor concurs with the view of the Internal Control Consultant that the enhanced internal control measures are adequate and effective to prevent future re-occurrence of the use of personal bank accounts.

**(M) Transactions under the Arrangements**

As confirmed by the proposed executive Directors, all receipts of payments from customers under the Arrangements were fully supported by pre-sale or sale and purchase agreements and PRC registered invoices whereas all payments to third-party suppliers under the Arrangements were fully supported by contracts and invoices. The proposed executive Directors have also confirmed the accuracy and completeness of the Target Group's accounting books and records.

Based on the due diligence works performed by the Sponsor, which include, among others, (a) having discussion with the Target Group's senior management (including Mr. Wang Delin) regarding the background and commercial rationale of the Arrangements and the transaction flow and the internal control measures adopted in respect of the Arrangements; (b) discussing with the Reporting Accountants of the Target Group and understanding that they had performed extensive audit procedures and coverage in respect of checking the accuracy and completeness of the Target Group's accounting books and records and the underlying pre-sale or sale and purchase agreements, contracts and invoices and the PRC registered invoice so as to give an unqualified opinion to the financial information of the Target Group as a whole; (c) reviewing the walkthrough documents in respect of the transaction flow and the internal control measures adopted in respect of the Arrangements; (d) conducting interviews with the personnel involved in the Arrangements (being the cashier, manager and accounting staff of the finance department of Hui An China General); (e) conducting interviews with customers to confirm the relevant sales transactions under the Arrangements; (f) reviewing the bank statements retrieved directly from the banks for the Personal Bank Accounts maintained by the Target Group during the Track Record Period and performed substantive test of details for transactions appeared in the bank statements and the accounting records; (g) substantially inspecting the underlying supporting documents including but not limited to pre-sale and sale and purchase agreements, receipts issued by the Target Group, customers' payment records and PRC registered invoices; (h) reviewing the confirmations from customers regarding, amongst others, the transaction amounts with the Target Group during the Track Record Period and their independence with the Target Group; and (i) reviewing the internal control report prepared by the Internal Control Consultant that the internal control measures under the Arrangements were properly implemented and no material internal control deficiency was found, the Sponsor is not aware of any sign of inaccuracy and incompleteness of the Target Group's accounting books and records, nor any receipts of payments from customers under the Arrangements with no support of relevant pre-sale or sale and purchase agreements, contracts and invoices and PRC registered invoices.

**(N) No tax evasion or violation of PRC laws and regulations in relation to tax**

Hui An China General has obtained written confirmations from the Local Tax Bureau of Huian County* (惠安縣地方稅務局) and the National Tax Bureau of Huian County* (惠安縣國家稅務局) (together, the "**Tax Bureaux**") in November 2014 confirming, among others, they were aware of the Arrangements of Hui An China General and it was not found that the Arrangements involve any tax evasion or non-compliance with the relevant tax laws and regulations. Moreover, the relevant tax bureaux of each of Quanzhou City and Fujian Province had also confirmed in January 2015 that they agreed with the aforesaid confirmations issued by the Tax Bureaux. As advised by the PRC Legal Advisers, the above tax bureaux have the authority and are competent to issue the said confirmations.

Further, the Sponsor, together with the PRC legal advisers to the Sponsor, the Reporting Accountants and the PRC Legal Advisers, had made independent physical visit to the Tax Bureaux and obtained verbal confirmation from (i) the deputy director of the collection management team of the National Tax Bureau of Huian County and (ii) the responsible officer of the collection management team of the Local Tax Bureau of Huian County (collectively, the "**Tax Officers**") who are responsible for handling the tax matters of Hui An China General including but not limited to tax filing and investigation of tax affairs. The Tax Officers confirmed that, (i) the Arrangements of Hui An China General did not involve any tax evasion or constitute any violation of PRC laws and regulations in relation to tax; (ii) Hui An China General had duly declared and paid its tax payable under the PRC laws and regulations; and (iii) Hui An China General had issued PRC registered invoices in respect of all sales transactions made under the Arrangements. During such physical visit to the Tax Bureaux, the Tax Officers have also respectively verified the above written confirmations issued by the Tax Bureaux.

The PRC Legal Advisers are of the view that, having considered the authority of the Tax Bureaux and the roles and responsibilities of the Tax Officers, the Tax Bureaux are the competent authorities and the Tax Officers are the competent persons to give the above verbal confirmations. The Sponsor had discussion with its PRC legal advisers and noted that they held the view of the PRC Legal Advisers; therefore, it concurs with the view of the PRC Legal Advisers that the Tax Bureaux are the competent authorities and the Tax Officers are the competent persons to give the above verbal confirmations.

The PRC Legal Advisers are of the view that, based on the written confirmations issued by the relevant tax bureaux at both local and provincial levels and the verbal confirmations given by the Tax Officers, it is unlikely that the Arrangements would involve any tax evasion by the Target Group save for the legal non-compliance as set out in the paragraph headed "— Legal proceedings and compliance — Compliance" in this section.

Based on the due diligence work performed by the Sponsor, which include, among others, (i) reviewing the written confirmations issued by the relevant tax bureaux at both local and provincial levels as set out above; (ii) seeking verbal confirmations from the Tax Officers; (iii) discussing with the Reporting Accountants of the Target Group and understood that, for issuance of the Accountant's Report with unqualified opinion as a whole, they had performed extensive audit procedures and coverage in relation to the tax liabilities of the Group; (iv) reviewing the opinion from the PRC Legal Advisers as specifically set out above; and (v) seeking opinion from the PRC legal advisers to the Sponsor who held the same view, the Sponsor is not aware that the Arrangements involve any tax evasion, fraud, money laundering (as the Target Group has not acquired funds by illegal means) or other illegal activities by the Target Group.

## CUSTOMERS

The customers of the Target Group are primarily individual purchasers in the PRC.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the total revenue (net of business tax) attributable to the five largest customers of the Target Group amounted to approximately RMB7.2 million, RMB24.8 million, RMB11.4 million and RMB39.1 million, respectively, representing approximately 8.0%, 12.2%, 4.5% and 63.8% of the total revenue (net of business tax) of the Target Group, respectively. For the same period, the aggregate revenue (net of business tax) attributable to the largest customers of the Target Group amounted to approximately RMB2.6 million, RMB9.2 million, RMB3.2 million and RMB32.0 million, respectively, representing approximately 2.9%, 4.5%, 1.3% and 52.2% of the total revenue (net of business tax) of the Target Group, respectively. The proposed Directors confirm that the Target Group had no material disputes with its customers during the Track Record Period and up to the Latest Practicable Date.

The following table sets forth information on the five largest customers for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015:

**For the year ended 31 December 2012**

| **Customers** | **Corporate/ individual** | **Type of properties** | **Revenue (net of business tax)** *(RMB'000)* | **Percentage of total revenue (net of business tax) of the Target Group** |
|---|---|---|---|---|
| Customer F | Individual | Retail shops | 2,585 | 2.9% |
| Customer G | Individual | Residential unit | 1,388 | 1.5% |
| Customer H | Individual | Retail shop | 1,096 | 1.2% |
| Customer I | Individual | Residential unit | 1,095 | 1.2% |
| Customer J | Individual | Residential units | 1,058 | 1.2% |
| | | | 7,222 | 8.0% |

**For the year ended 31 December 2013**

| Customers | Corporate/ individual | Type of properties | Revenue (net of business tax) *(RMB'000)* | Percentage of total revenue (net of business tax) of the Target Group |
|---|---|---|---|---|
| Customer K | Individual | Residential units & retail shops | 9,194 | 4.5% |
| Customer L | Individual | Residential units & retail shops | 6,700 | 3.3% |
| Customer M | Individual | Residential units & retail shops | 5,874 | 2.9% |
| Customer N | Individual | Residential unit | 1,547 | 0.8% |
| Customer O | Individual | Residential unit | 1,438 | 0.7% |
| | | | 24,753 | 12.2% |

**For the year ended 31 December 2014**

| Customers | Corporate/ individual | Type of properties | Revenue (net of business tax) *(RMB'000)* | Percentage of total revenue (net of business tax) of the Target Group |
|---|---|---|---|---|
| Customer P | Individual | Residential units | 3,210 | 1.3% |
| Customer Q | Corporate | Residential units | 2,354 | 0.9% |
| Customer U | Individual | Residential units | 2,241 | 0.9% |
| Customer R | Individual | Residential unit & retail shop | 1,884 | 0.7% |
| Customer S | Individual | Residential unit | 1,751 | 0.7% |
| | | | 11,440 | 4.5% |

**For the six months ended 30 June 2015**

| **Customers** | **Corporate/ individual** | **Type of properties** | **Revenue (net of business tax)** *(RMB'000)* | **Percentage of total revenue (net of business tax) of the Target Group** |
|---|---|---|---|---|
| Customer P | Individual | Retail shops | 32,031 | 52.2% |
| Customer T | Individual | Retail shop | 3,021 | 4.9% |
| Customer Y | Individual | Residential unit | 1,617 | 2.7% |
| Customer V | Individual | Residential unit | 1,343 | 2.2% |
| Customer W | Individual | Residential unit | 1,131 | 1.8% |
| | | | 39,143 | 63.8% |

For the year ended 31 December 2013, certain properties of the Binjiang International Project were sold to two customers who were shareholders of a raw material supplier of the Target Group. The revenue (net of business tax) contributed by these customers was approximately RMB15.1 million during this year. For the year ended 31 December 2014 and the six months ended 30 June 2015, Customer P is the largest customer of the Target Group. Customer P is an entrepreneur who operates foot massage centers in Quanzhou. Based on understanding of the management of the Target Group, Customer P intended to (i) use the retail shops for operating a new foot massage center in 2016 and (ii) hold the residential units for investment purpose.

To the best knowledge of the Directors and the proposed Directors, none of them and their respective close associates or any of the Shareholders holding more than 5% of the Shares have any interest in any of the Target Group's top five customers.

## SUPPLIERS

The major suppliers of the Target Group consist of (i) construction contractors which include qualified building construction contractors, telecommunications network construction contractors and lift installation contractors; (ii) suppliers of construction materials (such as steel and concrete mix); and (iii) external design firms which are responsible for property design of the Target Group's project.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, payments to the five largest suppliers of the Target Group amounted to approximately RMB108.8 million, RMB142.4 million, RMB87.5 million and RMB58.1 million, respectively, representing approximately 92.8%, 90.8%, 84.2% and 94.7% of the total payments under the Target Group's contracts with third party suppliers, respectively. For the same period, the payments to the largest supplier of the Target Group amounted to approximately RMB38.6 million, RMB49.7 million, RMB64.4 million and RMB36.4 million, respectively, representing approximately 32.9%, 31.7%, 62.0% and 59.4% of the total payments under the Target Group's contracts with third party suppliers, respectively. No long term contracts had been entered into between the Target Group and its five largest suppliers during the Track Record Period. However, the Target Group has maintained business relationships with its top five suppliers for one to eight years. None of the five largest suppliers during the Track Record Period was also the major customers of the Target Group. The proposed Directors confirm that the Target Group had no material dispute with their suppliers during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, the Target Group settled all purchases in RMB and most of them were settled by bank transfer, cash and bills. Most of the Target Group's purchases are construction fees paid to contractors and settled in accordance with stage of completion of the property development project. Credit terms offered by the suppliers is normally within 90 days from the invoice date. In addition, the Target Group was able to obtain financing from commercial banks in the form of bank acceptance notes by providing personal guarantees by the Controlling Shareholders and pledging of land use rights with the banks.

The following table sets forth information on the five largest suppliers for each of the three years ended 31 December 2014 and the six months ended 30 June 2015:

**For the year ended 31 December 2012**

| **Suppliers** | **Corporate/ individual** | **Type of suppliers** | **Purchases** *(RMB'000)* | **Percentage of total purchase of the Target Group** |
|---|---|---|---|---|
| Supplier B | Corporate | Construction contractor | 38,643 | 32.9% |
| Supplier A | Corporate | Construction contractor | 33,412 | 28.5% |
| Supplier F | Corporate | Construction contractor | 30,970 | 26.4% |
| Supplier G | Corporate | Construction material supplier | 3,310 | 2.8% |
| Supplier H | Corporate | Construction contractor | 2,488 | 2.2% |
| | | | 108,823 | 92.8% |

**For the year ended 31 December 2013**

| Suppliers | Corporate/ individual | Type of suppliers | Purchases *(RMB'000)* | Percentage of total purchase of the Target Group |
|---|---|---|---|---|
| Supplier A | Corporate | Construction contractor | 49,668 | 31.7% |
| Supplier I | Corporate | Construction contractor | 49,149 | 31.3% |
| Supplier J | Corporate | Construction contractor | 18,085 | 11.5% |
| Supplier F | Corporate | Construction contractor | 16,640 | 10.6% |
| Supplier B | Corporate | Construction contractor | 8,898 | 5.7% |
| | | | 142,440 | 90.8% |

**For the year ended 31 December 2014**

| Suppliers | Corporate/ individual | Type of suppliers | Purchases *(RMB'000)* | Percentage of total purchase of the Target Group |
|---|---|---|---|---|
| Supplier I | Corporate | Construction contractor | 64,419 | 62.0% |
| Supplier K | Corporate | Construction contractor | 11,844 | 11.4% |
| Supplier L | Corporate | Construction contractor | 4,750 | 4.6% |
| Supplier H | Corporate | Construction contractor | 4,010 | 3.9% |
| Supplier N | Corporate | Construction contractor | 2,438 | 2.3% |
| | | | 87,461 | 84.2% |

**For the six months ended 30 June 2015**

| Suppliers | Corporate/ individual | Type of suppliers | Purchases *(RMB'000)* | Percentage of total purchase of the Target Group |
|---|---|---|---|---|
| Supplier I | Corporate | Construction contractor | 36,425 | 59.4% |
| Supplier O | Corporate | Construction contractor | 18,883 | 30.8% |
| Supplier N | Corporate | Construction contractor | 1,313 | 2.1% |
| Supplier K | Corporate | Construction contractor | 820 | 1.3% |
| Supplier P | Corporate | Construction contractor | 684 | 1.1% |
| | | | 58,125 | 94.7% |

To the best knowledge of the Directors and the proposed Directors, none of them and their respective close associates or any of the Shareholders holding more than 5% of the Shares have any interest in any of the Target Group's top five contractors/suppliers.

## PROPERTIES

### Owned properties

The Target Group maintains offices in self-owned properties in Quanzhou and Yangzhou where it has operations. For more information, please refer to the Property Valuation Report.

### Leased properties

As at the Latest Practicable Date, the Target Group leased one property in the PRC with GFA of approximately 60 sq.m. as premises for office and business use. The term of lease is approximately one year. The lease agreement for this property has not been registered with the relevant PRC authorities, which may result in correction orders by relevant authorities and the Target Group may be subject to a fine of RMB1,000 to RMB10,000 per lease agreement. As advised by the PRC Legal Advisers, the validity of the lease agreements that were not duly registered or filed with the relevant government authorities is not affected by such failure to register or file. In respect of the non-registered lease agreements, correction orders may be given. As at the Latest Practicable Date, the Target Group had not received any such correction orders.

The lease agreement made between the Target Group and the education operator of the kindergarten has not been registered with the relevant PRC authority in Huian County because such authority does not accept registration or filing of any lease agreement. As advised by the PRC Legal Advisers, the chance of being penalised by the relevant authorities is minimal and the validity of the lease agreement is not affected by such failure to register or file. Thus, the proposed Directors are of the view that the impact on the business of the Target Group will be minimal and will not have any material adverse effect on the business operation of the Target Group. The proposed Directors confirm that when the registration or filing of lease agreement by the relevant authority in Huian County is available, the Target Group would register or file such lease agreement with such authority immediately.

## COMPETITIVE LANDSCAPE

The PRC real estate market has been highly competitive in recent years. The projects of Target Group are located in either Quanzhou or Yangzhou. Due to the regional nature of the real estate industry, the Target Group's major competitors consist of property developers developing residential properties in Quanzhou or Yangzhou. Some of the Target Group's competitors may have better track record, better financial, marketing and land resources, more extensive sales networks and stronger brand. Increasing competition in these cities may lead to an increase in competition for quality sites, land acquisition costs, intensified price competition and delay in the new property developments review and approval by the governmental authorities. The proposed Directors believe that the major entry barriers of other new incoming property developers to the property market in Quanzhou and Yangzhou include limited knowledge of the local property market conditions and limited brand recognition. For more information, please refer to the section headed "Industry overview" in this circular. In addition, expanding the Target Group's business into new geographical locations would entail competition with developers who may have better-established local presence, more familiarity with local regulatory and business practices and customs and stronger ties with local suppliers, contractors and purchasers.

## AWARDS AND RECOGNITIONS

The projects of the Target Group had received honours and awards from provincial and local authorities in the PRC in recognition of their high quality. The table below sets forth the honours and awards that the Target Group had received in respect of its property development projects:

| Year of award | Recipient/Project | Honour/Award | Awarding body |
|---|---|---|---|
| July 2006 | Binjiang International Project | The Best Waterfront Residence in the PRC 2006* (2006中國最佳水岸住宅) | City Development Professional Committee of China Real Estate Association and China Practical Housing Research Centre* (中國房地產業協會城市開發專業委員會) |
| July 2006 | Binjiang International Project | Top Ten Model Residence Park in the PRC 2006* (2006中國十大典範公園住宅) | City Development Professional Committee of China Real Estate Association and China Practical Housing Research Centre* (中國房地產業協會城市開發專業委員會) |
| July 2006 | Binjiang International Project | The Best Supreme Model Residence in the PRC 2006* (2006中國最佳超級戶型典範住宅) | City Development Professional Committee of China Real Estate Association and China Practical Housing Research Centre* (中國房地產業協會城市開發專業委員會) |
| September 2012 | Binjiang International Project | Provincial Model of Property Management 2012* (2012年度全省物業管理示範項目) | Housing and Urban-Rural Development of Quanzhou* (泉州市住房和城鄉建設局) |
| January 2013 | Binjiang International Project | Community with Civilised Property Management in Quanzhou 2012* (2012年度泉州市物業管理文明小區) | Housing and Urban-Rural Development of Quanzhou* (泉州市住房和城鄉建設局) |

| Year of award | Recipient/Project | Honour/Award | Awarding body |
|---|---|---|---|
| December 2013 | The Cullinan Bay Project | Most Worth Purchasing Property of Yangzhou 2014* (2014揚州樓市最值得購買樓盤) | Property Web of Yangzhou* (揚州房地產網) |
| December 2013 | The Cullinan Bay Project | Property with Best Potential in Yangzhou 2014* (2014年度揚州最具潛力樓盤) | Housing Searching Web (www.SouFun.com) (搜房網) |
| March 2014 | The Cullinan Bay Project | Yangzhou Responsible Property Ranking 15.3.2014* (2014揚州3.15責任地產榜) | Yangzhou Daily News* (揚州日報) Yangzhou Evening News* (揚州晚報) Yangzhou Times News* (揚州時報) |
| May 2014 | The Cullinan Bay Project | Model Property of Yangzhou — Property Brand Value Ranking 2014* (2014房地產品牌價值榜城市典範名盤) | Sina House* (新浪樂居) Yangzi Evening News* (揚子晚報) |

## INTELLECTUAL PROPERTY RIGHTS

The Target Group does not hold any trademark in Hong Kong and the PRC. As at the Latest Practicable Date, the proposed Directors were not aware of any material infringement, nor any pending or threatened claims in relation thereto, (i) by the Target Group of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by the Target Group. The management of the Target Group believes that they have taken all reasonable measures to prevent any infringement of its own intellectual property rights.

## INSURANCE

As advised by the PRC Legal Advisers, there are no mandatory provisions under the relevant PRC laws, regulations or rules which require a real estate developer to take out insurance policies for its real estate development projects. During the Track Record Period, the Target Group did not maintain insurance coverage against potential losses or damages with respect to its properties before their delivery to customers. However, the Target Group has maintained insurance coverage against potential losses or damages with respect to certain properties in favour of a bank according to the terms of its bank loan agreement.

Pursuant to applicable PRC laws and regulations and the construction contracts entered into between the Target Group and its construction contractors, the construction contractors bears the primary civil liability for personal injuries arising out of its construction work. The State Administration of Work Safety (國家安全生產監督管理總局) requires each construction contractor to purchase work-related injury insurance for their construction workers. During the Track Record Period and up to the Latest Practicable Date, the Target Group did not experience any material damage to its property nor was any personal injury related claim brought against the Target Group.

In addition, the Target Group does not have insurance coverage against certain types of losses, such as losses due to earthquakes, nuclear contamination, typhoon, flooding, war and civil disorder, which are currently uninsurable in the PRC. The management of the Target Group believes that its practice is in line with the general practice in the PRC property development industry.

## EMPLOYEES

As at the Latest Practicable Date, the Target Group had a total of 54 employees in the PRC. The following table sets forth details of the numbers of employees by department as at the Latest Practicable Date:

| Departments | Number of employees |
|---|---|
| Management | 5 |
| Administration | 14 |
| Finance | 6 |
| Engineering | 11 |
| Marketing | 6 |
| Property services | 12 |
| Total | 54 |

As required by applicable PRC laws and regulations, the Target Group participates in various employee benefit plans of the municipal and provincial governments, including housing provident fund, pension, medical, maternity, work injury insurance and unemployment benefit plans. The Target Group is required under the PRC law to make contributions to the employee benefit plans at specified percentages of the salaries, bonuses and qualified allowances of its employees up to a maximum amount specified by the relevant local government authorities. Save as disclosed in the paragraph headed "— Legal proceedings and compliance — Compliance" in this section below, the Target Group made such contributions during the Track Record Period and up to the Latest Practicable Date in compliance with the applicable laws and regulations. The PRC Legal Advisers have advised that, during the Track Record Period and up to the Latest Practicable Date, save for the issues which are mentioned in the paragraph headed "— Legal proceedings and compliance — Compliance" in this section, the Target Group complied with all applicable employment laws and regulations in the PRC in all material respects and there had been no material labour related legal proceedings against the Target Group.

## HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

### Occupational Health and Safety

The Target Group is subject to occupational health and safety regulations in the PRC. The Target Group provides safety equipment to its employees. The PRC Legal Advisers have advised that the Target Group was in compliance with the applicable PRC occupational health and safety regulations in all material respects and did not experience any incident or complaint which had a material adverse effect on its operations during the Track Record Period and up to the Latest Practicable Date.

### Environmental Matters

The Target Group is subject to a variety of environmental laws and regulations in the PRC. The particular environmental laws and regulations that apply to a specific property development project vary according to the location of the project, nature of the land, the planning and design of the project, construction and/or operations and the current and expected use of the land and the properties. Pursuant to these laws and regulations, each property development project must undergo an environmental assessment. The project developer must submit an environmental impact assessment report, environmental impact assessment form or environmental impact assessment registration to the relevant local regulatory authority of environmental protection before the relevant authority issues construction work commencement permits for the project.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the Target Group paid approximately RMB0.1 million, nil, nil and nil, respectively, as fees for compliance with applicable environmental rules and regulations in the PRC. It is expected that the Target Group would not incur material cost for compliance with applicable environmental laws and regulations in the PRC for the year ending 31 December 2015. The Directors (together with the proposed Directors) expect that the Target Group will continue to incur costs to comply with applicable environmental rules and regulations.

The Directors (together with the proposed Directors) believe that the Target Group possesses sufficient human resources to comply with the relevant requirements. The PRC Legal Advisers have advised that the Target Group has complied with all the relevant environmental laws and regulations in all material aspects and has obtained all the required permits and environmental approvals. During the Track Record Period and up to the Latest Practicable Date, the Target Group was not subject to any penalty in respect of environmental issues.

## LEGAL PROCEEDINGS AND COMPLIANCE

### Legal Proceedings

From time to time, the Target Group is involved in legal proceedings or disputes in the ordinary course of business. Such proceedings and disputes mainly include disputes with the customers in relation to delay in delivering properties to them, which the Target Group considers as immaterial in terms of their impact on its financial and operational conditions. As at the Latest Practicable Date, there was no outstanding litigation proceeding. Moreover, the Target Group was not aware of any litigation or claims of material importance pending or threatened by or against the members of the Target Group as at the Latest Practicable Date.

### Compliance

As at the Latest Practicable Date, save as disclosed below, the proposed Directors confirm that they are not aware of any material non-compliance of the Target Group with any applicable laws and regulations in Hong Kong and the PRC.

During the Track Record Period, the Target Group failed to comply with certain applicable laws and regulations in the PRC, a summary of the material non-compliance of the Target Group is set out as follows:—

| No. | Non-compliance incident(s) | Reasons(s) for non-compliance | Relevant laws and regulations and maximum penalty | Rectification actions | Any impact on the Target Group |
|---|---|---|---|---|---|
| | *PRC* | | | | |
| 1. | Hui An China General, Houde Enterprise, Hengde, Yangzhou Dehui and Yangzhou Detai failed to make social insurance fund contributions and housing provident fund contributions in full and/or register for contributions of social insurance fund and housing provident fund within the prescribed time limit as required by the relevant PRC laws and regulations for their employees. | During the relevant period, contributions to the social insurance and housing provident fund were handled by Ms. Cai Lizeng (蔡麗珍), manager of the finance department of the Target Group and the staff did not fully understand the requirements of the social insurance and housing provident fund contributions and failed to make contributions to the social insurance and housing provident fund in full and/or registered relevant accounts within the prescribed time limit. | According to the Social Insurance Law of the PRC (社會保險法) (the "Social Insurance Law"), the Target Group is required to participate in the relevant social insurance contribution plans organised by the relevant local governmental bodies. The Target Group is required to make full contributions in respect of social insurance premium for its employees, covering pension insurance, medical insurance, unemployment insurance, work-related injury and maternity (where applicable).<br><br>For any non-compliance incident that occurred after 1 July 2011 and going forward, according to the Social Insurance Law, the social insurance authorities are entitled to order employers contravening the law to pay the outstanding social insurance and impose a late charge of 0.05% and a fine ranging from one to three times of the outstanding social insurance for all five types of social insurance. | Since the management of the Target Group became aware of the non-compliances, the Target Group has immediately made contributions to the social insurance and housing provident fund in full and registered relevant accounts. As advised by the PRC Legal Advisers, all the members of the Target Group had been in compliance with the relevant social insurance and housing provident fund contributions requirements according to the PRC laws no later than October 2014.<br><br>The Target Group has obtained confirmations from Human Resources and Social Insurance Bureau of Huian County* (惠安縣人力資源和社會保障局) on 17 October 2014, Human Resources and Social Insurance Bureau of Shishi* (石獅市人力資源和社會保障局) on 15 October 2014, Social Insurance Management Centre of Guanling District of Yangzhou* (揚州市廣陵區社會保險管理中心) on 15 August 2014, Huian County Department of the Housing Provident Fund Management Centre of Quanzhou* (泉州市住房公積金管理中心惠安縣管理部) on 25 August 2014, Shishi Department of the Housing Provident Fund Management Centre of Quanzhou* (泉州市住房公積金管理中心石獅管理部) on 8 October 2014, that the relevant members of the Target Group have been in compliance with the relevant regulations in relation to social insurance or housing provident fund, and the relevant companies had not been subject to administrative penalties. | The proposed Directors consider that there is no material adverse impact on the Target Group since the written confirmations had been obtained from relevant government authorities and that all these Target Group companies had been in compliance with the relevant requirements in relation to social insurance and housing provident fund no later than October 2014. |

| No. | Non-compliance incident(s) | Reasons(s) for non-compliance | Relevant laws and regulations and maximum penalty | Rectification actions | Any impact on the Target Group |
|---|---|---|---|---|---|
| | | | According to the Provisions on the Administration of Declaration and Payment of Social Insurance Premiums (社會保險費申報繳納管理規定), the social insurance authorities shall issue a notice for outstanding contributions to employers contravening the law within 5 business days after investigation and the employers shall settle the outstanding contributions within 5 business days after receipt of the notice, and the employers which delay further in settling the outstanding contributions will be imposed late charge and penalties. As the Target Group had not received any such notice, as advised by the PRC Legal Advisers, the Target Group would not be subject to late charge or penalties.<br><br>According to the Administrative Ordinance on Housing Provident Funds (住房公積金管理條例), the Target Group is required to register with the competent housing provident fund management centre and make contributions to the housing provident funds for its employees.<br><br>Under the Administrative Ordinance on Housing Provident Funds (住房公積金管理條例), any entity that fails to register housing provident fund account may be ordered to rectify such non-compliance within a prescribed time, if it fails to do so, a fine of RMB10,000 to RMB50,000 may be imposed, and any entity that fails to fully pay the housing provident fund may be ordered to rectify such non-compliance within a prescribed time and if it fails to do so, the relevant authorities may apply to the court for compulsory enforcement. | As advised by the PRC Legal Advisers, these authorities have the authority and are competent to issue the above confirmations. The PRC Legal Advisers are of the view that the confirmations obtained will not be challenged or revoked by higher authorities. As at the Latest Practicable Date, the Target Group had not received any orders or demands from the relevant government authorities requesting the Target Group to pay the unpaid social insurance and housing provident fund amounts.<br><br>Although the non-compliance is covered by the Deed of Indemnity, provision for the unpaid amount of approximately RMB397,000, RMB685,000 and RMB391,000 for the years ended 31 December 2012, 2013 and 2014 has been made in the financial statements of the Target Group in full. The proposed Directors considered that such amount of provisions was adequate.<br><br>The Target Group had implemented a set of internal control policies relating to compliance with the requirements of social insurance fund and housing provident fund. See the paragraph headed "— Legal proceedings and compliance — Internal control measures" below. | |

| No. | Non-compliance incident(s) | Reasons(s) for non-compliance | Relevant laws and regulations and maximum penalty | Rectification actions | Any impact on the Target Group |
|---|---|---|---|---|---|
| 2. | Hui An China General has arranged Mr. Wang Delin, the general manager of Hui An China General, to set up personal bank accounts for settlement of corporate funds including receipt of pre-sale proceeds for purchase of properties from the Target Group's customers.<br><br>See the paragraph headed "Settlement through personal bank accounts" in this section for further details. | The incident occurred because Hui An China General was unable to check and confirm its customers' payments into its corporate accounts during non-office hours of banks. Thus, in order to keep flexibility and be able to confirm with customers on the receipts of payments immediately, Hui An China General used and operated the personal bank accounts which were held by the general manager of Hui An China General. | According to the Company Law of the PRC (公司法), companies may not establish any account books in addition to those required by law and no accounts may be opened in the name of any individual for keeping company's assets.<br><br>According to the Law on Commercial Banks of the PRC (商業銀行法), if a private bank account is opened for the funds of an unit, the banking regulatory authority under the State Council may impose on the user of the private bank account a fine in an amount between RMB50,000 and RMB500,000 (when there is no illegal earning from using the private bank account or the illegal earning is less than RMB50,000). Given that (i) the personal bank accounts were solely used by the Target Group; (ii) the funds deposited into these personal bank accounts are proceeds from the sales of properties of the Target Group; (iii) the interests generated from the savings and deposits in these personal bank accounts belonged to the Target Group; and (iv) Housing and Town Construction Bureau of Huian County* (惠安縣住房與城鄉建設局) has issued an confirmation to Hui An China General confirming that the pre-sale proceeds received using the Personal Bank Accounts were legal earning, the PRC Legal Advisers are of the view that Hui An China General had no illegal earning from using the private bank accounts of its general manager, therefore, the maximum penalty that Hui An China General may be subject to is a fine in the amount between RMB50,000 and RMB500,000. | All personal bank accounts which were used by the Target Group have been closed in August 2014 and Hui An China General has ceased using personal bank accounts for managing its funds since June 2014.<br><br>Hui An China General has obtained confirmation from the Housing and Town Construction Bureau of Huian County* (惠安縣住房與城鄉建設局) in November 2014 confirming that Hui An China General completed the rectification of the non-compliance on 27 August 2014 and has been in compliance with the regulation regarding funds received from pre-sale of commodity housing units, and that the authority would not impose penalty on Hui An China General for the said non-compliance and the business of Hui An China General will not be suspended and its licence for property development would not be revoked. Moreover, the Housing and Town Construction Bureau of Quanzhou* (泉州市住房和城鄉建設局) and the Housing and Town Construction Bureau of Fujian Province* (福建省住房和城鄉建設廳) confirmed in January 2015 that they agreed with the aforesaid confirmation issued by the Housing and Town Construction Bureau of Huian County. As advised by the PRC Legal Advisers, the Housing and Town Construction Bureau of Huian County, the Housing and Town Construction Bureau of Quanzhou and the Housing and Town Construction Bureau of Fujian Province have the authority and are competent to issue the above confirmations.<br><br>Given the written confirmations obtained and the views of the PRC Legal Advisers as stated above, and that the non-compliance is covered by the Deed of Indemnity, no provision has been made in the financial statements of the Target Company in respect of the liabilities, if any, arising from such non-compliance as the non-compliance.<br><br>The Target Group has implemented a set of internal control policies relating to prohibition of the use of personal bank accounts for receiving payments for purchase of properties from the Target Group's customers. See the paragraph headed "Settlement through Personal Bank Accounts — (K) Enhanced internal control measures to prevent future re-occurrence" in this section. | The proposed Directors consider that there is no material adverse impact on the Target Group given that Hui An China General has ceased using personal bank accounts for managing its funds and obtained confirmation from the relevant government authority confirming that Hui An China General has been in compliance with the relevant regulation regarding funds received from pre-sale of commodity housing units and the authority would not impose penalty. |

| No. | Non-compliance incident(s) | Reasons(s) for non-compliance | Relevant laws and regulations and maximum penalty | Rectification actions | Any impact on the Target Group |
|---|---|---|---|---|---|
| | | | According to the Opinion on Supervision of Funds from Pre-sale of Commodity Housing Units (泉州市商品房預售資金監督管理工作實施意見), all the funds received from pre-sale of commodity housing units shall be deposited into designated bank accounts of the property developer. If there is any non-compliance with the said requirement, the relevant authority may order the property developer to rectify the incident and suspend its business during the rectification period, and may cancel the developer's license to develop properties. | | |

During the Track Record Period, the Target Company failed to comply with certain laws and regulations in the Predecessor Hong Kong Companies Ordinance which the Directors and the proposed Directors are of the view that they are immaterial non-compliance only. A summary of which is set out as follows for reference only:—

| No. | Non-compliance incident(s) | Reasons(s) for non-compliance | Relevant laws and regulations and maximum penalty | Rectification actions | Any impact on the Target Group |
|---|---|---|---|---|---|
| | *Hong Kong* | | | | |
| 1. | The directors of the Target Company failed to lay audited financial statements for the years ended 31 December 2011, 2012 and 2013 before its general meeting for the relevant period | The omission occurred inadvertently due to the reliance on the external service provider engaged by the Target Company for accounting and company secretarial matters which failed to advise the Target Company appropriately on the ongoing compliance requirements under the Predecessor Hong Kong Companies Ordinance. | For non-compliance with section 122 of the Predecessor Hong Kong Companies Ordinance (re-enacted as section 429 of the Companies Ordinance), the maximum penalty is a fine of HK$300,000 to which the director of the company who fails to take all reasonable steps to comply with the section shall be liable. If it is proven that the breach was wilfully committed, such director could be sentenced to imprisonment for up to 12 months. | The Enlarged Group has implemented a set of internal control policies in relation to compliance with the requirements of holding annual general meeting and laying of accounts. See the paragraph headed "— Legal proceedings and compliance — Internal control measures" below.<br><br>No provision has been made in the financial statements of the Target Company in respect of the liabilities, if any, arising from the non-compliance with section 122 of the Predecessor Hong Kong Companies Ordinance as the non-compliance is covered by the Deed of Indemnity. | Under section 122 of the Predecessor Hong Kong Companies Ordinance, if a director of a company fails to take all reasonable steps to comply with the provisions of the section, he shall, in respect of each offence, be liable to twelve months' imprisonment and a fine provided that:<br><br>(a) it shall be a defence to prove he had reasonable grounds to believe and did believe that a competent and reliable person was charged with the duty of seeing that the provisions of the section were complied with and was in a position to discharge that duty; and<br><br>(b) a person shall not be sentenced to imprisonment for such an offence unless, in the opinion of the court dealing with the case, the offence was committed wilfully.<br><br>On the basis described above and the view of Ms. Deanna Law, a barrister-at-law in Hong Kong, that (i) the likelihood of prosecution is relatively low for the reasons that the contraventions are technical in nature and minor in terms of gravity and (ii) in the unlikely event that a prosecution is bought, any fine imposed will very likely be on low side (as mitigating factors exist) and custodial sentence is extremely unlikely in the absence of any evidence that the directors of the Target Company chose not to comply with the requirement under section 122 of the Predecessor Hong Kong Companies Ordinance, the proposed Directors believe that it is unlikely for the relevant directors to be liable to imprisonment and/or a fine, and that the non-compliance incidents have no material adverse impact on the Enlarged Group as a whole. |

**Internal control measures**

Set out below is a summary of the key recommendations from the internal control consultant of the Target Group and adopted by the Target Group to prevent future occurrence of the non-compliance incidents:

*Compliance with social insurance and housing provident fund contributions requirements in the PRC*

1. The heads of the finance department and the administration department of the Target Group would jointly review the reporting and contributions of social insurance and housing provident fund for the employees of the Target Group regularly. The PRC Legal Advisers will advise the heads of the finance department and the administration department on the requirements under the relevant PRC laws and regulations in relation to social insurance and housing provident fund. The Enlarged Group would provide training to the relevant personnel from time to time to keep abreast of these areas.

2. The heads of the finance department and the administration department would report to the general managers of the Target Group on the legal and regulatory compliance and provide improvement recommendations when required.

*Compliance relating to the use of corporate accounts*

Please refer to the paragraph headed "Settlement through Personal Bank Accounts — (K) Enhanced internal control measures to prevent future re-occurrence" in this section for details.

*Compliance with section 122 of the Predecessor Hong Kong Companies Ordinance*

1. Regarding laying audited accounts before annual general meetings for the Target Company, the Target Company will work closely with its company secretarial service provider to ensure compliance with the relevant provisions of the Hong Kong Companies Ordinance.

2. A checklist will be prepared and updated from time to time to record the corporate and compliance details of the Target Company, such as incorporation date, date of last annual general meeting and date of audited accounts. The checklist will be reviewed by the Company's company secretary. The Target Company's secretary will keep monitoring the date of the next annual general meeting. At least two months before the deadline for holding the next annual general meeting, the Target Company's secretary has to liaise with the company secretarial service provider and notify the Enlarged Group's accounting manager to contact the relevant auditors so as to ensure there is sufficient time to prepare the audited accounts to be laid before the annual general meeting.

Apart from the above measures, to enhance the effectiveness of the corporate governance measures and to strengthen the monitoring and internal control system of the Enlarged Group, the Enlarged Group had put in place the following measures to ensure ongoing compliance with all applicable laws and regulations after the Resumption:

1. The Enlarged Group will establish a compliance committee (the "**Compliance Committee**") comprising of two proposed independent non-executive Directors and one proposed executive Director, namely, Mr. Ma Sai Yam, Mr. Zhang Senquan, and Mr. Lee Lit Mo Johnny, and chaired by Mr. Ma Sai Yam, to oversee all regulatory and accounts-related compliance matters and corporate governance requirements. The primary functions of the Compliance Committee include, among others, reviewing and making recommendations to the Board in respect of policies and practices on compliance with any requirement, direction or regulation that may be prescribed by the Board, contained in any of the constitutional documents, or imposed by the Listing Rules or other applicable laws, regulations, rules or codes; and ensuring that appropriate monitoring systems are in place to ensure compliance with the relevant internal control systems, processes and policies; and monitoring the implementation of the Enlarged Group's plan to maintain high standards of compliance with its own risk management standards.

2. In order to further ensure compliance with relevant statutory requirements, the Enlarged Group will engage external professional advisers, such as authorised person, company secretary companies, consultancy firms, auditors and external legal advisers to render professional advice so as to comply with statutory requirements (including the Hong Kong Companies Ordinance, PRC rules and regulations and the Listing Rules) as applicable to the Enlarged Group from time to time, to prevent any recurrence of any similar non-compliance with the Hong Kong Companies Ordinance.

3. The Company had appointed Cinda International Capital Limited as its compliance adviser upon the Resumption to advise the Company on compliance matters in accordance with Rule 3A.19 of the Listing Rules.

4. The proposed Directors and the proposed company secretary have attended training sessions conducted by Hong Kong legal advisers of the Target Group on, among other things, ongoing obligations, general corporate governance requirements, the duties and responsibilities of directors of a company whose shares are [REDACTED] on the Stock Exchange under applicable laws, rules and regulations, including but not limited to the Listing Rules and Hong Kong Companies Ordinance. The proposed Directors have provided confirmation in writing in relation to their understanding of their duties under the Listing Rules and other applicable laws and regulations.

5. The Enlarged Group will provide the proposed Directors, senior management and employees involved with training, development programs and/or updates regarding the legal and regulatory requirements applicable to the business operations of the Enlarged Group from time to time on a regular basis.

6. The Enlarged Group will, from time to time, engage external legal advisers and seek legal advice on legal matters relating to the Enlarged Group.

**Indemnity by Controlling Shareholders**

Pursuant to the Deed of Indemnity, each of the Controlling Shareholders has agreed to indemnify the Enlarged Group on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by the Enlarged Group arising from any non-compliance of the Target Group disclosed in the paragraph headed "— Legal proceedings and compliance — Compliance" in this section. For further details of the Deed of Indemnity, see the paragraph headed "K. Deed of Indemnity" in Appendix VII to this circular.

The proposed Directors are satisfied that the Controlling Shareholders have sufficient financial resources to honour their obligations to provide indemnities in respect of the aforesaid non-compliances against the Enlarged Group under the Deed of Indemnity.

**Review by the Internal Control Consultant**

The Target Group engaged the Internal Control Consultant to conduct a comprehensive review of the Target Group's internal control system, including, among other things, controls and procedures of the Target Group over corporate governance, revenue and receipt cycle, expenses and payment cycle, financial reporting and legal compliance. With respect to the non-compliance incidents identified above, the Internal Control Consultant has made recommendations to prevent further breaches and ensure on-going compliance. A follow-up review was conducted by the Internal Control Consultant to review the Target Group's newly adopted policies and to perform sample testing to verify the implementation of the Target Group's improved internal controls. The Internal Control Consultant has confirmed that the Target Group has implemented their recommended internal control measures and the measures are adequate and effective in enhancing internal control system.

**Views of the proposed Directors and the Sponsor**

The historical non-compliance incidents were mainly due to the inadvertent oversight of the proposed executive Directors and/or the relevant staff members or a lack of comprehensive understanding of the relevant laws and regulations in the corresponding jurisdictions in the past.

Having considered that (i) the Target Group has received the written confirmations from the relevant social insurance bureaus and housing provident fund centres confirming that the Target Group has rectified the non-compliance related to social insurance and housing provident fund; (ii) Hui An China General has received the written confirmation from the relevant government authority confirming that the rectification of the non-compliance has been completed and it will not impose penalty on Hui An China General; (iii) as at the Latest Practicable Date, there had not been any prosecution initiated against the Target Group or any of the directors of the subsidiaries of the Target Group, nor has any of them been subject, to any fine relating to the non-compliance incidents; (iv) the Target Group has implemented adequate and effective internal control measures as discussed in the paragraphs headed "Legal proceedings and compliance — Internal control measures" and "Settlement through Personal Bank Accounts — (K) Enhanced internal control measures to prevent future re-occurrence" in this section; (v) the Internal Control Consultant has performed reviews and confirmed the adequacy and effectiveness of the enhanced internal control measures of the Target Group to prevent future non-compliance; (vi) each of the Controlling Shareholders has given the Enlarged Group an indemnity covering the non-compliance incidents; and (vii) the non-compliance incidents were unintentional and did not involve fraudulent act by the proposed executive Directors and did not raise question as to the integrity of the proposed Directors, the proposed Directors are of the view, and the Sponsor concurs, that the above non-compliance incidents would not affect the suitability of the proposed Directors under Rules [REDACTED], [REDACTED] and [REDACTED] of the Listing Rules and the suitability for [REDACTED] under Rule [REDACTED] of the Listing Rules.

## CONTROLLING SHAREHOLDERS

With reference to the paragraph headed "Change in Shareholding Structure" in the section headed "Letter from the Board" in this circular, it is the Vendors' intention to maintain more than 50% of the enlarged issued share capital of the Company upon Resumption. As such, the Vendors will be the Controlling Shareholders at Resumption. For details of the Controlling Shareholders' background, please refer to the sections headed "History and background of the Target Group" and "Directors and senior management of the Enlarged Group" in this circular.

## COMPETITION

### A. Business Overview of the Target Group

During the Track Record Period, the Target Group has been a residential property developer primarily focusing on development of residential properties for sale in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province of the PRC through its two project companies, namely, Hui An China General and Yangzhou Dehui.

As at the Latest Practicable Date, the property portfolio of the Target Group comprised of two residential property development projects, namely, the Binjiang International Project in Quanzhou, Fujian Province developed by Hui An China General and The Cullinan Bay Project in Yangzhou, Jiangsu Province developed by Yangzhou Dehui, both of which consists of mainly residential units with ancillary retail shops. Please refer to the section headed "Business of the Target Group — Property development projects of the Target Group" in this circular for further details related to the property development projects held by the Target Group.

### B. Business of the Excluded Companies

As at the Latest Practicable Date, the Controlling Shareholders were (i) entitled to exercise 10% or more of the voting power at the general meeting and/or (ii) being a director of the following companies (the "**Excluded Companies**"):

| Name of the companies and places of incorporation/ establishment | Relationship with the Controlling Shareholders | Description of business | Rationale for non-inclusion into the Target Group |
|---|---|---|---|
| Leten Limited 力泰有限公司 *(Hong Kong)* | • Mr. Shie and Mr. Tsoi (whose shares are held on trust by Ms. Tse Lai Fung (謝麗鳳) ("**Ms. Tse**"), the spouse of Mr. Tsoi) owned 50% shareholding interests respectively<br>• Mr. Shie and Ms. Tse are the directors of the company | • Investment holdings | • The company is an investment holding company and does not engage in property development business |

| Name of the companies and places of incorporation/ establishment | Relationship with the Controlling Shareholders | Description of business | Rationale for non-inclusion into the Target Group |
|---|---|---|---|
| Fortune Gather Investment Limited 利建投資有限公司 *(Hong Kong)* | • Mr. Shie and Mr. Tsoi indirectly owned 70% shareholding interests before the disposal | • Investment holdings | • The company is an investment holding company and does not engage in property development business<br>• As at the Latest Practicable Date, the 70% shareholding interests had been disposed of to an Independent Third Party |
| Kin Len Holdings (Hong Kong) Limited 建聯集團(香港)有限公司 *(Hong Kong)* | • Mr. Shie and Mr. Tsoi indirectly owned 28% attributable shareholding interests before the disposal | • Investment holdings | • The company is an investment holding company and does not engage in property development business<br>• As at the Latest Practicable Date, the indirectly owned 28% shareholding interests had been disposed of to an Independent Third Party by the disposition of the 70% shareholding interests in Fortune Gather Investment Limited |
| 福建建誠置業有限公司 (Fujian Jiancheng Zhiye Company Limited*) *(PRC)* | • Mr. Shie and Mr. Tsoi indirectly owned 28% attributable equity interests before the disposal | • Construction, sale and leasing of commodity premises at Shishi City, Fujian Province | • As at the Latest Practicable Date, the indirectly owned 28% attributable equity interests had been disposed of to an Independent Third Party by the disposition of the 70% shareholding interests in Fortune Gather Investment Limited |

| Name of the companies and places of incorporation/ establishment | Relationship with the Controlling Shareholders | Description of business | Rationale for non-inclusion into the Target Group |
|---|---|---|---|
| 石獅市德建房地產開發有限公司 (Shishi City Dejian Real Estate Development Company Limited*) *(PRC)* | • Mr. Shie and Mr. Tsoi owned 60% and 40% equity interests respectively<br>• Mr. Tsoi is the director of the company | • Developing and selling commodity premises at Shishi City, Fujian Province and providing property management services for the relevant premises | • The company was engaged in property development project named HaoJiangMingZhu* 濠江明珠. According to a confirmation issued by the Property Transaction Registration Centre of Shishi City* 石獅市房產登記交易中心 (the "**Registration Centre**") dated 27 August 2014, HaoJiangMingZhu* 濠江明珠 had all been sold before 30 August 2008 and completed registration before 30 September 2008 |
| 石獅市建德房地產有限公司 (Shishi City Jiande Real Estate Company Limited*) *(PRC)* | • Ms. Tse owned 40% equity interests | • Developing and engaging in real estate business; and selling of construction materials | • The company was engaged in the following property development projects:<br>(i) JianDeHuaYuan Phase I* 建德花園一期;<br>(ii) JianDeHuaYuan Phase II* 建德花園二期;<br>(iii) JianDeShangZhuLou* 建德商住樓;<br>(iv) HaoJiangLiJing* 濠江麗景; and<br>(v) HaoJiangDaSha* 濠江大廈 |

| Name of the companies and places of incorporation/ establishment | Relationship with the Controlling Shareholders | Description of business | Rationale for non-inclusion into the Target Group |
|---|---|---|---|
| | | | • According to a confirmation issued by the Registration Centre dated 27 August 2014, JianDeHuaYuan Phase I* 建德花園一期 had all been sold before 30 August 2000 and completed registration before 30 September 2000<br>• According to a confirmation issued by the Registration Centre dated 27 August 2014, JianDeHuaYuan Phase II* 建德花園二期 had all been sold before 30 March 2005 and completed registration before 30 April 2005<br>• According to a confirmation issued by the Registration Centre dated 27 August 2014, JianDeShangZhuLou* 建德商住樓 had all been sold before 30 August 2001 and completed registration before 30 September 2001 |

| Name of the companies and places of incorporation/ establishment | Relationship with the Controlling Shareholders | Description of business | Rationale for non-inclusion into the Target Group |
|---|---|---|---|
| | | | • According to a confirmation issued by the Registration Centre dated 27 August 2014, HaoJiangLiJing* 濠江麗景 had all been sold before 30 April 2007 and completed registration before 30 May 2007<br><br>• According to a confirmation issued by the Registration Centre dated 27 August 2014, HaoJiangDaSha* 濠江大廈 had all been sold before 30 June 2008 and completed registration before 30 July 2008 |
| 石獅市力泰房地產發展有限公司 (Shishi City Litai Real Estate Development Company Limited*) *(PRC)* | • Mr. Shie and Mr. Tsoi indirectly owned the entire equity interests | • Developing, selling and leasing commodity premises with commercial or residential function and providing property management services for the relevant premises in Shishi City, Fujian Province | • The company was engaged in real estate development project named HaoJiangGuoJi* 濠江國際. According to a confirmation issued by the Registration Centre dated 27 August 2014, HaoJiangGuoJi* 濠江國際 had all been sold before 30 November 2011 and completed registration before 30 December 2011 |
| 宜城富億置業有限公司 (Yicheng Fuyi Zhiye Company Limited*) | • Mr. Shie and Mr. Tsoi indirectly owned 70% equity interests before the disposal | • Property development business | • As at the Latest Practicable Date, the indirectly owned 70% equity interests had been disposed of to an Independent Third Party |

| Name of the companies and places of incorporation/ establishment | Relationship with the Controlling Shareholders | Description of business | Rationale for non-inclusion into the Target Group |
|---|---|---|---|
| 福建省石獅市遠東房地產開發有限公司 (Fujian Province Shishi City Yuandong Real Estate Development Company Limited*) *(PRC)* | • Mr. Shie and Mr. Tsoi indirectly owned the entire equity interests | • Developing and selling real estates, property management; selling steel and construction materials | • The company was engaged in the property development project named HaoJiangGuoJi Phase II* 濠江國際二期. According to a confirmation issued by the Registration Centre dated 27 August 2014, HaoJiangGuoJi Phase II* 濠江國際二期 had all been sold before 30 May 2014 and completed registration before 30 June 2014 |

As at the Latest Practicable Date, the Controlling Shareholders were also (i) entitled to exercise 10% or more of the voting power at the general meeting and/or (ii) being a director of several Hong Kong companies and the PRC companies. The proposed Directors confirmed that such Hong Kong companies and PRC companies (a) were investment holding companies; and/or (b) did not engaged in property development business; and/or (c) did not undertake in property development projects.

As advised by the PRC Legal Advisers, the confirmations issued by the Registration Centre were evidence indicating that the relevant property development projects had all been sold and completed registration.

As at the Latest Practicable Date, the proposed Directors confirmed that (i) all the property development projects undertaken by the Excluded Companies (if any) had been completed and sold, and (ii) the Excluded Companies would not undertake further property development projects in the future. The Company has obtained a confirmation from 石獅市建德房地產有限公司 (Shishi City Jiande Real Estate Company Limited*), a company which Ms. Tse owns 40% equity interests, confirming that it would not undertake further property development projects in the future.

## C. No Competition

The proposed Directors confirm that, as at the Latest Practicable Date, none of the Controlling Shareholders nor the Directors had any interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

## NON-COMPETITION UNDERTAKINGS

### Deed of Non-Competition

In order to ensure that competition will not exist in the future, the Controlling Shareholders [have entered into] the Deed of Non-Competition in favour of the Company.

Pursuant to the Deed of Non-Competition, each of the Controlling Shareholders will not, and will procure that its/his close associates (other than any members of the Enlarged Group) will not, following completion of the Acquisition and during the Non-Compete Period (as defined below), directly or indirectly, either on its/his own account or in conjunction with or on behalf of any person, firm or company, own, invest in, carry on, participate in, develop, operate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise) any activity or business which is or may be in competition, directly or indirectly, with the business carried on or contemplated to be carried on by any member of the Enlarged Group (being the property development of residential and commercial properties) from time to time in the PRC (the "**Restricted Business**").

Each of the Controlling Shareholders has represented and warranted that, as at the date of the Deed of Non-Competition, neither it/he nor any of its/his close associates is currently interested, involved or engaged, directly or indirectly, in (whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the Restricted Business otherwise than through the Enlarged Group or is otherwise engaged in any business which is in competition or potential competition to those of the Enlarged Group.

Each of the Controlling Shareholders has also undertaken to the Company:

(a) to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors of its/his compliance with the terms of the Deed of Non-Competition and the enforcement of the Deed of Non-Competition or a negative confirmation, as appropriate;

(b) to procure the Company to disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of its/his non-competition undertakings under the Deed of Non-Competition either through the Company's annual report, or by way of announcements to the public; and

(c) to make an annual declaration on compliance with its/his undertaking under the Deed of Non-Competition in the annual reports of the Company as the independent non-executive Directors think fit and ensure that the disclosure of details of its/his compliance with and the enforcement of the non-competition undertakings under the Deed of Non-Competition is consistent with the relevant requirements under the Listing Rules.

The Deed of Non-Competition does not apply to:

(a) the holding of or interests in the shares of any member of the Enlarged Group; or

(b) any activity and business carried on by China General and its subsidiaries as at the date of the Deed of Non-Competition; or

(c) the holding of or interests in shares or other securities in any company other than the Enlarged Group which conducts or is engaged in any Restricted Business, provided that, in the case of such shares, they are [REDACTED] on a recognised stock exchange and either:

(i) the relevant Restricted Business (and assets relating thereto) accounts for less than 5% of that relevant company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or

(ii) the total number of the shares held by the Controlling Shareholders and/or its/his respective close associates or in which they are together interested does not amount to more than 5% of the issued shares of that class of the company in question, provided that the Controlling Shareholders and/or its/his respective close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company or otherwise participate in or be involved in the management of that company and that at all times there should exist at least another shareholder of that company (together, where appropriate, with its/his close associates) whose shareholdings in that company should be more than the total number of shares held by the Controlling Shareholders and/or its/his respective close associates together hold.

**New Business Opportunity**

In the event that any of the Controlling Shareholders or its/his close associates (other than any members of the Enlarged Group) (the "**Offeror**") is given/identified/offered any business investment or commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Business (the "**New Opportunities**"), it/he will and will procure its/his close associates to refer the New Opportunities to the Company as soon as practicable in the following manner:

(a) each of the Controlling Shareholders is required to, and shall procure its/his close associates (other than members of the Enlarged Group) to, refer, or to procure the referral of, the New Opportunities to the Company, and shall give written notice to the Company of any New Opportunities containing all information reasonably necessary for the Company to consider whether (a) such New Opportunities would constitute competition with its core business; and (b) it is in the interest of the Enlarged Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the "**Offer Notice**");

(b) each of the Controlling Shareholders shall use its/his reasonable endeavours to procure the New Opportunity to be first offered to the Company on terms and conditions that are fair and reasonable;

(c) the Offeror will be entitled to pursue the New Opportunities only if (a) the Offeror has received a notice from the Company declining the New Opportunities and confirming that such New Opportunities would not constitute competition with the Company's core business, or (b) the Offeror has not received such notice from the Company within ten (10) business days from the Company's receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to the Company in the manner as set out above; and

(d) to disclose any New Opportunities referred to the Company by the Offeror and whether the Company has accepted the New Opportunities and other relevant information in the annual reports of the Company as the independent non-executive Directors think fit.

Upon receipt of the Offer Notice, the Company shall seek opinions and decisions from the Company's independent non-executive Directors who do not have a material interest in the manner as to whether (a) such New Opportunities would constitute competition with the Enlarged Group's core business, and (b) it is in the interest of the Company and its shareholders as a whole to pursue the New Opportunities.

Each of the Controlling Shareholders hereby further unconditionally and irrevocably undertakes to, and shall procure its/his close associates (where applicable) to, grant to the Company:

(i) an option to acquire the whole or part of any interests in any business arising or developed from the New Opportunities above not taken up by the Company at any time as requested by the Company (the "**Option**"); and

(ii) a right of first refusal on the whole or any part of the interest in any business arising or developed from the New Opportunities above not taken up by the Company (the "**Relevant Interest**"), in the event that the Controlling Shareholders (or any of its/his close associates) wish to dispose of the Relevant Interest (the "**Right of First Refusal**").

The Controlling Shareholders and the Company hereby agree and acknowledge that:

(i) the exercise price of the Option and the consideration for the Relevant Interest shall be negotiated and agreed at arm's length between the Controlling Shareholders and the Company. An independent firm of valuers shall be appointed to determine the exercise price of the Option and the consideration for the Relevant Interest if the Controlling Shareholders and the Company fail to agree on the exercise price of the Option and the consideration for the Relevant Interest; and

(ii) decisions as to whether to exercise the Option or the Right of First Refusal shall be subject to the approval of the independent non-executive Directors and the independent shareholders of the Company (if required), and all applicable laws, rules and regulations, including but not limited to, the Listing Rules.

**Term of the Deed of Non-Competition**

The obligation of the Controlling Shareholders under the Deed of Non-Competition will cease to have any effect whatsoever on:

(a) the date on which the shares of the Company cease to be [REDACTED] on the Stock Exchange; or

(b) in respect of a Controlling Shareholder, the date on which that Controlling Shareholder and/or its/his close associates, collectively and individually, ceases to hold an equity interest in the Company; or

(c) in respect of a Controlling Shareholder, the date on which that Controlling Shareholder and/or its/his close associates, jointly and severally, ceases to be entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company,

whichever occurs first (the "**Non-Compete Period**").

## ACTING IN CONCERT CONFIRMATION

On 17 January 2005, the Controlling Shareholders acquired the entire equity interest in China General from its then shareholders. Over the course of the business history of China General since the aforesaid acquisition, each of the Controlling Shareholders has, in exercising and implementing the management and operation of China General and each of the subsidiaries of China General, been acting in concert with one another. Since the China General Group is a group of private entities in the past, the said acting in concert arrangements were not formalised in writing and each of the Controlling Shareholders was content with these arrangements based on their close and long-term business and personal relationships, as well as the trust and confidence they have in each other.

In order to better reflect the acting in concert arrangements, the Controlling Shareholders executed the Acting in Concert Confirmation, whereby they confirmed the existence of their acting in concert arrangements in the past, as well as their intention to continue to act in the above manner upon completion of the Acquisition to consolidate their control over the China General Group until the Acting in Concert Confirmation is terminated by them in writing. The Acting in Concert Confirmation covers the Company and each of the members of the Enlarged Group.

Pursuant to the Acting in Concert Confirmation, with respect to the businesses of the members of the China General Group, the Controlling Shareholders confirm to each other that, for the entire duration when all of them were/are contemporaneously the owners of shares of the members of the China General Group and, after completion of the Acquisition, the Company:

(a) they have agreed to, and shall continue to, consult each other and reach an unanimous consensus among themselves on matters which are the subject of any shareholders' resolution prior to putting forward any such resolution to be passed at any shareholders' meeting of the Company and the subsidiaries of the Company (as the case may be) and have historically voted on such resolutions in the same way;

(b) they have centralised, and shall continue to centralise, the ultimate control and right to make final decisions with respect to their interests in the businesses and projects of the Company and the subsidiaries of the Company (as the case may be); and

(c) they have operated, and shall continue to operate, the Company and the subsidiaries of the Company (as the case may be) as a single business venture on a collective basis and have made collective decisions in respect of the financial and operating policies of the Company and the subsidiaries (as the case may be).

Pursuant to the Acting in Concert Confirmation, the Controlling Shareholders will together be entitled to exercise and control 70% of the entire issued share capital of the Company immediately upon Resumption.

## NON-DISPOSAL UNDERTAKINGS

Each of the Controlling Shareholders will upon the completion of the Acquisition execute an undertaking in favour of the Company that he/it shall not:

(a) save for the proposed [REDACTED] of new Shares for the purpose of meeting the public float requirement as disclosed in the section headed "Letter from the Board — 9. Changes in shareholding structure — [REDACTED] down to restore public float" of this circular, which his/its participation is necessary, in the period commencing from the Resumption and ending on the date which is six months from the Resumption, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests, or encumbrances in respect of, any of the Consideration Shares issued and allotted to him/it; or

(b) in the period of six months commencing from the date on which the period referred to in (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Consideration Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it will cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

## INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

The Directors and the proposed Directors are satisfied that the Enlarged Group can function, operate and carry on its business independently from the Controlling Shareholders having considered the above, and based on the following reasons:

### Management Independence

Upon Resumption, the Board will comprise four executive Directors and three independent non-executive Directors, details of whom are set out in the section headed ''Directors and Senior Management of the Enlarged Group'' in this circular.

The Company has put in place procedures to manage any actual or potential directors' conflicts of interest. Pursuant to the New Memorandum and Articles, subject to certain customary exceptions, a director shall not be entitled to vote (nor shall be counted in the quorum in relation to) any resolution of the board of the Company approving any contract or arrangement or any other proposal whatsoever in which he or any of his close associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution). In the event that any such proposed contract or arrangement or any other proposal also constitutes a major transaction or above or a connected transaction pursuant to Chapters 14 or 14A of the Listing Rules, respectively, the Board is also required to comply with all the requirements under the Listing Rules, including (where applicable) obtaining the approval of the independent shareholders of the Company; and

Each of the Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit and in the best interests of the Company and its shareholders as a whole and must not allow any conflict between his duties as a director and his personal interest or his roles in other corporation. If there is any potential conflict of interest arising out of any transactions to be entered into between the Enlarged Group and any directors or his respective close associates, such interested director shall abstain from voting at the relevant board meetings of the Company in respect of such transactions and shall not be counted in the quorum.

Having considered the above factors, the Directors and the proposed Directors are satisfied that they are able to perform their roles in the Enlarged Group independently, and the Directors and the proposed Directors are of the opinion that they are capable of managing the business of the Enlarged Group independently after the Resumption.

### Operational Independence

The Directors and the proposed Directors consider that the Enlarged Group will be able to operate independently for the reasons that:

(a) the Company and the relevant project companies hold the relevant licences and qualifications that are essential to the business operations of the Enlarged Group;

(b) the Enlarged Group has established its own operational structure made up of separate departments with independent management team to handle the Enlarged Group's day-to-day operations;

(c) the Enlarged Group has its own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, human resources and information technology; and

(d) the Enlarged Group also has direct and independent access to suppliers and customers.

**Financial Independence**

The Enlarged Group has an independent accounting, financial and internal controls system, and will make financial decisions according to its own business needs. In addition, it also has its own independent treasury function.

During the Track Record Period, Mr. Shie and Mr. Tsoi provided guarantee to the Target Group's several bank loans. Mr. Shie and Mr. Tsoi had been released from the guarantee. The Directors and the proposed Directors also confirm that the outstanding loans provided by Mr. Shie or Mr. Tsoi to the Enlarged Group will be fully repaid before the Resumption.

The Directors and the proposed Directors are of the opinion that upon Resumption, the Company is capable of obtaining financing from Independent Third Parties without relying on any loan, guarantee or security provided by the Controlling Shareholders and that the Enlarged Group will be able to operate independently from the Controlling Shareholders from a financial perspective.

## PROPOSED DIRECTORS

All the existing Directors will resign as Directors which shall take effect immediately following completion of the Acquisition.

The proposed Directors of the Enlarged Group immediately following completion of the Acquisition consist of seven Directors, of whom four are executive Directors and three are independent non-executive Directors. The Board is responsible and has general powers for the management and conduct of our business. The following table shows certain information regarding the proposed members of the Board immediately following completion of the Acquisition:

| Name | Age | Position/Title | Role and responsibilities | Proposed date of appointment as a Director | Date of joining as a director of the Enlarged Group |
|---|---|---|---|---|---|
| Mr. Shie Tak Chung (佘德聰先生) | 59 | Chairman and executive Director | Responsible for the overall corporate strategies formation and management and business development of the Enlarged Group | Date of completion of the Acquisition | 17 January 2005 |
| Mr. Tsoi Kin Sze (蔡建四先生) | 45 | Chief executive officer and executive Director | Responsible for the overall business management and overseeing the business operation of the Enlarged Group | Date of completion of the Acquisition | 17 January 2005 |
| Mr. Wu Zhisong (吳志松先生) | 46 | Executive Director | Responsible for overseeing the financial matters of the Enlarged Group | Date of completion of the Acquisition | 20 August 2014 |
| Mr. Lee Lit Mo Johnny (李烈武先生) | 44 | Executive Director | Responsible for overseeing the corporate matters and business development of the Enlarged Group | Date of completion of the Acquisition | Date of completion of the Acquisition |
| Mr. Ma Sai Yam (馬世欽先生) | 52 | Independent non-executive Director | Serving as chairman of the compliance and remuneration committees and member of each of the audit and nomination committees; advising on corporate governance, connected transactions and other corporate and compliance matters | Date of completion of the Acquisition | Date of completion of the Acquisition |

| Name | Age | Position/Title | Role and responsibilities | Proposed date of appointment as a Director | Date of joining as a director of the Enlarged Group |
|---|---|---|---|---|---|
| Mr. Zhang Senquan (張森泉先生) | 38 | Independent non-executive Director | Serving as chairman of the audit committee and a member of each of the compliance, remuneration and nomination committees; advising on corporate governance matters | Date of completion of the Acquisition | Date of completion of the Acquisition |
| Mr. Wang Yiming (王藝明先生) | 38 | Independent non-executive Director | Serving as a member of the audit committee; advising on corporate governance matters | Date of completion of the Acquisition | Date of completion of the Acquisition |

## Executive Directors

**Mr. Shie Tak Chung (佘德聰先生) ("Mr. Shie**"), aged 59, is proposed to be appointed as an executive Director and Chairman of the Board immediately following completion of the Acquisition. Mr. Shie has been a director of China General and Hui An China General since 2005. Mr. Shie will be responsible for the overall corporate strategies formation and management and business development of the Enlarged Group.

Mr. Shie has about 10 years of management experience in the real estate industry in the PRC. Mr. Shie is one of the two ultimate shareholders of Fujian Jiande Group Company Limited (福建建德集團有限公司). Mr. Shie obtained a bachelor's degree majoring in International Economics and Trade from Xiamen University in January 2014 through online course. Mr. Shie holds a lot of important social positions, including committee member of the Fujian Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省委員會委員), council member of Hong Kong Association for the Promotion of Peaceful Reunification of China (中國和平統一促進會香港總會理事), honorary president (life) of Hong Kong Federation of Fujian Associations (香港福建社團聯會永遠名譽主席), honorary president of 1st World Association of Shishi Natives (世界石獅同鄉聯誼會首屆名譽會長), consultant of Fujian Chamber of Commerce (旅港福建商會顧問), executive director of the Hong Kong Fujian Charitable Education Fund (香港福建希望工程基金會執行董事), honorary president (life) of Shishi City Residents' Association (石獅市旅港同鄉公會永遠榮譽會長), vice supervisor of the General Association of Xiamen (H.K.) Limited (香港廈門聯誼總會副監事長), council member of China Overseas Friendship Association (中華海外聯誼會理事), executive council member of Fujian Overseas Friendship Association (福建海外聯誼會常務理事) and committee member of All-China Federation of Returned Overseas Chinese (中華全國歸國華僑聯合會委員). He is the brother-in-law of Mr. Lee Lit Mo Johnny.

Mr. Shie is solely and beneficially interested in Fame Build which will hold 35% of the enlarged issued share capital of the Company upon completion of the Acquisition. Thus, Mr. Shie will be one of the Controlling Shareholders upon completion of the Acquisition.

Mr. Shie was a director of the following companies which were incorporated in Hong Kong and were deregistered pursuant to section 291AA of the Predecessor Hong Kong Companies Ordinance which provides that a defunct, solvent company be dissolved by way of deregistration. It is confirmed by Mr. Shie that all the following deregistration were voluntary by way of submitting an application to the Companies Registry of Hong Kong. The relevant details are as follows:

| Name of company | Nature of business | Date of submission of application for deregistration | Date of deregistration |
|---|---|---|---|
| Prosper Grand (Hong Kong) Limited | Never commenced business | 17 August 2000 | 22 December 2000 |
| Prism International Investment Limited | Never commenced business | 23 September 2005 | 3 February 2006 |
| Billion Man Investment Limited | Never commenced business | 14 February 2008 | 27 June 2008 |
| Yoshida Seiko (HK) Limited | Never commenced business | 18 March 2009 | 24 July 2009 |

Moreover, Mr. Shie was a director of the following companies which were struck off and/ or dissolved. The details are as follow:

| Name of company | Place of incorporation | Nature of business | Date of deregistration | Other particulars |
|---|---|---|---|---|
| Take World (Holding) Company Limited | Hong Kong | Never commenced business | 12 April 2012 | Such company was struck off according to section 291 of the Predecessor Hong Kong Companies Ordinance which provides that the Registrar of Companies in Hong Kong can strike a defunct company off from the Register of Companies |

| Name of company | Place of incorporation | Nature of business | Date of deregistration | Other particulars |
|---|---|---|---|---|
| Tak Fi (UK) Investment Co. Limited | United Kingdom | Never commenced business | 20 June 1993 | Struck off due to non-commencement of business |
| Tak Fi Business Development Inc. | Canada | Never commenced business | 4 April 1995 | Such company was dissolved according to section 210 of the Canada Business Corporations Act which provides that a company could be dissolved before commencing business |

Mr. Shie was the legal representative of the following companies, which were established in the PRC, the business licences of which were revoked due to its failure to participate in annual examination. It is confirmed by Mr. Shie that all the following companies have ceased their respective business operation resulting that they did not undergo annual examination. The relevant details are as follows:

| Name of company | Nature of Business | Date of deregistration |
|---|---|---|
| Zhenjiang Huijiang Real Estate Development Co., Ltd* (鎮江匯江房地產開發有限公司) | Real estate properties development and distribution but such company had ceased business operation before deregistration | 22 December 2004 |
| Xiamen Jiahui Real Estate Development Co., Ltd* (厦門嘉匯房地產開發有限公司) | Real estate properties development and management but such company had ceased business operation before deregistration | 7 December 1999 |

| Name of company | Nature of Business | Date of deregistration |
|---|---|---|
| Zhenjiang Dehui Shopping Center Co., Ltd* (鎮江德輝購物中心有限責任公司) | Retail business but such company had ceased business operation before deregistration | 30 June 2008 |
| Xi'an Tangcheng Dehui Professional Hospital* (西安唐城德輝專科醫院) | Provision of medical service but such company had ceased business operation before deregistration | 2 September 2003 |
| Fujian Zhonghui Construction Material Co., Ltd* (福建中輝建材有限公司) | Manufacture of stone glazed tile but such company had ceased business operation before deregistration | 29 November 2002 |

Mr. Shie was a director of Tak Fi Far East Limited which was incorporated in Hong Kong and was engaged in the business of leather manufacturing. Such company has been put into creditors' voluntary winding up that was commenced on 3 July 2003. The company was wound up on 20 April 2004.

**Mr. Tsoi Kin Sze (蔡建四先生) ("Mr. Tsoi")**, aged 45, is proposed to be appointed as an executive Director and chief executive officer of the Company immediately following completion of the Acquisition. Mr. Tsoi has been a director of China General and the chairman and legal representative of Hui An China General since 2005. Mr. Tsoi will be responsible for the overall business management and overseeing the business operation of the Enlarged Group.

Mr. Tsoi has about 10 years of management experience in the real estate industry in the PRC. Mr. Tsoi is one of the two ultimate shareholders of Fujian Jiande (Holdings) Limited (福建建德集團有限公司). Mr. Tsoi holds a lot of important social positions, including committee member of Fujian Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議福建省委員會委員), council member of Fujian Overseas Friendship Association (福建海外聯誼會理事), executive committee member of Shishi City CPPCC (石獅市政協常委), honorary president of China Charity Federation (石獅市中華慈善總會名譽會長), vice president of Shishi City Federation of Industry & Commerce (石獅市工商聯副會長) and executive vice president of Shishi City Residents' Association (石獅市旅港同鄉會常務副會長).

Mr. Tsoi is solely and beneficially interested in Talent Connect which will hold 35% of the enlarged issued share capital of the Company upon completion of the Acquisition. Thus, Mr. Tsoi will be one of the Controlling Shareholders upon completion of the Acquisition.

**Mr. Wu Zhisong (吳志松先生) ("Mr. Wu")**, aged 46, is proposed to be appointed as an executive Director immediately following completion of the Acquisition. Mr. Wu has been an executive director, the legal representative and general manager of Houde Enterprise since 20 August 2014. Mr. Wu will be responsible for overseeing the financial matters of the Enlarged Group.

Mr. Wu has been the financial controller of Fujian Jiande Group Company Limited (福建建德集團有限公司) since December 2011 and was the financial controller of Shishi Jiande Property Development Company Limited (石獅市建德房地產有限公司) from August 2006 to December 2011. Prior to joining Shishi Jiande Property Development Company Limited, Mr. Wu worked as a civil servant at the National Tax Bureau of Quanzhou* (泉州市國家稅務局). Mr. Wu holds important social positions, including committee member of the Shishi City Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議石獅市委員會委員), vice chairman of the Shishi Youth Chamber of Commerce (石獅市青年商會副會長), executive council member of the Fujian Youth Chamber of Commerce (福建省青年商會常務理事) and chairman of the Shishi GO Association* (石獅市圍棋協會會長). Mr. Wu obtained a bachelor's degree majoring in applied chemistry from Huaqiao University (華僑大學) in July 1990. Mr. Wu has become a qualified intermediate economist in taxation of the PRC since December 1995 and has become a qualified intermediate accountant of the PRC since December 1999.

**Mr. Lee Lit Mo Johnny (李烈武先生) ("Mr. Lee")**, aged 44, is proposed to be appointed as an executive Director immediately following completion of the Acquisition. Mr. Lee will be principally responsible for overseeing the corporate matters and development of the Enlarged Group.

Mr. Lee has more than 10 years of experience in financial industry. Mr. Lee was an executive director of Juda International Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1329), from August 2010 to December 2013. He was an associate director of direct investment division of CCB International Asset Management Limited from March 2006 to August 2008. From April 2001 to March 2006, Mr. Lee worked in Core Pacific-Yamaichi Capital Limited and was responsible for corporate finance transactions and handling initial public offering projects and resigned as a senior manager in March 2006. From September 1996 to April 2001, he worked initially as investment analyst and later as assistant fund manager at SIIC Asset Management Company Limited (formerly known as Seapower Asset Management Company Limited). Mr. Lee graduated from McGill University in Montreal, Canada with a bachelor's degree in Commerce majoring in Finance and Management Information Systems in June 1995. He is the brother-in-law of Mr. Shie.

**Independent non-executive Directors**

**Mr. Ma Sai Yam (馬世欽先生) ("Mr. Ma")**, aged 52, is proposed to be appointed as an independent non-executive Director immediately following completion of the Acquisition. Mr. Ma will be the chairman of the compliance and remuneration committees and a member of the audit and nomination committees.

Mr. Ma is a practicing solicitor in Hong Kong and has accumulated over 17 years of experience in the legal field. He was admitted to practice law as a solicitor in Hong Kong in September 1997 and has been a member of The Law Society of Hong Kong since.

Mr. Ma has been a partner and a practicing solicitor of Ma Tang & Co., since March 2002. Prior to his current position, he had served as a consultant and a practicing solicitor of Tang, Lai & Leung from June 2000 to March 2002. His experience in corporate governance and management of listed companies include his current appointments as an independent non-executive director and a member of the audit, nomination and remuneration committees of Golden Power Group Holdings Limited, the shares of which are listed on GEM the Stock Exchange (stock code: 8038), with effect from May 2015.

Mr. Ma graduated from the University of London in the United Kingdom as an external student in August 1991 with a Bachelor's science degree in Economics. He subsequently obtained a Postgraduate Certificate in Laws from The University of Hong Kong in June 1995 and a master degree in laws from Renmin University of China in the PRC in January 2012. The Directors and proposed Directors confirm that, during the one year immediately prior to the Latest Practicable Date, none of Mr. Ma and Ma Tang & Co., has been providing professional services to the Company, members of the Group, the Target Company, members of the Target Group, the Controlling Shareholders, or any of their respective associates.

**Mr. Zhang Senquan (張森泉先生) ("Mr. Zhang")**, aged 38, is proposed to be appointed as an independent non-executive Director immediately following completion of the Acquisition. Mr. Zhang will be the chairman of the audit committee and a member of the compliance, nomination and remuneration committees.

Mr. Zhang is a member of Hong Kong Institute of Certified Public Accountants and China Institute of Certified Public Accountants. Mr. Zhang is currently (i) an independent director of Topchoice Medical Investment Co. Inc. (通策醫療投資股份有限公司), the shares of which are listed on the Shanghai Stock Exchange (stock code: 600763), with effect from December 2014 and (ii) an independent non-executive director of Casablanca Group Limited, the shares of which are listed on the Stock Exchange (stock code: 2223), with effect from April 2015. From May 2014 to June 2015, Mr. Zhang served as the joint company secretary and chief financial officer of Huazhong In-Vehicle Holdings Company Limited, the shares of which are listed on the Stock Exchange (stock code: 6830). From March 2013 to April 2014, Mr. Zhang served as head of the Strategic Development Department of Goodbaby International Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1086). He has more than 10 years of professional experience in accounting and auditing, and worked at Ernst & Young, KPMG and Deloitte Touche Tohmatsu serving several positions from audit staff to audit partner from 1999 to 2012. Mr. Zhang received his bachelor's degree from Fudan University in China in 1999.

**Mr. Wang Yiming (王藝明先生) ("Mr. Wang")**, aged 38, is proposed to be appointed as an independent non-executive Director immediately following completion of the Acquisition. Mr. Wang will be a member of the audit committee.

Mr. Wang became a professor of the School of Economics of Xiamen University (廈門大學經濟學院) in August 2009 and an associate professor in August 2006. He served as a tutor of doctoral students from September 2010, a tutor of master's degree students from September 2005 and a lecturer from August 2004 in the School of Economics of Xiamen University. From January 2006 to June 2006, he was a visiting scholar of the Department of Economics of the University of California, San Diego.

Mr. Wang graduated from Xiamen University with a bachelor's degree in Economics in 1998, a master's degree in Economics in 2001 and a doctor's degree in Economics in 2004.

Each of the proposed Directors will enter into a service contract or a letter of appointment with the Company for a term of three years commencing from the completion date of the Acquisition and to continue thereafter until terminated by a three months' notice in writing served by either party on the other without payment of compensation.

Each of the proposed Directors will be entitled to the amount of annual emolument for acting as the director of, committee member of and/or holding other positions with the Company or other members of the Group to be determined by the remuneration committee of the Company. Each of the proposed executive Directors may also be entitled to a bonus for each financial year of the Company which is at the discretion of the Board and determined by reference to performance of each proposed Director concerned and the Enlarged Group's performance for the financial year concerned and based on the recommendation from the remuneration committee of the Company.

Save as disclosed above, each of the proposed Directors confirms that he (i) did not hold any directorships in the last three years prior to the Latest Practicable Date in public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) does not hold any other positions with any member of the Enlarged Group; and (iii) does not have any relationships with any directors, senior management or substantial or controlling shareholders of the Company or the Target Company nor any interests in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, each of the proposed Directors is not aware of any other matters that need to be brought to the attention of the holders of securities of the Company nor is there any information to be disclosed by the Company pursuant to any of the requirements under Rule 13.51(2) of the Listing Rules.

## SENIOR MANAGEMENT OF THE TARGET GROUP

The Target Group has experienced management teams of relevant experience in real estate development, business management and finance. The following table sets forth information regarding the senior management of the Target Group who will remain following completion of the Acquisition. The Company believes the Target Group's experienced and stable management teams have contributed to the success of the Target Group and will further enhance the Target Group's execution capabilities.

| Name | Age | Position | Effective date of position | Date of joining of the Enlarged Group |
|---|---|---|---|---|
| Mr. Lu Chengdao (盧成道先生) | 38 | Executive director, general manager and legal representative of Yangzhou Dehui, supervisor of Yangzhou Detai | Date of completion of the Acquisition | August 2012 |
| Mr. She Qiyuan (佘啟元先生) | 55 | Deputy general manager of Yangzhou Dehui and executive director, general manager and legal representative of Yangzhou Detai | Date of completion of the Acquisition | August 2012 |
| Mr. Wang Delin (王德林先生) | 46 | General manager, director and vice chairman of Hui An China General | Date of completion of the Acquisition | February 2006 |
| Mr. Wang Jingdong (汪敬東先生) | 43 | Deputy general manager of Hui An China General | Date of completion of the Acquisition | February 2006 |
| Mr. Lin Jingfeng (林景峰先生) | 44 | Assistant general manager of Hui An China General | Date of completion of the Acquisition | February 2006 |

**Mr. Lu Chengdao (盧成道先生) ("Mr. Lu")**, aged 39, has been the general manager, executive director and legal representative of Yangzhou Dehui since August 2012. He has also been the supervisor of Yangzhou Detai since September 2013. Mr. Lu obtained a bachelor's degree majoring in Accounting from Beijing Technology and Business University (北京商學院) in June 1998.

**Mr. She Qiyuan (佘啟元先生) ("Mr. She")**, aged 56, has been the deputy general manager of Yangzhou Dehui since August 2012. He has also been the executive director, general manager and legal representative of Yangzhou Detai since September 2013. Mr. She was graduated from the PLA Institute of Economics and Management (中國人民解放軍軍事經濟學院) in June 2005.

**Mr. Wang Delin (王德林先生) ("Mr. Wang")**, aged 47, has been the general manager, director and vice chairman of Hui An China General since February 2006. Mr. Wang became an assistant engineer in June 2000.

**Mr. Wang Jingdong (汪敬東先生) ("Mr. Wang")**, aged 44, has been the deputy general manager of Hui An China General since February 2006. Mr. Wang obtained a bachelor's degree majoring in industrial and civil constructions from Fuzhou University (福州大學) in June 1994. Mr. Wang has become a senior engineer in June 2006 and a certified grade one constructor in July 2006.

**Mr. Lin Jingfeng (林景峰先生) ("Mr. Lin")**, aged 45, has been the assistant general manager of Hui An China General since February 2006. Mr. Lin obtained a degree majoring in marketing and accounting from Huaqiao University (華僑大學) in July 1992.

## COMPANY SECRETARY

**Mr. Wong Kin Tak (黃健德先生) ("Mr. Wong")**, aged 43, will be appointed as the company secretary of the Company immediately following completion of the Acquisition. Mr. Wong will be responsible for the secretarial affair of the Enlarged Company.

Mr. Wong is a member of Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. Currently, Mr. Wong is a director of Now Consulting Limited, which is a business consultant and corporate service provider in Hong Kong. From February 2011 to November 2012, Mr. Wong was the financial controller and assistant company secretary of China Paper Holdings Limited, the shares of which are listed on the Singapore Exchange Limited. From November 2009 to February 2011, he was a senior consultant of Zhongxi Certified Public Accountants Co., Ltd (中喜會計師事務所), which is an accounting firm in the PRC. From May 2003 to September 2009, Mr. Wong was the financial controller and joint company secretary of Beauty China Holdings Limited, the shares of which are listed on the Singapore Exchange Limited. From October 2001 to June 2002, Mr. Wong was the financial controller and company secretary of Natural Beauty Bio-Technology Limited, the shares of which are listed on the Stock Exchange (stock code: 157). Mr. Wong graduated from Hong Kong Baptist University with a Bachelor's degree of business administration (Hons) in Accounting.

## BOARD COMMITTEES

The proposed Directors will replace the existing Directors to form four Board committees for the Enlarged Group immediately after Resumption. The table below set out the membership information of these committees on which each proposed Director serves:

| Board Committee Director | Audit Committee | Remuneration Committee | Nomination Committee | Compliance Committee |
|---|---|---|---|---|
| *Chairman and Executive Director* | | | | |
| Mr. Shie Tak Chung | | M | C | |
| *Executive Directors* | | | | |
| Mr. Tsoi Kin Sze | | | | |
| Mr. Wu Zhisong | | | | |
| Mr. Lee Lit Mo Johnny | | | | M |
| *Independent Non-executive Directors* | | | | |
| Mr. Ma Sai Yam | M | C | M | C |
| Mr. Zhang Senquan | C | M | M | M |
| Mr. Wang Yiming | M | | | |

*Notes:*

C Chairman of the relevant Board committees

M Member of the relevant Board committees

### Audit Committee

The Company will establish an audit committee of the Company (the "**Audit Committee**") upon completion of the Acquisition with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Enlarged Group and to review the Company's interim and annual reports and financial statements. The audit committee of the Company will consist of Mr. Ma Sai Yam, Mr. Wang Yiming and Mr. Zhang Senquan and will be chaired by Mr. Zhang Senquan. All of them are proposed independent non-executive Directors.

### Nomination Committee

The Company will establish a nomination committee of the Company (the "**Nomination Committee**") upon completion of the Acquisition with written terms of reference in compliance with the CG Code. The primary function of the Nomination Committee is to make recommendations to the Board on potential candidates to fill vacancies on or additional appointment to the Board and for senior management positions. Nominations of directors and senior management candidates by the nomination committee are based on considerations such as vacancy available, the candidate's competence and experience, possession of requisite skills and qualifications, independence and integrity. The Nomination Committee will consist of Mr. Ma Sai Yam, Mr. Shie Tak Chung and Mr. Zhang Senquan and will be chaired by Mr. Shie Tak Chung, proposed Chairman of the Board and a proposed executive Director.

**Remuneration Committee**

The Company will establish a remuneration committee of the Company (the "**Remuneration Committee**") upon completion of the Acquisition with written terms of reference in compliance with the Rule 3.25 of the Listing Rules and CG Code. The primary duties of the Remuneration Committee are to determine the specific remuneration packages of all executive Directors and senior management of the Company, including benefits-in-kind, pension rights and compensation payments, and to advise the Board on the remuneration of the non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management of the Company, the Remuneration Committee will take into account the performance of the Enlarged Group as well as individual Directors and senior management of the Company. The Remuneration Committee will consist of Mr. Ma Sai Yam, Mr. Shie Tak Chung and Mr. Zhang Senquan and will be chaired by Mr. Ma Sai Yam, a proposed independent non-executive Director.

**Compliance Committee**

The Company will establish a compliance committee of the Company (the "**Compliance Committee**") upon completion of the Acquisition with written terms of reference. The primary duties of the Compliance Committee is to review and monitor the legal and compliance aspects of the Enlarged Group to ensure that the Enlarged Group is in compliance with all applicable laws and regulations. The Compliance Committee will comprise Mr. Ma Sai Yam, Mr. Lee Lit Mo Johnny and Mr. Zhang Senquan. Mr. Ma Sai Yam, a proposed independent non-executive Director, will be the chairman of the Compliance Committee.

## REMUNERATION POLICY

It is expected that, upon completion of the Acquisition, the Enlarged Group will be able to offer competitive remuneration packages to the proposed Directors and senior management of the Company including discretionary bonus, retirement scheme benefits and share options are structured to commensurate with their individual job duties, qualifications, performance and years of experience.

## TRAINING FOR DIRECTORS

Pursuant to the revised CG Code which has come into effect since 1 April 2012, the proposed Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant and ensure they keep abreast of the changes in the applicable laws and regulations and the overall development of the operations of the Company.

## COMPLIANCE ADVISER

The Company has appointed Cinda International Capital Limited as its compliance adviser on 23 October 2014 pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the Company, among others, at the following circumstances:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases; and

(iii) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the Shares.

The term of the appointment will commence on the date of Resumption and end on the date on which the Company sends its financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after Resumption.

*The following discussion of the financial conditions and results of operations of the Target Group should be read in conjunction with the audited consolidated financial statements of the Target Group as at and for the years ended 31 December 2012 and 2013 and 2014 and the six months ended 30 June 2015, and, in each case, the related notes set out in the Accountants' Report on the Target Group included as Appendix I to this circular. The audited consolidated financial statements of the Target Group have been prepared in accordance with HKFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.*

*The following discussion may contain forward-looking statements that involve risks and uncertainties. The actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section headed "Risk factors" and elsewhere in this circular.*

## OVERVIEW

The Target Group is a residential property developer primarily focusing on the development and sale of residential properties in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province of the PRC through its two project companies, namely, Hui An China General and Yangzhou Dehui. It specialises in the development and sale of high-rise residential properties with ancillary retail shops in cities with high economic growth potential, in particular the third and fourth tier cities in the PRC.

As at the Latest Practicable Date, the property portfolio of the Target Group comprised two property development projects, namely (i) the Binjiang International Project in Quanzhou, Fujian Province and (ii) The Cullinan Bay Project in Yangzhou, Jiangsu Province. The Binjiang International Project consists of 4 phases, all of which have been completed. The Cullinan Bay Project consists of 2 phases, of which Stage 1 of Phase 1 has completed construction and commenced pre-sale of properties, Stage 2 of Phase 1 has commenced construction and pre-sale of properties, while Phase 2 has yet to commence construction. As at 31 July 2015, the Binjiang International Project and The Cullinan Bay Project have an aggregate GFA of approximately 435,232 sq.m. of completed properties, an aggregate GFA of approximately 112,214 sq.m. of properties under development and an aggregate planned GFA of approximately 105,890 sq.m. of properties held for future development.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, revenue of the Target Group was approximately RMB90.6 million, RMB203.7 million, RMB256.5 million and RMB61.3 million, respectively. The profit and total comprehensive income to owners of the Target Company for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 was approximately RMB15.0 million, RMB26.8 million, RMB35.1 million and RMB15.7 million, respectively.

## BASIS OF PRESENTATION

Pursuant to the reorganisation of the Target Group as more fully described in the sections headed "History and background of the Target Group" and "Statutory and General Information" in Appendix VII to this circular, the Target Company became the holding company of all the companies now comprising the Target Group on 9 October 2014. Since the Controlling Shareholders controlled all the companies now comprising the Target Group before and after its group reorganisation, the Target Group comprising the Target Company and its subsidiaries resulting from its group reorganisation is regarded as a continuing entity. The financial statements of the Target Group have been prepared on the basis as if the Target Company had always been the holding company of the Target Group using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The consolidated statements of financial position, consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period as included in the Accountants' Report on the Target Group, the text of which is set out in Appendix I to this circular, include the results of operations of the companies comprising the Target Group have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment where it is a shorter period.

## SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS OF THE TARGET GROUP

### The Target Group's business and prospects significantly depend on the performance of the PRC property market, particularly the property markets in Quanzhou and Yangzhou

The Target Group is a residential property developer primarily focusing on the development residential properties for sale in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province, the PRC through its two projects, namely, the Binjiang International Project and The Cullinan Bay Project. As a result, the Target Group's business and prospects significantly depend on the performance of the PRC property market, particularly the property markets in Quanzhou and Yangzhou. The PRC property market may experience undersupply or oversupply of property units and significant property price fluctuations. Any significant downturn in the PRC economy could adversely affect demand for residential properties in the PRC. In addition, the PRC national and local governments may frequently adjust monetary, fiscal or other economic policies to prevent and curtail the overheating of the economy, in particular, the property market, which may reduce demand for property and result in adverse effect on the Target Group's business and financial condition. Any excessive development in the property markets where the Target Group operates may result in an oversupply of properties, intensified competition and increase in land acquisition costs due to intensified competition, which may materially and adversely affect the Target Group's business, results of operations and financial condition.

**The Target Group's operations are subject to extensive governmental regulations**

The Target Group's business is subject to extensive governmental regulations. As with other PRC property developers, the Target Group must comply with various requirements mandated by the PRC laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In particular, the PRC government has in recent years taken various measures to regulate the property market in order to discourage speculations in the property market, such as raising benchmark interest rates of commercial banks, placing additional limitations on the ability of commercial banks to issue loans to property developers, imposing additional taxes and levies on property sales, restricting foreign investment in the PRC property market and imposing restrictions on the purchase of properties by domestic individuals.

Many of the property industry policies carried out by the PRC government are unprecedented and are expected to be refined and improved over time. There is no assurance that the PRC government will not adopt additional and more stringent industry policies and regulations in the future. If the Target Group fails to adapt its operations to the new policies and regulations that may come into effect, or such regulatory measures disrupt its business prospects or cause it to incur additional costs, the Target Group's business, results of operations and financial condition may be materially and adversely affected.

**The Target Group's operating results depend on the sale of properties, which is affected by factors including schedule of property development and delivery, and timing of property sales**

The Target Group derives revenue from the sales of properties. According to the Target Group's accounting policy, revenue of the Target Group is recognised when the respective properties have been completed and delivered to the customers. Periods in which the Target Group delivers completed properties with a higher aggregate GFA typically generate a higher level of revenue. However, the Target Group's revenue is not evenly distributed over different periods of any particular year due to a combination of factors, which include the overall delivery schedules of the Target Group's projects, the market demand for their properties and the timing of the sale of properties that the Target Group developed.

Consequently, the results of operations of the Target Group for any given period may not be indicative of the actual demand for properties or the pre-sale or sales achieved during such period. The Target Group's revenue and net profit during any given period generally reflect property purchase decisions made by purchasers some time earlier. As a result, the Target Group's results of operations are not necessarily indicative of results that may be expected for any future period.

**The Target Group's sale of properties is subject to fluctuation in the average selling price and may not be able to sustain its gross profit margin**

During the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the overall ASP realised from the delivered properties was approximately RMB3,707 per sq.m., RMB3,766 per sq.m., RMB4,595 per sq.m. and RMB7,318 per sq.m. respectively. The overall ASP of properties within a single property project is subject to pricing of properties which was based on a number of factors, such as types, features, location of the properties and the supply and demand conditions of the local market. In the case that the Target Group experienced a greater decrease in ASP while average cost of sales per sq.m. increased or remained stable, the Target Group may not be able to maintain its gross profit margin as those in the Track Record Period, and its financial performance may be adversely affected.

**Any significant increase in the construction and development costs may adversely affect the business, results of operations and financial condition of the Target Group**

Construction and development costs constituted the most significant part of the cost of sales of the Target Group during the Track Record Period. Construction and development costs primarily consisted of construction contracting costs incurred for services rendered by construction contractors, including the contractors for construction works of major building foundation. Any increase in construction and development costs will impact the Target Group's cost of sales and overall project development costs. In addition, as the Target Group pre-sells some of its properties prior to their completion, the Target Group may not be able to pass any increase in construction and development costs subsequent to the pre-sale to its customers. As a result, any significant increase in the construction and development costs for its property developments may adversely affect the business, results of operations and financial condition of the Target Group.

**The financial results of the Target Group during the Track Record Period included changes in fair value of investment properties and any decrease in the fair value of investment properties in the future may have an adverse effect on the Target Group's business, results of operations and financial position**

The Target Group is required to reassess the fair value of its investment properties as at the end of each reporting period in accordance with the HKFRSs. Gains or losses arising from changes in the fair value of investment properties upon revaluation are included in the profit or loss of the Target Group in the corresponding periods, which may have a substantial effect on its profitability. During the Track Record Period, gains from fair value changes in investment properties were approximately RMB5.9 million, RMB7.9 million, RMB4.4 million and RMB1.1 million respectively, accounting for approximately 26.3%, 19.9%, 8.2% and 3.7% of the Target Group's profit before tax for the respective periods. If the gains from fair value changes in investment properties were excluded, the Target Group's profit before tax for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 would have been approximately RMB16.5 million, RMB31.8 million, RMB49.3 million and RMB28.4 million respectively.

The fair values of investment properties are based on valuations conducted by DTZ, a firm of independent and qualified professional valuers, using valuation techniques that involves professional judgments and adopts certain bases and assumptions. Furthermore, the fair values of the investment properties during the years were significantly affected by the prevailing property market conditions and are subject to market fluctuations. Unforeseeable changes to the property development projects as well as national and local economic conditions may also affect the value of the Target Group's property development projects. There is no assurance that the fair values of investment properties will continue to increase in the future. The fair values of investment properties may decrease in the event that the property markets in the PRC experience a downturn or the PRC government implements any policies resulting in a general decline in property price. Any decrease in the fair values of investment properties in the future will have an adverse effect on the Target Group's business, results of operations and financial position.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the fair values of investment properties, with all other variables held constant, on profit before tax during the Track Record Period. Hypothetical fluctuations are assumed to be 0.9% and 11.5% which are commensurate with historical fluctuations in fair values of investment properties during the Track Record Period:

| **Hypothetical fluctuation** | -11.5% | -0.9% | +0.9% | +11.5% |
|---|---|---|---|---|
| **Change in profit before tax** *(RMB'000)* | | | | |
| For the year ended 31 December 2012 | -679 | -53 | +53 | +679 |
| For the year ended 31 December 2013 | -903 | -71 | +71 | +903 |
| For the year ended 31 December 2014 | -506 | -40 | +40 | +506 |
| For the six months ended 30 June 2014 | -368 | -29 | +29 | +368 |
| For the six months ended 30 June 2015 | -127 | -10 | +10 | +127 |

**The relevant PRC tax authorities may challenge the basis on which the Target Group calculates its LAT tax obligations**

Pursuant to the Interim Ordinance on Land Appreciation Tax of the PRC (中華人民共和國土地增值稅暫行條例) and the Implementation Rules of Interim Ordinance on Land Appreciation Tax of the PRC (中華人民共和國土地增值稅暫行條例實施細則), the Target Group is subject to LAT in respect of all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC at progressive rates ranging from 30% to 60% of the appreciation of land value, being the proceeds of sales of properties less deductible items, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the total deductible items. Please refer to the section headed "Summary of principal PRC Legal and Regulatory Provisions" in Appendix V to this circular for a detailed description of the PRC regulations on LAT.

The Target Group makes provisions for the amount of applicable LAT payable in accordance with the relevant PRC laws and regulations from time to time, pending final settlement with the relevant tax authorities. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the Target Group recorded approximately RMB1.4 million, RMB1.7 million, RMB5.5 million and RMB7.9 million respectively as LAT expenses. In the event that the LAT provisions made by the Target Group are substantially lower than the actual LAT amounts as assessed by the PRC government in the future, its business, results of operations and financial position may be adversely affected.

**The Target Group guarantees mortgage loans of its customers for the purchase of pre-sale units provisionally for a period until the bank receives the individual property ownership certificates from customers or full settlement of mortgage loans by the customers, resulting that the Target Group may become liable to mortgagee banks if its customers default on their mortgage loans**

The Target Group provides guarantees to the banks in connection with its customers' mortgage loans for the purchase of pre-sale units provisionally to finance their purchase of the residential properties of the Target Group. The Target Group's guarantee is released at the earlier of (i) the bank receiving the individual property ownership certificate of the relevant property from the customer as security for the mortgage loan; or (ii) the full settlement of mortgage loans by the customers. If any customer defaults on his or her payment obligations under the mortgage loan during the terms of such guarantee, the bank may request the Target Group to fulfill such payment obligation. As at 30 June 2015, the outstanding financial guarantee providing with guarantee period up to the full settlement of mortgage loan was approximately RMB351.5 million. Should any material default by the customers of the Target Group occur under their mortgage loans guaranteed by the Target Group, the Target Group would be called upon to make significant payments to the banks, which could materially and adversely affect its result of operations and financial condition.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information in the Accountants' Report on the Target Group included in Appendix I to this circular has been prepared on the historical cost basis, except for investment properties and certain financial instruments which are measured at fair values, in accordance with all applicable HKFRSs issued by HKICPA. It also requires the management of the Target Company to make judgments, assumptions and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These judgments, assumptions and estimates are based on historical experience and other factors that are believed to be relevant under the circumstances. The actual results may differ from these estimates.

The proposed Directors believe the following accounting policies and estimates are the most critical to the understanding of the financial position and results of operations of the Target Group. Other significant accounting policies and critical estimates are set forth in detail in Notes 4 and 5 respectively to the Accountants' Report on the Target Group included in Appendix I to this circular.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Target Group has transferred to the customer the significant risks and rewards of ownership of the goods;
- the Target Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Target Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the customers. Delivery takes place on the date when the customers sign the delivery documents or a specific number of days after the date of final collection notice is sent by the Target Group to the customers pursuant to the sales contract. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statements of financial position as "Pre-sales proceeds received on sales of properties" under current liabilities.

### 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 year/period. Taxable profit differs from "profit before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of each reporting period, to cover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated with a number of assumptions relating to the operating environment of the Target Group and requires a significant level of judgment exercised by the management of the Target Company. Any change in such assumptions and judgments would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the management of the Target Group has reviewed the investment property portfolios together with certain properties characteristics. For certain investment properties held by the Target Group as at the end of each reporting period during the Track Record Period, the management of the Target Group concluded that they are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time rather than through sale. Therefore, in measuring the Target Group's deferred taxation on investment properties, the management have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Target Group has estimated the deferred tax taking into account of the land appreciation tax and enterprise income tax on disposal of these investment properties.

### Land Appreciation Tax

The Target Group is subject to LAT in the PRC. The implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain property development projects of the Target Group have not finalised the LAT calculations and payments with local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of land appreciation and its related income tax provisions. The Target Group recognised the LAT based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expenses and the related income tax provisions in the periods in which such tax is finalised with local tax authorities.

### Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation, which include both completed investment properties and investment properties under construction for such purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values based on the fair value assessment by independent professionally qualified valuers. Gains or losses due to the fair value change of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

### Inventories

Inventories comprise properties held-for-sale and properties under development for sale.

Properties held-for-sale and properties under development held-for-sale which are intended to be sold in the ordinary course of business upon completion of development are stated at the lower of cost and net realisable value on an individual basis. Costs comprise the acquisition costs, capitalised borrowing cost and other direct costs attributable to such properties. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and the estimated selling expenses, which are determined by the management of the Target Group based on the prevailing market conditions and the best available information.

## RESULTS OF OPERATIONS

The consolidated statements of profit or loss and other comprehensive income of the Target Group for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 as set out below are included in the Accountants' Report on the Target Group set out in Appendix I to this circular:

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Revenue | 90,603 | 203,689 | 256,532 | 130,109 | 61,310 |
| Cost of sales | (63,802) | (156,007) | (186,705) | (98,275) | (28,026) |
| Gross profit | 26,801 | 47,682 | 69,827 | 31,834 | 33,284 |
| Other income | 448 | 930 | 1,404 | 732 | 2,792 |
| Other gains and losses | 191 | 1,399 | (428) | (284) | 271 |
| Fair value change of investment properties | 5,900 | 7,850 | 4,400 | 3,200 | 1,100 |
| Selling expenses | (4,854) | (7,723) | (9,252) | (5,657) | (2,895) |
| Administrative expenses | (6,039) | (8,752) | (10,313) | (5,476) | (4,863) |
| Finance costs | — | (1,650) | (1,977) | (1,360) | (207) |
| Profit before tax | 22,447 | 39,736 | 53,661 | 22,989 | 29,482 |
| Income tax expense | (7,152) | (12,364) | (17,848) | (9,004) | (13,475) |
| **Profit and total comprehensive income for the year/period** | **15,295** | **27,372** | **35,813** | **13,985** | **16,007** |
| *Attributable to:* | | | | | |
| Owners of the Target Company | 15,031 | 26,836 | 35,094 | 13,650 | 15,726 |
| Non-controlling interests | 264 | 536 | 719 | 335 | 281 |

## DESCRIPTION OF PRINCIPAL CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS

### Revenue

The Target Group engages in the property development and revenue recognised during the Track Record Period was derived from the sale and delivery of properties of the Binjiang International Project in Quanzhou, Fujian Province to customers, net of discounts and sales related taxes.

Revenue from sale of properties is recognised when the construction of the respective properties has been completed and delivered to the customers. Delivery takes place on the date when the customers sign the delivery documents or a specific number of days after the final collection notice is sent by the Target Group to the customers pursuant to sales contract. The Target Group is allowed to commence pre-sales upon the properties under development having satisfied the pre-sales requirement in accordance with relevant PRC laws and regulations. There is typically a time gap between the pre-sale of properties and the delivery of completed properties. Deposits and instalments received from customers prior to the delivery of the completed properties are included in the consolidated statements of financial position as "Pre-sales proceeds received on sales of properties" under current liabilities.

Revenue of the Target Group for any given period is determined by the GFA delivered and ASP realised from these delivered properties in the relevant period. The GFA of properties delivered in any given period is mainly driven by schedule of property development and delivery. ASP realised from these delivered properties in such period is primarily affected by overall market demand and conditions at the time the properties were pre-sold or sold, geographical location, design characteristics, target customer group, quality and costs of the properties sold. In general, ASP of properties within a single property development project is subject to pricing of properties which was based on a number of factors, such as types, features, location of the properties and the supply and demand condition of the local market. ASP of retail shops is also higher than that of the residential properties. To promote overall pre-sales progress of properties, the Target Group may offer to pre-sell units at prices lower than those of the comparable completed properties in the market during the pre-sales stage.

The following table sets forth the breakdown of the Target Group's revenue by different phases of the Binjiang International Project for the periods indicated:

| | Years ended 31 December | | | | | | | | | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2013 | | | 2014 | | | 2014 | | | 2015 | | |
| | Revenue | Total saleable GFA delivered | ASP | Revenue | Total saleable GFA delivered | ASP | Revenue | Total saleable GFA delivered | ASP | Revenue | Total saleable GFA delivered | ASP | Revenue | Total saleable GFA delivered | ASP |
| | *RMB'000* | *sq.m.* | *RMB per sq.m.* | *RMB'000* | *sq.m.* | *RMB per sq.m.* | *RMB'000* | *sq.m.* | *RMB per sq.m.* | *RMB'000* (unaudited) | *sq.m.* | *RMB per sq.m.* | *RMB'000* | *sq.m.* | *RMB per sq.m.* |
| Phase 1 | 16,748 | 4,876.76 | 3,434 | 29,444 | 9,051.32 | 3,253 | 12,663 | 2,580.06 | 4,908 | 6,276 | 1,292.43 | 4,856 | 1,381 | 443.17 | 3,116 |
| Phase 2 | 44,110 | 11,362.94 | 3,882 | 45,473 | 11,790.00 | 3,857 | 20,646 | 3,917.15 | 5,271 | 10,285 | 1,991.55 | 5,164 | 7,111 | 1,200.41 | 5,924 |
| Phase 3 | 29,745 | 8,203.62 | 3,626 | 42,163 | 11,107.70 | 3,796 | 2,885 | 555.39 | 5,193 | 2,348 | 388.76 | 6,040 | 944 | 310.33 | 3,042 |
| Stage 1 of Phase 4 | — | — | — | 86,609 | 22,131.04 | 3,913 | 112,787 | 26,858.16 | 4,199 | 108,663 | 26,009.96 | 4,178 | 3,690 | 675.51 | 5,463 |
| Stage 2 of Phase 4 | — | — | — | — | — | — | 107,551 | 21,920.19 | 4,906 | 2,537 | 493.41 | 5,142 | 48,184 | 5,748.00 | 8,383 |
| Total | 90,603 | 24,443.32 | 3,707 | 203,689 | 54,080.06 | 3,766 | 256,532 | 55,830.95 | 4,595 | 130,109 | 30,176.11 | 4,312 | 61,310 | 8,377.42 | 7,318 |

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the revenue of Target Group from sales of properties was approximately RMB90.6 million, RMB203.7 million, RMB256.5 million and RMB61.3 million respectively, which was derived from the sales of residential properties and retail shops of Phases 1 to 4 of the Binjiang International Project of a total GFA delivered of approximately 24,443 sq.m., 54,080 sq.m., 55,831 sq.m. and 8,377 sq.m. for the same periods respectively. In the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the overall ASP realised from these delivered properties was approximately RMB3,707 per sq.m., RMB3,766 per sq.m., RMB4,595 per sq.m. and RMB7,318 per sq.m. respectively.

**Cost of sales**

The following table sets forth the breakdown of the Target Group's cost of sales for the periods indicated:

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Construction and development costs | 57,845 | 143,918 | 174,284 | 92,326 | 25,956 |
| Land acquisition cost | 3,796 | 7,799 | 7,319 | 3,880 | 1,136 |
| Capitalised finance costs | 2,161 | 4,290 | 5,102 | 2,069 | 934 |
| Total | 63,802 | 156,007 | 186,705 | 98,275 | 28,026 |

Cost of sales of the Target Group represented the costs incurred in respect of properties sold and delivered, which was directly associated with revenue recognised from sale and delivery of properties during the given period. During the Track Record Period, cost of sales mainly included construction and development costs, land acquisition cost and capitalised finance costs.

The construction and development costs primarily consisted of the construction contracting costs, project design costs and salaries and staff benefit expenses. One of the principal components of the construction and development costs was construction contracting costs incurred for services rendered by construction contractors, including the contractors for construction works of major building foundation. Salaries and staff benefit expenses were mainly contributed by staff of engineering department who was responsible for monitoring the overall construction progress and conducting other maintenance works.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the cost of sales of the Target Group was approximately RMB63.8 million, RMB156.0 million, RMB186.7 million and RMB28.0 million respectively. The change in cost of sales during the Track Record Period was primarily attributable to the change in total GFA of completed properties delivered in the corresponding periods. The average cost of sales per GFA delivered for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 was approximately RMB2,610 per sq.m., RMB2,885 per sq.m., RMB3,344 per sq.m. and RMB3,346 per sq.m. respectively, representing an increase of approximately 28.2% from the year ended 31 December 2012 to the six months ended 30 June 2015 primarily due to the commencement of delivery of completed properties of Phase 4 of the Binjiang International Project since July 2013 which incurred a relatively higher average construction and development costs as compared to that of other phases of the Binjiang International Project as the construction materials and labour costs increased over the period.

## Gross profit and gross profit margin

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the Target Group made gross profits of approximately RMB26.8 million, RMB47.7 million, RMB69.8 million and RMB33.3 million respectively, at gross profit margins of approximately 29.6%, 23.4%, 27.2% and 54.3% respectively.

The following table sets forth the breakdown of the Target Group's gross profits and gross profit margins by different phases of the Binjiang International Project for the periods indicated:

| | Years ended 31 December | | | | | | Six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | 2013 | | 2014 | | 2014 | | 2015 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* (unaudited) | *%* | *RMB'000* | *%* |
| Phase 1 | 6,335 | 37.8 | 10,117 | 34.4 | 7,154 | 56.5 | 3,516 | 56.0 | 435 | 31.5 |
| Phase 2 | 13,031 | 29.5 | 13,227 | 29.1 | 9,932 | 48.1 | 4,838 | 47.0 | 3,828 | 53.8 |
| Phase 3 | 7,435 | 25.0 | 11,955 | 28.4 | 1,375 | 47.7 | 1,291 | 55.0 | 100 | 10.6 |
| Stage 1 of Phase 4 | — | — | 12,383 | 14.3 | 22,707 | 20.1 | 21,428 | 19.7 | 1,424 | 38.6 |
| Stage 2 of Phase 4 | — | — | — | — | 28,659 | 26.6 | 761 | 30.0 | 27,497 | 57.1 |
| Total gross profit/overall gross profit margin | 26,801 | 29.6 | 47,682 | 23.4 | 69,827 | 27.2 | 31,834 | 24.5 | 33,284 | 54.3 |

## Other income

Other income for the Track Record Period mainly included rental income from investment properties and bank interest income.

The following table sets forth the breakdown of the Target Group's other income for the periods indicated:

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Rental income from investment properties | 202 | 246 | 253 | 123 | 1,402 |
| Bank interest income | 244 | 682 | 1,151 | 604 | 1,390 |
| Others | 2 | 2 | — | 5 | – |
| Total | 448 | 930 | 1,404 | 732 | 2,792 |

### Other gains and losses

Other gains and losses for the Track Record Period consisted of net foreign exchange gains/loss primarily resulted from the translation of amounts due to directors which were denominated in Hong Kong dollars into RMB, loss on disposal of plant and equipment, fair value changes on structured deposits designated as fair value through profit or loss ("**FVTPL**") and impairment losses on trade and other receivables.

The following table sets forth the breakdown of the Target Group's other gains and losses for the periods indicated:

| | **Years ended 31 December** | | | **Six months ended 30 June** | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Net foreign exchange gains/(losses) | 234 | 1,405 | (243) | (314) | 271 |
| Write-off of plant and equipment | — | — | (283) | — | — |
| Fair value changes on structured deposits designated as at FVTPL | — | 14 | 30 | 30 | — |
| Impairment loss on trade receivables | — | (20) | — | — | — |
| (Impairment loss)/reversal of impairment loss on other receivables | (43) | — | 68 | — | — |
| Total | 191 | 1,399 | (428) | (284) | 271 |

### Fair value change of investment properties

The kindergarten and car parking spaces of the Binjiang International Project, which were held by the Target Group during the Track Record Period for rental income and/or for capital appreciation, were classified and accounted for as investment properties at their fair values in the consolidated statements of financial position in accordance with HKFRSs. The changes in fair values of investment properties would be recognised in the consolidated statements of profit or loss and other comprehensive income in the corresponding periods. As at 31 December 2012, 2013 and 2014 and 30 June 2015, the fair values of the Target Group's investment properties, which was valued by DTZ, a firm of independent and qualified professional valuers, was approximately RMB101.5 million, RMB112.8 million, RMB117.2 million and RMB118.3 million respectively. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the Target Group recorded gains from changes in fair values of investment properties of approximately RMB5.9 million, RMB7.9 million, RMB4.4 million and RMB1.1 million respectively, which represented approximately 26.3%, 19.9%, 8.2% and 3.7% of the profit before tax respectively, or approximately 39.3%, 29.5%, 12.5% and 7.0% of the profit attributable to owners of the Target Group respectively.

The fair values of completed investment properties relating to the car parking spaces and kindergarten of the Binjiang International Project as at 31 December 2012, 2013 and 2014 and 30 June 2015 was determined based on the investment approach which considered the capitalised rental incomes from the contracted tenancies. The reversionary market rent after the expiry of contracted tenancies and the market rent of comparable properties were also taken into account for fair value assessment. The fair values of investment properties which were not rented out or under construction relating to car parking spaces of Phase 4 of the Binjiang International Project as at 31 December 2012, 2013 and 2014 and 30 June 2015 was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term and taking into account of estimated cost of completion, where appropriate. One of the key inputs for fair value assessment of investment properties, was mainly the term yield and reversion yield, which was determined based on the analysis of the sales transactions of properties similar to the Binjiang International Project in Huian County, with the market expectation from property investors taken into account to reflect factors specific to the Target Group's investment properties.

For further details of the valuation methodologies of investment properties, please refer to "Appendix IV — Property Valuation Report of the Enlarged Group" to this circular.

For financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to fair value measurements in its entirety. The investment properties of Target Group were classified under Level 3 of the fair value hierarchy on the basis that the key inputs to fair value measurements of investment properties which were term yield, reversion yield and market rent of comparable properties required adjustments using unobservable input and were significant to fair value measurements of investment properties in its entirety. For further details of the classification of the investment properties of Target Group under Level 3 of the fair value hierarchy, please refer to Note 17 to the Accountants' Report on the Target Group included in Appendix I to this circular.

**Selling expenses**

During the Track Record Period, the Target Group's selling expenses comprised sales commission expenses for external sales agents, advertising and promotion expenses, salaries for marketing personnel and other sales related expenses.

The change in Target Group's selling expenses was in line with the change in revenue during the Track Record Period. As a percentage of revenue, selling expenses amounted to approximately 5.4%, 3.8%, 3.6% and 4.7% for the years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2015 respectively.

**Administrative expenses**

During the Track Record Period, the administrative expenses mainly consisted of salaries and staff benefits expenses, office and travelling expenses, taxes and other levies, depreciation and other administrative related expenses. The increase in administrative expenses of the Target Group over the period from the year ended 31 December 2012 to the year ended 31 December 2014 was mainly due to the growth in operation scale of Yangzhou Dehui since its establishment in August 2012 for construction and development of The Cullinan Bay Project. The administrative expenses for the six months ended 30 June 2015 decreased as compared to the six months ended 30 June 2014, primarily attributable to the decrease in business travelling and meeting expenses incurred by Yangzhou Dehui after the commencement of the pre-sale of Stage 1 of Phase 1 of The Cullinan Bay Project in May 2014.

The following table sets forth the breakdown of the Target Group's administrative expenses for the periods indicated:

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Salaries and staff benefits expenses | 1,406 | 3,038 | 3,836 | 1,653 | 2,053 |
| Office and travelling expenses | 1,665 | 3,241 | 3,472 | 1,777 | 1,072 |
| Taxes and other levies | 998 | 849 | 1,066 | 697 | 628 |
| Depreciation | 568 | 700 | 362 | 327 | 325 |
| Rent | 94 | 312 | 291 | 156 | 47 |
| Donation | 640 | 120 | — | — | 30 |
| Others | 668 | 492 | 1,286 | 866 | 708 |
| Total | 6,039 | 8,752 | 10,313 | 5,476 | 4,863 |

**Finance costs**

Finance costs are primarily made up of interest expense on secured bank borrowings and bills discounting charges less interest capitalised in qualifying assets. During the Track Record Period, the Target Group entered into a credit facility contract and a supplementary agreement with a commercial bank in China pursuant to which such bank agreed to provide credit facility within a stipulated limit of two-year. The credit facility contract set out the limit, terms and types of credit facilities, including the issuance of commercial bills, to be granted by the bank and the guarantees required for such credit facilities. Within the stipulated credit limit, the Target Group issued bills to certain construction contractors as payments for construction fees. In order to issue such bills, the Target Group presented the relevant construction contracts to the bank and made pledged deposits in an amount which is equivalent to a portion of the face amount of the bills to be issued as demanded by the bank. All the bills issued by the Target Group during the Track Record Period were due within one year. Before the maturity date, the bills were presented by the relevant construction contractors to the bank for early cash settlement at discount. These relevant construction contractors obtained an amount equal to the face amount of the bills after deducting discounting charges which were borne by the Target Group. At maturity, the bank directly debited the Target Group's bank account for settlement of the face amount of the bills. Thus, the Target Group recorded bills discounting charges since the year ended 31 December 2012 as a result of discounting bills from banks for early cash settlement. The PRC Legal Advisers confirmed that the bills issued by the Target Group under the bill discounting arrangement are legal and enforceable according to the Negotiable Instruments Law of the PRC (中國票據法).

Interest expense on secured bank borrowings and bills discounting charges are capitalised to the extent the secured bank borrowings and bills are directly for financing the construction and development of a particular property development project. The capitalisation of interest expenses on secured bank borrowings and bills discounting charges would cease when a particular property development project is substantially ready for its intended use. As a result, the finance costs fluctuated during the Track Record Period as a result of the combined effect of the total finance costs incurred from secured bank borrowings and bills discounting and the level of interest capitalised in each financial period.

The following table sets forth the breakdown of finance costs for the periods indicated:

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Bills discounting charges | 800 | 3,191 | 1,664 | 1,482 | — |
| Interest on secured bank borrowings wholly repayable within five years | 1,131 | 1,451 | 14,590 | 6,934 | 8,880 |
| Less: amounts capitalised in the cost of qualifying assets | (1,931) | (2,992) | (14,277) | (7,056) | (8,673) |
| | — | 1,650 | 1,977 | 1,360 | 207 |

**Income tax expense**

Income tax expense consisted of current tax, which included the provisions for EIT and LAT, and movement in deferred tax assets and liabilities in respect of the Target Group's operations in the PRC.

The following table sets forth the breakdown of income tax expense for the periods indicated:

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Current tax: | | | | | |
| PRC Enterprise Income Tax ("EIT") | 6,569 | 7,853 | 7,890 | 3,269 | 6,965 |
| PRC Land Appreciation Tax ("LAT") | 1,370 | 1,748 | 5,526 | 2,279 | 7,875 |
| | 7,939 | 9,601 | 13,416 | 5,548 | 14,840 |
| Deferred tax | (787) | 2,763 | 4,432 | 3,456 | (1,365) |
| Total | 7,152 | 12,364 | 17,848 | 9,004 | 13,475 |

*Hong Kong Profits Tax*

During the Track Record Period, no provision for Hong Kong Profits Tax has been made as the income of the Target Group neither arose in, nor was derived from, Hong Kong.

*EIT*

Pursuant to the PRC EIT Law, the operating subsidiaries of the Target Group in PRC are subject to EIT. The provision for EIT for the PRC subsidiaries during the Track Record Period was based on the statutory tax rate of 25% under the PRC EIT Law.

*LAT*

The operating subsidiaries of the Target Group in PRC are subject to LAT which was levied on all income from the sale or transfer of properties in the PRC developed by the Target Group at progressive rates ranging from 30% to 60% of the appreciation value, which was the proceeds of sales of properties less deductible expenditures including borrowing costs and property development expenditures relating to gains from the sales of properties in the PRC. If appreciation value for the sales of ordinary residential properties does not exceed 20% of the total deductible expenditures, LAT payment would be exempted.

*Deferred tax*

The deferred tax liabilities of the Target Group were primarily related to deferred taxes due to the fair value changes of investment properties and LAT. The deferred tax assets of the Target Group were primarily related to deferred taxes due to pre-sales proceeds and tax losses as a result of the operating losses of Yangzhou Dehui since its establishment in August 2012.

As a result of the foregoing, the effective tax rate, representing income tax expense divided by profit before tax, was approximately 32.1%, 31.2%, 33.1% and 45.8% in the years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2015, respectively.

## PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

### Six months ended 30 June 2015 compared to six months ended 30 June 2014

*Revenue*

The revenue of the Target Group decreased from approximately RMB130.1 million for the six months ended 30 June 2014 to approximately RMB61.3 million for the six months ended 30 June 2015, representing a decrease of approximately 52.9%. Such decrease was primarily attributable to the net effect of (i) a decrease in total GFA delivered by approximately 72.2% and (ii) an increase in overall ASP realised from the delivered properties by approximately 69.7% during the six months ended 30 June 2015 as compared with that of the corresponding period.

The total GFA delivered decreased by approximately 21,799 sq.m. or 72.2% from approximately 30,176 sq.m. for the six months ended 30 June 2014 to approximately 8,377 sq.m. for the six months ended 30 June 2015 as result of the slowdown in delivery of completed properties of the Target Group after the commencement of the delivery of completed properties of the final phase, i.e. Stage 2 of Phase 4, of the Binjiang International Project in June 2014.

The overall ASP realised from the delivered properties increased by approximately RMB3,006 per sq.m. or 69.7% from approximately RMB4,312 per sq.m. for the six months ended 30 June 2014 to approximately RMB7,318 per sq.m. for the six months ended 30 June 2015. Such increase was primarily due to an increase in proportion of retail shops sold from approximately 0.8% of total GFA delivered for the six months ended 30 June 2014 to approximately 41.4% of total GFA delivered for the six months ended 30 June 2015 while ASP realised from the delivered retail shops was substantially higher than that from the delivered residential units in the Binjiang International Project.

*Cost of sales*

The cost of sales of the Target Group decreased by approximately RMB70.3 million or 71.5% from approximately RMB98.3 million for the six months ended 30 June 2014 to approximately RMB28.0 million for the six months ended 30 June 2015. The decrease was primarily attributable to the decrease in construction and development costs as a result of the slowdown in delivery of completed properties of the Target Group after the commencement of the delivery of completed properties of Stage 2 of Phase 4 of the Binjiang International Project in June 2014.

*Gross profit and gross profit margin*

The gross profit of the Target Group increased by approximately RMB1.5 million or 4.7% from approximately RMB31.8 million for the six months ended 30 June 2014 to approximately RMB33.3 million for the six months ended 30 June 2015 as a result of the growth of gross profit margin from approximately 24.4% for the six months ended 30 June 2014 to approximately 54.3% for the six months ended 30 June 2015 primarily attributable to the increase in overall ASP of the delivered properties and the decrease in revenue as discussed in the paragraph headed "Revenue" above.

*Other income*

Other income increased from approximately RMB0.7 million for the six months ended 30 June 2014 to approximately RMB2.8 million for the six months ended 30 June 2015, representing an increase of approximately 300.0%. The increase in other income during the period was primarily attributable to (i) an increase in bank interest income by approximately RMB0.8 million as a result of an increase in average balances of restricted and pledged bank deposits, time deposit and bank balances in the six months ended 30 June 2015 as compared to the six months ended 30 June 2014 and (ii) an increase in rental income from investment properties by approximately RMB1.3 million after the Target Group ceased to grant the property management company the rights to use the car parking spaces of the Binjiang International Project after the grant expired in November 2014 and commenced to earn rental income from these car parking spaces owned by the Target Group since January 2015.

*Other gains and losses*

The Target Group recorded a gain of approximately RMB0.3 million for the six months ended 30 June 2015 as compared to a loss of approximately RMB0.3 million for the six months ended 30 June 2014. Such change was mainly attributable to foreign exchange translation of amounts due to directors of the Target Company denominated in HKD into RMB as a result of HKD/RMB exchange rate fluctuation during the periods. A net foreign exchange gain was recognised for the six months ended 30 June 2015 due to the appreciation of RMB against HKD in the same period, as compared to a net foreign exchange loss for the six months ended 30 June 2014 due to a slight depreciation of RMB against HKD during the respective period.

*Fair value change of investment properties*

The Target Group recorded gains from fair value change of investment properties of approximately RMB3.2 million and RMB1.1 million for the six months ended 30 June 2014 and 2015 respectively, representing a decrease of approximately 65.6% during the period. The decrease in gains from fair value change of investment properties for the six months ended 30 June 2015 was attributable to the slowdown of fair value growth as a result of the change in certain property market conditions during the same period.

*Selling expenses*

Selling expenses decreased by approximately RMB2.8 million or 49.1% from approximately RMB5.7 million for the six months ended 30 June 2014 to approximately RMB2.9 million for the six months ended 30 June 2015 as additional advertising and promotion expenses were spent during the six months ended 30 June 2014 to promote the pre-sales of The Cullinan Bay Project which commenced in May 2014.

*Administrative expenses*

The administrative expenses of the Target Group decreased by approximately RMB0.6 million or 10.9% from approximately RMB5.5 million for the six months ended 30 June 2014 to approximately RMB4.9 million for the six months ended 30 June 2015 primarily attributable to the decrease in business travelling and meeting expenses incurred by Yangzhou Dehui after the commencement of the pre-sale of Stage 1 of Phase 1 of The Cullinan Bay Project in May 2014.

*Finance costs*

Finance costs recognised in the profit or loss of the Target Group was the total finance costs less amounts capitalised in qualifying assets. The finance costs recognised in profit or loss for the six months ended 30 June 2014 and 2015 represented the interest expense on secured bank borrowings and bills discounting charges for financing the construction and development of Stages 1 and 2 of Phase 4 of the Binjiang International Project of which the delivery of the relevant completed properties commenced since July 2013 and June 2014 respectively.

Finance costs decreased by approximately RMB1.2 million or 85.7% from approximately RMB1.4 million for the six months ended 30 June 2014 to approximately RMB0.2 million for the six months ended 30 June 2015, primarily due to the decrease in average balance of secured bank borrowings and bills for financing the construction and development of Phase 4 of the Binjiang International Project after certain net repayment.

Before capitalisation of finance costs in qualifying assets, the total finance costs increased from approximately RMB8.4 million for the six months ended 30 June 2014 to approximately RMB8.9 million for the six months ended 30 June 2015, mainly due to the increase in secured bank borrowings raised for financing the construction and development of The Cullinan Bay Project.

*Income tax expense*

The income tax expense of the Target Group increased by approximately RMB4.5 million or 50.0% from approximately RMB9.0 million for the six months ended 30 June 2014 to approximately RMB13.5 million for the six months ended 30 June 2015, mainly attributable to the increases in EIT and LAT by approximately RMB9.3 million which was partially offset by a decrease in deferred tax expense by approximately RMB4.8 million during the period.

*Profit for the period and net profit margin*

The profit of the Target Group increased by approximately RMB2.0 million or 14.3% from approximately RMB14.0 million for the six months ended 30 June 2014 to approximately RMB16.0 million for the six months ended 30 June 2015. Such increase was primarily due to the combined effect of (i) an increase in gross profit by approximately RMB1.5 million; (ii) an increase of other income of approximately RMB2.1 million; (iii) a reduction of selling expenses, administrative expenses and finance costs by approximately RMB2.8 million, RMB0.6 million and RMB1.2 million respectively and offset by (i) decrease in fair value gain on investment properties by approximately RMB2.1 million and (ii) an increase in income tax expense by approximately RMB4.5 million as discussed in the above paragraphs.

The net profit margin of the Target Group increased from approximately 10.8% for the six months ended 30 June 2014 to approximately 26.1% for the six months ended 30 June 2015 primarily attributable to the combined effect of (i) an increase in the gross profit margin from approximately 24.4% for the six months ended 30 June 2014 to approximately 54.3% for the six months ended 30 June 2015 as discussed in the above paragraph headed "— Gross profit and gross profit margin" and (ii) an increase in income tax expenses as percentage of revenue from approximately 6.9% for the six months ended 30 June 2014 to approximately 22.0% for the six months ended 30 June 2015.

**Year ended 31 December 2014 compared to year ended 31 December 2013**

*Revenue*

The revenue of the Target Group increased by approximately RMB52.8 million or 25.9% from approximately RMB203.7 million for the year ended 31 December 2013 to approximately RMB256.5 million for the year ended 31 December 2014 was primarily attributable to the combined effect of (i) an increase in total GFA delivered by approximately 3.2% and (ii) an increase in overall ASP realised from the delivered properties by approximately 22.0% in 2014.

The total GFA delivered increased by approximately 1,751 sq.m. or 3.2% from approximately 54,080 sq.m. for the year ended 31 December 2013 to approximately 55,831 sq.m. for the year ended 31 December 2014 as result of the increase in the delivery of completed properties of Stages 1 and 2 of Phase 4 of the Binjiang International Project since July 2013 and June 2014 respectively.

The overall ASP realised from the delivered properties increased by approximately RMB829 per sq.m. or 22.0% from approximately RMB3,766 per sq.m. for the year ended 31 December 2013 to approximately RMB4,595 per sq.m. for the year ended 31 December 2014. The Target Group upward adjusted ASP for properties pre-sold since 2012 in view of the growing market demand for residential properties in Quanzhou. As overall ASP realised in the year ended 31 December 2014 were mostly contributed by the delivery of completed properties pre-sold in or after 2012 while overall ASP realised in the year ended 31 December 2013 were mostly contributed by the delivery of completed properties pre-sold in or before 2011, the increase in ASP by the Target Group in view of the growing market demand for residential properties in Quanzhou in 2012 led to an increase in overall ASP realised from the delivered properties for the year ended 31 December 2014, as compared to the overall ASP realised from the delivered properties for the year ended 31 December 2013.

*Cost of sales*

The cost of sales of the Target Group increased by approximately RMB30.7 million or 19.7% from approximately RMB156.0 million for the year ended 31 December 2013 to approximately RMB186.7 million for the year ended 31 December 2014. The increase during the period was primarily attributable to the increase in construction and development costs as a result of the increase in total GFA delivered contributed by the delivery of completed properties of Stages 1 and 2 of Phase 4 of the Binjiang International Project, as compared to the delivery of Phases 1 to 3 during the year ended 31 December 2013, coupled with the increased in the average cost of sales per GFA for Phase 4 as compared with that for Phases 1 to 3.

*Gross profit and gross profit margin*

The gross profit of the Target Group increased by approximately RMB22.1 million or 46.3% from approximately RMB47.7 million for the year ended 31 December 2013 to approximately RMB69.8 million for the year ended 31 December 2014 which was in line with the increase in revenue as a result of the increase in both total GFA delivered and overall ASP realised from the delivered properties.

The gross profit margin increased from approximately 23.4% for the year ended 31 December 2013 to approximately 27.2% for the year ended 31 December 2014 primarily attributable to the net effect of (i) an increase in ASP realised from the delivered properties by approximately 22.0% as discussed above in the paragraph headed "— Revenue" and (ii) an increase in average cost of sales per GFA delivered by approximately 15.9% primarily attributable to the increase in average construction and development costs for Phase 4 of the Binjiang International Project mainly due to the increase in construction material and labour costs.

*Other income*

Other income increased by approximately RMB0.5 million or 55.6% from approximately RMB0.9 million for the year ended 31 December 2013 to approximately RMB1.4 million for the year ended 31 December 2014. The increase in other income during the year was primarily due to a RMB0.5 million increase in bank interest income as a result of an increase in average balances of restricted and pledged bank deposits, time deposits and bank balances for the year ended 31 December 2014 as compared to the year ended 31 December 2013.

*Other gains and losses*

The Target Group recorded a loss of approximately RMB0.4 million during the year ended 31 December 2014 as compared to a gain of approximately RMB1.4 million for the year ended 31 December 2013. Such change was mainly attributable to (i) the foreign exchange loss of approximately RMB0.2 million as a result of foreign exchange translation of amounts due to directors denominated in HKD into RMB as a result of HKD/RMB exchange rate fluctuation during the periods. A net foreign exchange loss was recognised for the year ended 31 December 2014 due to the depreciation of RMB against HKD in 2014, as compared to a net foreign exchange gain of approximately RMB1.4 million for the year ended 31 December 2013 due to the appreciation of RMB against HKD in 2013; and (ii) loss on disposal of plant and equipment of approximately RMB0.3 million.

*Fair value change of investment properties*

The Target Group recorded gains from fair value change of investment properties of approximately RMB7.9 million and RMB4.4 million for the year ended 31 December 2013 and 2014 respectively, representing a decrease of approximately 44.3% during the period. The decrease in gains from fair value change of investment properties for the year ended 31 December 2014 was primarily due to the completion of construction for car parking spaces of the Binjiang International Project in June 2014.

*Selling expenses*

Selling expenses increased by approximately RMB1.6 million or 20.8% from approximately RMB7.7 million for the year ended 31 December 2013 to approximately RMB9.3 million for the year ended 31 December 2014 primarily attributable to an increase in advertising and promotion expenses for promotion of pre-sales of The Cullinan Bay Project which commenced in May 2014.

*Administrative expenses*

The administrative expenses of the Target Group increased by approximately RMB1.5 million or 17.0% from approximately RMB8.8 million for the year ended 31 December 2013 to approximately RMB10.3 million for the year ended 31 December 2014 primarily attributable to the increase in salaries and staff benefits expenses for administrative staff and office and travelling expenses as a result of the growth in operation scale of Yangzhou Dehui during the periods.

*Finance costs*

Finance costs recognised in the profit or loss of the Target Group was the total finance costs less amounts capitalised in qualifying assets. The finance costs recognised in profit or loss for the year ended 31 December 2013 was primarily attributable to the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013, whereas those for the year ended 31 December 2014 were contributed by both Stage 1 and Stage 2 of Phase 4 of the Binjiang International Project of which the delivery of the relevant completed properties commenced since July 2013 and June 2014, respectively. The finance costs recognised in profit or loss increased from approximately RMB1.7 million for the year ended 31 December 2013 to approximately RMB2.0 million for the year ended 31 December 2014 was contributed to the commencement of delivery of completed properties of both Stages 1 & 2 of Phase 4 of the Binjiang International Project since July 2013 and June 2014 respectively, therefore the relevant finance costs subsequently incurred were expensed, this was partially offset by the decrease in balance of bank borrowings raised for financing the construction and development of Stages 1 and 2 of Phase 4 of the Binjiang International Project.

Before capitalisation of finance costs in qualifying assets, the total finance costs increased from approximately RMB4.6 million for the year ended 31 December 2013 to approximately RMB16.3 million for the year ended 31 December 2014. Such increase was mainly due to the increase in bank borrowings raised for financing the construction and development of the Cullinan Bay Project.

*Income tax expense*

The income tax expense of the Target Group increased by approximately RMB5.4 million or 43.5% from approximately RMB12.4 million for the year ended 31 December 2013 to approximately RMB17.8 million for the year ended 31 December 2014. The increase in income tax expense was mainly attributable to the increase in LAT by approximately RMB3.8 million and the increase in deferred tax expense by approximately RMB1.6 million during the year ended 31 December 2014.

*Profit for the year and net profit margin*

The profit of the Target Group increased by approximately RMB8.4 million or 30.7% from approximately RMB27.4 million for the year ended 31 December 2013 to approximately RMB35.8 million for the year ended 31 December 2014 which was in line with the increase in revenue as a result of the increase in both total GFA delivered and overall ASP realised from the delivered properties during the year ended 31 December 2014.

The net profit margin of the Target Group increased from approximately 13.5% for the year ended 31 December 2013 to approximately 14.0% for the year ended 31 December 2014 primarily attributable to the combined effect of (i) an increase in the gross profit margin from approximately 23.4% for the year ended 31 December 2013 to approximately 27.2% for the year ended 31 December 2014 as a result of the delivery of completed properties of Stage 2 of Phase 4 of the Binjiang International Project which were sold at a higher gross profit margin when compared to that of other phases and (ii) a smaller gain in fair value changes of investment properties during the year ended 31 December 2014 as discussed in the above paragraph.

**Year ended 31 December 2013 compared to year ended 31 December 2012**

*Revenue*

The revenue of the Target Group increased by approximately RMB113.1 million or 124.8% from approximately RMB90.6 million for the year ended 31 December 2012 to approximately RMB203.7 million for the year ended 31 December 2013 primarily attributable to the increase in total GFA delivered by approximately 121.2% and overall ASP realised from properties sold and delivered by approximately 1.6% in 2013.

The total GFA delivered increased by approximately 29,637 sq.m. or 121.2% from approximately 24,443 sq.m. for the year ended 31 December 2012 to approximately 54,080 sq.m. for the year ended 31 December 2013 mainly attributable to the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013.

The overall ASP realised from the delivered properties remained relatively stable at approximately RMB3,707 per sq.m. and approximately RMB3,766 per sq.m. for the year ended 31 December 2012 and 2013 respectively.

*Cost of sales*

The cost of sales of the Target Group increased by approximately RMB92.2 million or 144.5% from approximately RMB63.8 million for the year ended 31 December 2012 to approximately RMB156.0 million for the year ended 31 December 2013. The increase was primarily attributable to an increase in construction and development costs as a result of the increase in total GFA delivered contributed by the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project in the second half of 2013 as discussed in the above paragraph.

*Gross profit and gross profit margin*

The gross profit of the Target Group increased by approximately RMB20.9 million or 78.0% from approximately RMB26.8 million for the year ended 31 December 2012 to approximately RMB47.7 million for the year ended 31 December 2013 which was in line with the increase in revenue mainly attributable to the increase in total GFA and overall ASP realised from the properties sold and delivered during the year.

The gross profit margin of the Target Group decreased from approximately 29.6% for the year ended 31 December 2012 to approximately 23.4% for the year ended 31 December 2013 primarily attributable to an increase in average cost of sales per GFA delivered by approximately 10.5% primarily attributable to an increase in average construction and development costs for Phase 4 of the Binjiang International Project as a result of the increase in construction material and labour costs, whereas the overall ASP realised in respective periods remained relatively stable as discussed in the paragraph headed "—Revenue" above.

*Other income*

Other income increased by approximately RMB0.5 million or 125.0% from approximately RMB0.4 million for the year ended 31 December 2012 to approximately RMB0.9 million for the year ended 31 December 2013 primarily due to a RMB0.5 million increase in bank interest income resulted from an increase in average balances of restricted and pledged bank deposits and time deposits and bank balances in the year ended 31 December 2013 as compared to the year ended 31 December 2012.

*Other gains and losses*

Other gains and losses increased by approximately RMB1.2 million or 600.0% from approximately RMB0.2 million for the year ended 31 December 2012 to approximately RMB1.4 million for the year ended 31 December 2013 primarily attributable to the increase in net foreign exchange gains of approximately RMB1.2 million as a result of the translation of an amount due to a director dominated in HKD into RMB. The increase in net foreign exchange gains was mainly due to a greater extent of appreciation of RMB against HKD in the year ended 31 December 2013 than that in the year ended 31 December 2012.

*Fair value change of investment properties*

The Target Group recorded gains from fair value changes of investment properties of approximately RMB5.9 million and RMB7.9 million for the years ended 31 December 2012 and 2013 respectively, representing an increase of approximately 33.9% during the year. The increase in gains from fair value changes of investment properties in the year ended 31 December 2013 was primarily contributed from the increase in fair value of car parking spaces under construction as a result of the improved construction and development progress in 2013.

*Selling expenses*

Selling expenses increased by approximately RMB2.8 million or 57.1% from approximately RMB4.9 million for the year ended 31 December 2012 to approximately RMB7.7 million for the year ended 31 December 2013. The increase in selling expenses in the year ended 31 December 2013 was primarily attributable to an increase in advertising and promotion expenses due to the launch of marketing and promotion events in the second half of 2013 for pre-sale of The Cullinan Bay Project scheduled in May 2014.

*Administrative expenses*

The administrative expenses of the Target Group increased by RMB2.8 million or 46.7% from approximately RMB6.0 million for the year ended 31 December 2012 to approximately RMB8.8 million for the year ended 31 December 2013 primarily attributable to the increase in salaries and staff benefits expenses for administrative staff and office and travelling expenses as a result of the growth in operation scale of Yangzhou Dehui since its establishment in August 2012.

*Finance costs*

No finance costs incurred for the year ended 31 December 2012, whereas approximately RMB1.7 million of finance costs incurred for the year ended 31 December 2013. Finance costs recognised in the profit or loss of the Target Group was the total finance costs less amounts capitalised in qualifying assets. The finance costs recognised in profit or loss for the year ended 31 December 2013 were primarily attributable to the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013, and therefore the finance costs incurred were expensed. No finance cost was expensed in the year ended 31 December 2012 as the construction and development of Phase 4 of the Binjiang International Project had not yet been completed in 2012, resulting in the capitalisation of all finance costs in qualifying assets during the year.

Before capitalisation of finance costs in qualifying assets, the total finance costs increased from approximately RMB1.9 million for the year ended 31 December 2012 to approximately RMB4.6 million for the year ended 31 December 2013. Such increase was mainly due to the increase in bills discounting charges borne by the Target Group in respect of bills issued to construction contractors for early cash settlement.

*Income tax expense*

The income tax expense of the Target Group increased by approximately RMB5.2 million or 72.2% from approximately RMB7.2 million for the year ended 31 December 2012 to approximately RMB12.4 million for the year ended 31 December 2013. The increase in income tax expense in 2013 was mainly due to the increase in EIT by approximately RMB1.3 million as a result of the increase in profit before tax and the change of deferred tax from a credit balance of approximately RMB0.8 million for the year ended 31 December 2012 to an expense of approximately RMB2.8 million for the year ended 31 December 2013.

*Profit for the year and net profit margin*

The profit of the Target Group increased by approximately RMB12.1 million or 79.1% from approximately RMB15.3 million for the year ended 31 December 2012 to approximately RMB27.4 million for the year ended 31 December 2013 which was in line with the increase in revenue as a result of the increase in both total GFA delivered and overall ASP realised from the delivered properties during the year ended 31 December 2013.

The net profit margin decreased from approximately 16.9% for the year ended 31 December 2012 to approximately 13.5% for the year ended 31 December 2013 primarily attributable to a decrease in the gross profit margin from approximately 29.6% for the year ended 31 December 2012 to approximately 23.4% for the year ended 31 December 2013 as a result of the delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project which were sold at a lower gross profit margin when compared to that of other phases.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash flows

The following table sets forth a summary of the consolidated statements of cash flows of the Target Group for the periods indicated:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Net cash (used in) from operating activities | (157,819) | 4,159 | (58,001) | (41,430) | 38,254 |
| Net cash (used in) from investing activities | (15,624) | (58,031) | 53,861 | 33,604 | (18,931) |
| Net cash from (used in) financing activities | 167,553 | 61,420 | 100,225 | 38,554 | (20,055) |
| **Net (decrease)/increase in cash and cash equivalents** | **(5,890)** | **7,548** | **96,085** | **30,728** | **(732)** |
| Cash and cash equivalents at beginning of year | 27,864 | 21,974 | 29,522 | 29,522 | 125,607 |
| **Cash and cash equivalents at end of year** | **21,974** | **29,522** | **125,607** | **60,250** | **124,875** |

### Net cash (used in) from operating activities

The cash from operating activities during the Track Record Period was primarily sourced from proceeds received from customers due to pre-sales and sales of Target Group's properties. The cash used in operating activities during the Track Record Period was primarily for payment of the Target Group's property development activities which included land acquisition and respective construction works.

The Target Group had net cash used in operating activities of approximately RMB157.8 million for the year ended 31 December 2012, mainly as a result of the profit before tax of approximately RMB22.4 million generated in this year, which was negatively adjusted for (i) an increase in inventories of approximately RMB262.3 million mainly due to the acquisition of land in Yangzhou for the construction and development of The Cullinan Bay Project in 2012 and (ii) an increase in trade and other receivables of approximately RMB17.2 million mainly contributed by an increase in deposits paid to suppliers for the construction of property development projects of the Target Group. This was partially offset by (i) an increase in pre-sales proceeds received on sales of properties of approximately RMB108.1 million mainly due to the receipt of pre-sales proceeds from pre-sales of Stage 1 of Phase 4 of the Binjiang

International Project and (ii) an increase in trade and bills payables of approximately RMB23.2 million mainly due to issuance of bills for settlement of construction fees to a major construction contractor for the construction of the Binjiang International Project.

The Target Group had net cash from operating activities of approximately RMB4.2 million for the year ended 31 December 2013, mainly as a result of the profit before tax of approximately RMB39.7 million generated in this year, and primarily adjusted for (i) an increase in other payables and accruals of approximately RMB61.3 million mainly due to the increase in accrued construction costs relating to the construction and development of The Cullinan Bay Project and (ii) an increase in trade and bills payables of approximately RMB18.8 million mainly contributed by issuance of additional bills for settlement of construction fees to major construction contractors for the construction of the Binjiang International Project. This was partially offset by (i) an increase in inventories of approximately RMB51.5 million mainly contributed by an increase in properties under development for sales as a result of the construction and development of The Cullinan Bay Project and (ii) a decrease in pre-sales proceeds received on sales of properties of approximately RMB47.3 million mainly due to the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project during the year.

The Target Group had net cash used in operating activities of approximately RMB58.0 million for the year ended 31 December 2014, mainly as a result of the profit before tax of approximately RMB53.7 million generated in this period, which was negatively adjusted for (i) a decrease in pre-sales proceeds received on sales of properties of approximately RMB138.3 million mainly due to the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of both Stages 1 and 2 of Phase 4 of the Binjiang International Project and (ii) a decrease in trade and bills payables of approximately RMB45.1 million mainly due to the full settlement of bills on construction fees to major contractors for the construction of the Binjiang International Project. This was partially offset by a decrease in inventories of approximately RMB82.9 million mainly due to the delivery of completed properties of Phase 4 of the Binjiang International Project during the period.

The Target Group had net cash from operating activities of approximately RMB38.3 million for the six months ended 30 June 2015 as a result of the profit before tax of approximately RMB29.5 million generated in this period, and primarily adjusted for (i) an increase in pre-sales proceeds received on sales of properties of approximately RMB26.4 million mainly due to the pre-sale of Stage 1 of Phase 1 of The Cullinan Bay Project and (ii) an increase in other payables and accruals of approximately RMB20.1 million mainly due to the additional accrued construction costs for The Cullinan Bay Project. This was partially offset by an increase in inventories of approximately RMB33.6 million mainly due to the further construction and development costs incurred for The Cullinan Bay Project during the period.

**Net cash from investing activities**

The cash from investing activities during the Track Record Period was primarily sourced from the repayment from a related party, redemption of structured deposits and the interest income received from restricted and pledged bank deposits and time deposits and bank balances. The cash used in investing activities during the Track Record Period was primarily for the purchase of structured deposits, advance to a related party.

The Target Group had net cash used in investing activities of approximately RMB15.6 million for the year ended 31 December 2012 primarily due to (i) the placement of pledged bank deposits of approximately RMB10.0 million as securities for general banking facilities granted to the Target Group and (ii) the additions to investment properties under construction of approximately RMB4.6 million for the construction works on car parking spaces of Phase 4 of the Binjiang International Project during the year.

The Target Group had net cash used in investing activities of approximately RMB58.0 million for the year ended 31 December 2013 primarily due to (i) the net placement of structured deposits of approximately RMB25.0 million by Yangzhou Dehui; (ii) advance to a related party of approximately RMB23.3 million; (iii) net placement of pledged bank deposits of approximately RMB5.0 million as securities for general banking facilities granted to the Target Group and (iv) the additions to investment properties under construction of approximately RMB3.5 million for the construction works on car parking spaces of Phase 4 of the Binjiang International Project during the year.

The Target Group had net cash from investing activities of approximately RMB53.9 million for the year ended 31 December 2014 primarily due to (i) the redemption of structured deposits of approximately RMB25.0 million by Yangzhou Dehui and (ii) a net repayment from related parties of approximately RMB23.3 million during the year.

The Target Group had net cash used in investing activities of approximately RMB18.9 million for the six months ended 30 June 2015 primarily due to an increase in restricted deposits of approximately RMB20.3 million as a result of the receipt of pre-sale proceeds for Stage 1 of Phase 1 of The Cullinan Bay Project.

**Net cash from financing activities**

The cash from financing activities during the Track Record Period was primarily contributed by the proceeds from secured bank borrowings and advances from a related party and directors. The cash used in financing activities during the Track Record Period was mainly related to repayments of secured bank borrowings and advances from directors.

The Target Group had net cash from financing activities of approximately RMB167.6 million for the year ended 31 December 2012 primarily due to (i) advances from a related party and directors of approximately RMB309.3 million mainly for financing the acquisition of land in Yangzhou for construction and development of The Cullinan Bay Project and (ii) a capital contribution of approximately RMB10.0 million for establishment of Hengde during the year. It was partially offset by repayment to directors of approximately RMB153.1 million during the year.

The Target Group had net cash from financing activities of approximately RMB61.4 million for the year ended 31 December 2013 primarily due to (i) a net withdrawal of secured bank borrowings of approximately RMB55.3 million mainly contributed by the drawdown of newly granted secured bank borrowings for financing the construction and development of The Cullinan Bay Project and (ii) advances from a related party and directors of RMB142.5 million during the year. It was partially offset by a repayment to directors of approximately RMB131.8 million during the year.

The Target Group had net cash from financing activities of approximately RMB100.2 million for the year ended 31 December 2014 primarily due to a net withdrawal of secured bank borrowings of approximately RMB117.2 million mainly contributed by the drawdown of another newly granted secured bank borrowings for financing the construction and development of The Cullinan Bay Project. It was partially offset by the payment of interest expenses and bills discounting charges of approximately RMB16.3 million during the year.

The Target Group had net cash used in financing activities of approximately RMB20.1 million for the six months ended 30 June 2015 primarily due to (i) the repayment of bank borrowings of approximately RMB11.2 million in accordance with the terms of respective loan agreements and (ii) the payment of interest expenses of approximately RMB8.9 million.

**Restricted and pledged bank deposits, time deposits and bank balances and cash**

The following table summarises the time deposits, bank balances and restricted and pledged bank deposits held by the Target Group as at the dates indicated:

| | **As at 31 December** | | | **As at 30 June** |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Restricted and pledged bank deposits | | | | |
| — Restricted deposits | 1,209 | 2,038 | 12,147 | 32,456 |
| — Deposits pledged for general banking facilities | 10,000 | 15,000 | — | — |
| | 11,209 | 17,038 | 12,147 | 32,456 |
| Time deposits | — | — | 68,000 | 53,000 |
| Bank balances and cash | 21,974 | 29,522 | 57,607 | 71,875 |
| Total | 33,183 | 46,560 | 137,754 | 157,331 |

Balances of restricted bank deposits were the bank deposits in designated bank accounts solely for collecting proceeds from pre-sales of properties and settlement of construction costs for properties pursuant to the relevant PRC laws and regulations. Such balances of restricted bank deposits would be released after the completion of construction and development of the relevant properties. Pledged bank deposits held by the Target Group represented the security deposits pledged for general banking facilities granted to the Target Group.

**Capital resources**

During the Track Record Period, the Target Group was mainly financed by the internally generated fund which was mainly contributed by the properties sold by the Target Group, shareholders' loans and secured bank borrowings.

Save that the Target Group will no longer be funded by shareholders' loans after the completion of acquisition of the Target Company, the proposed Directors expect that there will be no other material changes in the mix and relative costs of capital resources.

**Capital expenditure**

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the Target Group incurred capital expenditure of approximately RMB5.8 million, RMB4.6 million, RMB0.5 million and RMB12,000, respectively. The following table sets forth the capital expenditures for the periods indicated:

| | Years ended 31 December | | | Six months ended 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Additions in respect of investment properties | 4,600 | 3,450 | — | — |
| Additions in respect of plant and equipment | 1,221 | 1,147 | 512 | 12 |
| Total | **5,821** | **4,597** | **512** | **12** |

**Internal control measures to manage the exposure of cash flow mismatch**

The cash inflows of the Target Group were mainly contributed by proceeds from customers which would be received in respect of sales and pre-sales transactions made only after the grant of pre-sales permit for Target Group's property projects. On the other hand, the Target Group made payments mainly for/and acquisitions settlement of services rendered by construction contractors and repayment of secured bank borrowings, leading to cash outflows since land acquisition and throughout the construction period of the property projects. The timing difference between the receipt of proceeds from pre-sales and sales of properties and payment for land acquisition and services rendered by construction contractors and repayment of bank borrowings may result in cash flow mismatch which may adversely affect the liquidity position and working capital requirement of the Target Group in the future.

In order to manage the exposure of cash flow mismatch in the future, the Target Group implemented several internal control measures, including but not limited to, (i) preparing quarterly or semi-annually reports by the finance department to monitor the actual expenditures incurred for each property development project; (ii) preparing group-based cash flow forecast after taking into account of the expected settlements to suppliers and loan repayments; and (iii) holding quarterly or semi-annually meetings by the proposed Directors to review the status of outstanding payables and the cash flow forecast to ensure adequate cash flows would be available to fulfill its funding requirements property development projects.

**Working capital**

There are a number of factors that may affect the Enlarged Group's working capital needs during the 12 months following the date of this circular, including the development plan of The Cullinan Bay Project and requirements to satisfy the Target Group's outstanding and future debt obligations. As at 30 June 2015, the Target Group expected to pay approximately RMB889.4 million to complete the remaining development and to settle any outstanding development costs of the Binjiang International Project and The Cullinan Bay Project. Such amount included approximately RMB299.2 million of construction commitment as at 30 June 2015 which will be incurred for development of the Target Group's property project. For details of the schedule of further development costs to be incurred, please refer to the section headed "Business of the Target Group — Future development and plan" in this circular. In addition, as at 31 August 2015, the Enlarged Group's outstanding bank borrowings amounted to approximately HK$[621] million, of which (i) approximately HK$[409] million was borrowings of the Group; and (ii) approximately HK$[212] million (or RMB[175] million) was bank borrowings of the Target Group. For details of the Target Group's bank borrowings, please refer to the paragraph headed "Indebtedness and contingent liabilities" of this section.

The Enlarged Group intended to fund its working capital requirement mainly by its internally generated funds and bank borrowings. The internally generated funds will be primarily sourced from proceeds from pre-sales and sales of its properties to be received by the Target Group. As at the Latest Practicable Date, the amount of pre-sale proceeds received for the properties that have yet to be delivered by the Target Group amounted to approximately RMB[137.3] million. The bank borrowings will include bank borrowings presently available and any new bank borrowings to be obtained by the Target Group to fund its capital requirement when necessary. In November 2014, it had received a non-legally binding confirmation from a commercial bank that they had in principle agreed to grant to the Target Group a banking facility in the amount of RMB200.0 million for the development of The Cullinan Bay Project. The in-principle approval is valid for one year and loan will be granted subject to completion of the lending approval procedure of the bank and lending conditions being fulfilled. The proposed Directors will apply for the banking facility when it is necessary to seek further financing and they are of the view that there is no obstacle for the Target Group to obtain the said banking facility. Furthermore, another banking facility of RMB60 million was granted to the Target Group by a commercial bank in the PRC for a period of two years from August 2015, the draw-down of which is subject to the Target Group's provision to the bank of collaterals (including but not limited to car parking spaces, residential properties and/or retail shops).

The proposed Directors are of the opinion, and the Sponsor concurs, that, taking into consideration the financial resources presently available to the Enlarged Group, including the internally generated funds and bank borrowings, in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next 12 months commencing from the date of this circular.

## NET CURRENT LIABILITIES/ASSETS

The table below sets forth the Target Group's net current assets/liabilities as at the dates indicated:

| | At 31 December | | | As at 30 June | As at 31 August |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) |
| CURRENT ASSETS | | | | | |
| Inventories | 659,540 | 714,045 | 645,440 | 687,689 | 713,000 |
| Amount due from a related party | — | 23,301 | — | — | — |
| Trade and other receivables | 28,342 | 29,009 | 14,999 | 13,205 | 27,464 |
| Prepaid land appreciation tax | 15,406 | 14,766 | 11,040 | 5,299 | 4,992 |
| Structured deposits | — | 25,000 | — | — | — |
| Restricted and pledged bank deposits | 11,209 | 17,038 | 12,147 | 32,456 | 32,759 |
| Time deposits, bank balances and cash | 21,974 | 29,522 | 125,607 | 124,875 | 118,054 |
| | **736,471** | **852,681** | **809,233** | **863,524** | **896,269** |
| CURRENT LIABILITIES | | | | | |
| Trade and bills payables | 29,279 | 48,078 | 2,953 | 3,331 | 17,724 |
| Other payables and accruals | 30,821 | 92,150 | 77,247 | 97,360 | 104,218 |
| Pre-sales proceeds received on sales of properties | 272,265 | 224,983 | 86,687 | 113,044 | 123,797 |
| Amounts due to related parties | 413,409 | 422,766 | 54,112 | 53,764 | 56,247 |
| Secured bank borrowings | 6,600 | 55,600 | 17,175 | 9,000 | 10,000 |
| Income tax payable | 4,949 | 4,998 | 6,494 | 11,552 | 9,824 |
| | **757,323** | **848,575** | **244,668** | **288,051** | **321,810** |
| **NET CURRENT (LIABILITIES) ASSETS** | **(20,852)** | **4,106** | **564,565** | **575,473** | **574,459** |

The Target Group experienced net current liabilities of approximately RMB20.9 million as at 31 December 2012 respectively, and net current assets of approximately RMB4.1 million, RMB564.6 million and RMB564.3 million as at 31 December 2013 and 2014 and 28 February 2015 respectively. The position of net current liabilities as at 31 December 2012 was primarily due to the amounts due to related parties which were repayable on demand and classified as current liabilities. The amounts due to related parties had been fully settled/discharged and recognised as equity. The proposed Directors consider that the current asset position of the Target Group has been improving.

In respect of the current portion of secured bank borrowings as at 31 December 2013, a subsidiary of the Target Group may have breached a loan term relating to the debt-to-asset ratio requirement. The secured bank borrowings had a carrying amount of approximately RMB50.0 million as at 31 December 2013 and loan term of approximately 3 years for financing the construction and development of The Cullinan Bay Project. Prior to obtaining a letter of confirmation from the relevant bank confirming that it would not demand immediate repayment of the secured bank borrowings, the relevant secured bank borrowings outstanding as at 31 December 2013 were classified as current liabilities for accounting purposes.

The Target Group recorded net current assets of approximately RMB4.1 million as at 31 December 2013 as compared to the net current liabilities of approximately RMB20.9 million as at 31 December 2012, primarily attributable to (i) an increase in inventories by approximately RMB54.5 million mainly resulted from an increase in properties under development for sale and (ii) a decrease in pre-sales proceeds received on sales of properties by approximately RMB47.3 million driven by the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013. It was partially offset by (i) an increase in other payables and accruals by approximately RMB61.3 million mainly driven by an increase in accrued construction costs related to the construction and development of The Cullinan Bay Project and (ii) an increase in current portion of secured bank borrowings by approximately RMB49.0 million mainly due to the drawdown of newly granted secured bank borrowings for financing the construction and development of The Cullinan Bay Project during the year, which were classified as current liabilities for accounting purpose as discussed above.

The net current assets of the Target Group increased by approximately RMB560.5 million or 137.7 times from approximately RMB4.1 million as at 31 December 2013 to approximately RMB564.6 million as at 31 December 2014, primarily attributable to the combined effect of (i) a decrease in amounts due to related parties by approximately RMB368.7 million mainly due to the assignment of interests, rights and benefits of Mr. Tsoi and Mr. Shie in balances due from Hengde to the Target Company of approximately RMB170.1 million and RMB208.0 million respectively in consideration for the issue of 4,500,000 shares and 5,500,000 shares of the Target Company respectively on 23 October 2014; (ii) a decrease in pre-sales proceeds received on sales of properties by approximately RMB138.3 million primarily attributable to the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of Phase 4 of the Binjiang International Project; (iii) a decrease in the current portion of secured bank borrowings by approximately RMB38.4 million due to the reclassification of certain secured bank borrowings from current liabilities as at 31 December 2013 to non-current liabilities as at 31 December 2014 on the basis of a written confirmation from relevant bank that it was not aware of any breach of loan covenants by the Target Group or circumstances leading to any early loan repayment on 31 August 2014; (iv) a decrease in trade and bills payables by approximately RMB45.1 million due to the full settlement of bills; and (v) an increase in time deposits, bank balances and cash by approximately RMB96.1 million during the year. It was partially offset by a decrease in inventories by approximately RMB68.6 million primarily driven by the decrease in properties held-for-sale as a result of the delivery of completed properties of Phase 4 of the Binjiang International Project.

The net current assets of the Target Group slightly increased by approximately RMB10.9 million from approximately RMB564.6 million as at 31 December 2014 to approximately RMB575.5 million as at 30 June 2015, primarily attributable to the combined effect of (i) an increase in inventories by approximately RMB42.2 million mainly due to the additional construction and development costs capitalised for The Cullinan Bay Project and (ii) an increase in restricted and pledged bank deposits by approximately RMB20.3 million as a result of the receipt of pre-sale proceeds for Stage 1 of Phase 1 of The Cullinan Bay Project. It was partially offset by (i) an increase in other payables and accruals by approximately RMB20.1 million mainly due to the additional accrued construction costs for The Cullinan Bay Project; (ii) an increase in pre-sales proceeds received on sales of properties by approximately RMB26.4 million mainly due to the pre-sale of The Cullinan Bay Project and (iii) an decrease in trade receivables by approximately RMB4.8 million which was in line of the reduction in revenue.

The net current assets of the Target Group stood at approximately RMB574.5 million as at 31 August 2015 and was relatively stable as compared to the net current assets of approximately RMB575.5 million as at 30 June 2015.

## DESCRIPTION OF CERTAIN KEY BALANCE SHEET ITEMS

### Investment properties

Property interests held by the Target Group under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 December 2012 and 2013, the investment properties held by the Target Group consisted of the completed portion, which included kindergarten and car parking spaces of Phases 1 to 3 of the Binjiang International Project, and the portion under construction, which were car parking spaces of Phase 4 of the Binjiang International Project. As at 31 December 2014 and 30 June 2015, the investment properties consisted of the completed kindergarten and car parking spaces of Phases 1–4 of the Binjiang International Project subsequent to the completion of construction of car parking spaces of Phase 4 of the Binjiang International Project during the year ended 31 December 2014. As at 31 December 2012, 2013 and 2014 and 30 June 2015, the fair value of investment properties of the Target Group was approximately RMB101.5 million, RMB112.8 million, RMB117.2 million and RMB118.3 million, respectively, based on the fair value assessment carried out by DTZ, a firm of independent and qualified professional valuers.

Fair value of investment properties was affected by, among other factors, the rate of economic growth, interest rate and political and economic developments in the PRC. In addition, property value of each of the investment properties under development is also affected by construction costs and development progress.

The following table shows a breakdown and movement of the Target Group's investment properties during the Track Record Period:

| | **Completed investment properties** | **Investment properties under construction** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Fair value** | | | |
| At 1 January 2012 | 86,600 | 4,400 | 91,000 |
| Additions | — | 4,600 | 4,600 |
| Increase in fair value recognised in profit or loss | 4,600 | 1,300 | 5,900 |
| At 31 December 2012 | 91,200 | 10,300 | 101,500 |
| Additions | — | 3,450 | 3,450 |
| Increase in fair value recognised in profit or loss | 3,600 | 4,250 | 7,850 |
| At 31 December 2013 | 94,800 | 18,000 | 112,800 |
| Increase in fair value recognised in profit or loss | 4,400 | — | 4,400 |
| Transfer | 18,000 | (18,000) | — |
| At 31 December 2014 | 117,200 | — | 117,200 |
| Increase in fair value recognised in profit or loss | 1,100 | — | 1,100 |
| At 30 June 2015 | 118,300 | — | 118,300 |

**Inventories**

Inventories of the Target Group, which comprised properties under development for sales and properties held-for-sale, were accounted for as current assets in the consolidated statements of financial position. The following table sets forth a breakdown of the Target Group's inventories as at the dates indicated:

| | At 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Properties under development for sale | 508,320 | 537,283 | 545,575 | 615,850 |
| Properties held-for-sale | 151,220 | 176,762 | 99,865 | 71,839 |
| Total | 659,540 | 714,045 | 645,440 | 687,689 |

*Properties under development for sale*

Changes in the balances of properties under development for sale during the Track Record Period reflected the total GFA under construction as at each reporting date which were significantly affected by project development schedule. Upon the satisfaction of condition for the delivery of completed properties, the respective accumulated capitalised costs of these completed properties would be transferred from properties under development for sale to properties held-for-sale. As at 31 December 2012, 2013, 2014 and 30 June 2015, properties under development for sale of the Target Group amounted to approximately RMB508.3 million, RMB537.3 million, RMB545.6 million and RMB615.9 million respectively.

Balances of properties under development for sale increased by approximately RMB29.0 million or 5.7% from approximately RMB508.3 million as at 31 December 2012 to approximately RMB537.3 million as at 31 December 2013 primarily attributable to the net effect of (i) additional capitalised costs for construction and development of Phase 4 of the Binjiang International Project and The Cullinan Bay Project and (ii) the transfer of the accumulated capitalised costs of Stage 1 of Phase 4 of the Binjiang International Project as properties held-for-sale in view of the fact that construction of Stage 1 of Phase 4 of the Binjiang International Project was completed and ready for delivery since July 2013.

Balances of properties under development for sale increased by approximately RMB8.3 million or 1.5% from approximately RMB537.3 million as at 31 December 2013 to approximately RMB545.6 million as at 31 December 2014 primarily attributable to the net effect of (i) additional capitalised costs for construction and development of Stage 2 of Phase 4 of the Binjiang International Project and The Cullinan Bay Project and (ii) the transfer of the accumulated capitalised costs of Stage 2 of Phase 4 of the Binjiang International Project as properties held-for-sale in view of the fact that construction of Stage 2 of Phase 4 of the Binjiang International Project was completed and ready for delivery in June 2014.

Balances of properties under development for sale increased by approximately RMB70.3 million or 12.9% from approximately RMB545.6 million as at 31 December 2014 to approximately RMB615.9 million as at 30 June 2015 primarily due to the additions of capitalised costs for construction and development of The Cullinan Bay Project during the period.

*Properties held-for-sale*

Properties held-for-sale represented the completed properties that have not been delivered to customers as at each reporting date during the Track Record Period. Changes in the balances of properties held-for-sale during the Track Record Period were driven by the total GFA completed and delivered in each reporting period. Both of these factors were significantly affected by the project development schedule and the property market condition. The Target Group had properties held-for-sale, comprising only the completed and undelivered properties of the Binjiang International Project, of approximately RMB151.2 million, RMB176.8 million, RMB99.9 million and RMB71.8 million as at 31 December 2012, 2013 and 2014 and 30 June 2015 respectively.

Balances of properties held-for-sale increased by approximately RMB25.6 million or 16.9% from approximately RMB151.2 million as at 31 December 2012 to approximately RMB176.8 million as at 31 December 2013 primarily attributable to the net effect of (i) the transfer of accumulated capitalised costs of Stage 1 of Phase 4 of the Binjiang International Project as properties held-for-sale and (ii) the cost recognition mainly resulted from the delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project in 2013.

Balances of properties held-for-sale decreased by approximately RMB76.9 million or 43.5% from approximately RMB176.8 million as at 31 December 2013 to approximately RMB99.9 million as at 31 December 2014 primarily attributable to the net effect of (i) the transfer of accumulated capitalised costs of Stage 2 of Phase 4 of the Binjiang International Project as properties held-for-sale and (ii) the cost recognition mainly resulted from the delivery of completed properties of Phase 4 of the Binjiang International Project during the period.

Balances of properties held-for-sale decreased by approximately RMB28.1 million or 28.1% from approximately RMB99.9 million as at 31 December 2014 to approximately RMB71.8 million as at 30 June 2015 primarily due to the cost recognition mainly resulted from the delivery of completed properties of the Binjiang International Project during the period.

**Trade receivables**

The following table sets forth a breakdown of the Target Group's trade receivables as at the dates indicated:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 2,888 | 2,938 | 6,989 | 2,216 |
| Less: impairment loss recognised | (10) | (30) | (30) | (30) |
| Total | 2,878 | 2,908 | 6,959 | 2,186 |

Trade receivables of the Target Group as at each reporting date during the Track Record Period represented the outstanding amount of property purchase consideration payable by customers after the completed properties were delivered to customers. The purchase price of properties sold was payable by each customer pursuant to the terms in sales agreements. After customers paid non-refundable initial deposits at or prior to signing the sales agreements, customers may either settle the outstanding amounts by means of lump-sum payment, installments, with mortgage loan financing or payment via housing fund accounts of customers. Trade receivables of the Target Group as at 31 December 2012, 2013 and 2014 and 30 June 2015 were primarily comprised of (i) outstanding installment payments to be made by customers and (ii) outstanding mortgage payments agreed to be released by mortgagee banks.

The Target Group recorded gross trade receivables of approximately RMB2.9 million, RMB2.9 million, RMB7.0 million and RMB2.2 million as at 31 December 2012, 2013 and 2014 and 30 June 2015 respectively.

The following aging analysis of gross trade receivables was based on the date when the revenue from sale of the respective properties was recognised:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0–30 days | — | 450 | — | 2,066 |
| 31–90 days | 1,230 | 729 | — | 150 |
| 91–180 days | 1,100 | 1,420 | 4,479 | — |
| 181–365 days | 470 | 329 | 2,510 | — |
| Over 365 days | 88 | 10 | — | — |
| Total | 2,888 | 2,938 | 6,989 | 2,216 |

The Target Group generally granted no credit period to customers and only allowed certain customers to settle the purchase consideration by installments. The proposed Directors would monitor the recoverability of the overdue trade receivables and impairment losses would be provided for the overdue trade receivables when there is objective evidence that these may be uncollectable. As at 31 December 2012, 2013 and 2014 and 30 June 2015, the recognised impairment losses were approximately RMB10,000, RMB30,000, RMB30,000 and RMB30,000 respectively. Further details of trade receivables are set out in the Accountants' Report on the Target Group included as Appendix I to this circular.

As at 31 August 2015, all of the net trade receivables as at 30 June 2015 had been subsequently settled.

The following table sets forth the average trade receivables turnover days for the periods indicated:

| | For the year ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| Average trade receivables turnover days | 13 | 5 | 7 | 14 |

*Note:* Average trade receivables turnover days were calculated based on average balance of trade receivables divided by total revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the sum of the beginning balance and ending balance for the relevant period divided by two.

The average trade receivables turnover days decreased from approximately 13 days for the year ended 31 December 2012 to approximately 5 days for the year ended 31 December 2013 primarily attributable to the increase in revenue for the year ended 31 December 2013 as a result of the increase in delivery of completed properties during the same year as compared to those delivered in the year ended 31 December 2012.

The average trade receivables turnover days increased from approximately 5 days for the year ended 31 December 2013 to approximately 7 days for the year ended 31 December 2014 primarily attributable to the increase in the balance of trade receivables as at 31 December 2014 as it generally took longer for the Target Group to receive outstanding mortgage payments agreed to be released by mortgagee banks during the year ended 31 December 2014.

The average trade receivables turnover days increased from approximately 7 days for the year ended 31 December 2014 to approximately 14 days for the six months ended 30 June 2015 primarily due to the longer time for collecting outstanding mortgage payments agreed to be released by mortgagee banks during the six months ended 30 June 2015.

**Structured deposits**

The Target Group acquired RMB-dominated structured deposits of approximately RMB45.0 million issued by a PRC bank in the year ended 31 December 2013. The return and principal were not guaranteed by banks and the expected return was determined with reference to the market price of the underlying equity and debt instruments and exchange rate in foreign currency market. The structured deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivative. The proposed Directors consider that the fair values of the structured deposits approximate to their carrying values as at 31 December 2013. The expected return rate is 2.4% per annum as at 31 December 2013.

The Target Group redeemed structured deposits of approximately RMB20.0 million in December 2013 and the remaining balances of approximately RMB25.0 million were fully redeemed in January 2014 at their principal amounts together with returns which approximated the expected return.

Save as disclosed above, the Target Group did not acquire any structured deposit in the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015.

The Target Group did not hold any investments as at the Latest Practicable Date.

*Investment, treasury and risk management policy of the Target Group*

During the Track Record Period, the Target Group managed surplus cash mainly through investing in RMB-dominated structured deposits issued by a PRC bank which has sound reputations. The proposed Directors believed that such structured deposits offered a reasonable rate of return for risks taken as compared to that offered by fixed deposits at commercial banks in the PRC.

The Target Group has in place an investment, treasury and risk management policy which governs the Target Group's investments since January 2010. The investment, treasury and risk management policy of the Target Group includes, among other things, the following:

— investment should only be undertaken when the Target Group has surplus cash beyond the requirement of working capital;

— the term of investments shall only be for a period of not more than 12 months in order to maintain liquidity and financial flexibility;

— the types of investments shall only be limited to those of low risk which offer a return better than that offered by fixed deposits at commercial banks in the PRC;

— high risk investments such as securities and their derivatives and investment funds are prohibited; and

— short-term investment products should only be purchased from reputable and licensed financial institutions.

In order to further reduce risks associated with the Target Group's investments described above, the proposed Directors have decided that the Target Group would not seek any investments that are not principal-protected in the future. The investment, treasury and risk management policy will be updated from time to time in accordance with the development of the Target Group and the macro-economic environment in the PRC.

*Internal control procedures of the Target Group's investments*

The entering into of an investment by the Target Group must be approved by the proposed Directors. The finance department of the Target Group will make investment recommendation to the proposed Directors by reviewing the prevailing working capital position, estimating the expected working capital requirement and assessing the rate of return and level of risk of the recommended investments. The proposed Directors will then be responsible for considering the risks and benefits of entering into an investment by taking into account of various factors such as the flexibility of investment term, availability of better investment alternatives and global economic conditions so as to assess if the entering into of an investment is appropriate.

Mr. Wu Zhisong, one of the proposed executive Directors, is also responsible for overseeing the investment activities of the Target Group, including executing investment transactions and managing the investment portfolio to ensure that they are in line and within the investment, treasury and risk management policy of the Target Group. He must report to the Board on the investment activities and prepare regular performance report to the Board. Mr. Wu has accumulated over 8 years of experience in the financial management. He is a qualified intermediate economist in taxation and a qualified intermediate accountant of the PRC since December 1995 and December 1999 respectively.

**Trade and bills payables**

The following table sets forth a breakdown of the Target Group's trade and bills payables as at the dates indicated:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 4,279 | 3,078 | 2,953 | 3,331 |
| Bills payables | 25,000 | 45,000 | — | — |
| Total | 29,279 | 48,078 | 2,953 | 3,331 |

Trade and bills payables as at each reporting date during the Track Record Period mainly represented payables to third parties suppliers and construction contractors. The payment to construction contractors was generally made in accordance with stage of completion of a property development project as set out in the construction contractor contracts. Save for 3% to 10% of the total contracted amount would be retained to cover any expenses that may be incurred as a result of any construction defects, the Target Group would settle the payables to construction contractors within the credit period. Such retention money payables are settled approximately 2–5 years after the completion of the construction works.

Trade and bills payables increased by approximately RMB18.8 million or 64.2% from RMB29.3 million as at 31 December 2012 to approximately RMB48.1 million as at 31 December 2013 mainly due to the issuance of bills for settlement of construction fees payables to major construction contractors who were responsible for major building foundation construction works for Phase 4 of the Binjiang International Project during the years.

Trade and bills payables decreased by approximately RMB45.1 million or 93.8% from RMB48.1 million as at 31 December 2013 to approximately RMB3.0 million as at 31 December 2014 mainly due to the full settlement of bills of approximately RMB45.0 million during the year.

Trade and bills payables increased by approximately RMB0.3 million or 10.0% from approximately RMB3.0 million as at 31 December 2014 to approximately RMB3.3 million as at 30 June 2015 primarily attributable to the increase in trade payables to suppliers and construction contractors for the continuous construction and development of The Cullinan Bay Project during the period.

The credit period offered by construction contractors, suppliers of raw materials and other suppliers for settlement of construction related payables was normally within 90 days from the invoice date. For bills issued by the Target Group, the maturity date was one year from the bills issuance date. The following is an aging analysis of trade and bills payables presented based on the invoice date at the dates indicated:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0–60 days | 177 | 91 | 44 | 502 |
| 61–90 days | — | 122 | — | — |
| 91–180 days | 25,750 | 25,050 | 116 | 398 |
| 181 days–1 year | 66 | 20,040 | 274 | 22 |
| Over 1 year | 3,286 | 2,775 | 2,519 | 2,409 |
| Total | 29,279 | 48,078 | 2,953 | 3,331 |

The trade and bills payables which have been aged over one year as shown in the above aging analysis were principally the retention monies which the Target Group withheld pursuant to contractual arrangements with construction contractors for any construction defects. As at 31 August 2015, approximately 15.1% of the total trade payables of approximately RMB0.5 million as at 30 June 2015 had been subsequently settled.

During the Track Record Period, the Target Group had not experienced material defaults in payment of trade and bills payables.

The following table sets forth the average trade and bills payables turnover days for the periods indicated:

| | For the years ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| Average trade and bills payables turnover days | 101 | 90 | 50 | 20 |

*Note:* Average trade and bills payables turnover days were calculated based on average balance of trade and bills payables divided by total cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the sum of the beginning balance and ending balance for the relevant period divided by two.

The average trade and bills payables turnover days decreased from approximately 101 days for the year ended 31 December 2012 to approximately 90 days for the year ended 31 December 2013 primarily attributable to a greater percentage of increase in cost of sales as a result of an increase in delivery of completed properties of the Binjiang International Project in 2013, as compared to the percentage of increase in trade and bills payables contributed by issuance of additional bills of approximately RMB20.0 million for settlement of construction fees payables to a major construction contractor for the construction of the Binjiang International Project.

The average trade and bills payables turnover days decreased from approximately 90 days for the year ended 31 December 2013 to approximately 50 days for the year ended 31 December 2014 and further decreased to approximately 20 days for the six months ended 30 June 2015 primarily attributable to the decrease in bills payables resulted from the settlement of bills of approximately RMB45.0 million during the year ended 31 December 2014.

**Other payables and accruals**

The following table sets forth a breakdown of the Target Group's other payables and accruals as at the dates indicated:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Accrued construction costs | 20,361 | 79,387 | 62,032 | 80,932 |
| Accrual of social insurance and housing fund | 3,355 | 4,040 | 4,628 | 4,660 |
| Accrued staff costs | 256 | 578 | 640 | 200 |
| Public maintenance fund received from customers | 3,709 | 3,805 | 4,014 | 4,833 |
| Other tax payables | 1,456 | 2,446 | 3,945 | 4,752 |
| Accrual agency fee | 132 | 433 | 555 | 916 |
| Interest payable | — | 99 | — | — |
| Deposits received from suppliers | 1,125 | 904 | 904 | 355 |
| Others | 427 | 458 | 529 | 712 |
| Total | 30,821 | 92,150 | 77,247 | 97,360 |

Other payables and accruals primarily consisted of accrued construction costs, public maintenance fund received from customers and accrual of social insurance and housing fund. Accrued construction costs represented the unbilled portion of construction and development costs actually completed and not recorded as trade payable as at the end of the respective periods. The balances of public maintenance fund from customers was received on behalf of the Ministry of Housing and Urban-Rural Development of PRC from the property customers as maintenance fund for the public facilities within the Binjiang International Project.

Balances of other payables and accruals increased by approximately RMB61.4 million or 199.4% from approximately RMB30.8 million as at 31 December 2012 to approximately RMB92.2 million as at 31 December 2013 primarily attributable to the increase in accrued construction costs incurred for construction and development of The Cullinan Bay Project.

Balances of other payables and accruals decreased by approximately RMB15.0 million or 16.3% from approximately RMB92.2 million as at 31 December 2013 to approximately RMB77.2 million as at 31 December 2014 mainly attributable to the decrease in accrued construction costs as a result of the settlement of respective accrued costs for construction of The Cullinan Bay Project.

Balances of other payables and accruals increased by approximately RMB20.2 million or 26.2% from approximately RMB77.2 million as at 31 December 2014 to approximately RMB97.4 million as at 30 June 2015 mainly due to the increase in accrued construction costs attributable to the further construction and development of The Cullinan Bay Project.

**Pre-sales proceeds received on sales of properties**

Deposits and instalments received from customers prior to the delivery of the completed properties in respect of sales of the respective properties were recorded as pre-sales proceeds received on sales of properties as current liabilities in the consolidated statements of financial position. Pre-sales proceeds received on sales of properties are recognised as revenue when the respective properties have been completed and delivered to the customers.

Balances of pre-sales proceeds received on sales of properties of approximately RMB272.3 million and RMB225.0 million as at 31 December 2012 and 2013 respectively were all contributed by the pre-sales proceeds received from customers of the Binjiang International Project.

Balances of pre-sales proceeds received on sales of properties decreased by approximately RMB47.3 million or 17.4% from approximately RMB272.3 million as at 31 December 2012 to approximately RMB225.0 million as at 31 December 2013 primarily attributable to the recognition of pre-sales proceeds received from customers as revenue as a result of the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013.

The pre-sale of The Cullinan Bay Project in Yangzhou commenced in May 2014. Balance of pre-sales proceeds received on sales of properties as at 31 December 2014 consisted of pre-sales proceeds received from customers of the Binjiang International Project and The Cullinan Bay Project. The balance decreased by approximately RMB138.3 million or 61.5% from approximately RMB225.0 million as at 31 December 2013 to approximately RMB86.7 million as at 31 December 2014 primarily attributable to the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of Phase 4 of the Binjiang International Project.

Balances of pre-sales proceeds received on sales of properties increased by approximately RMB26.3 million or 30.3% from approximately RMB86.7 million as at 31 December 2014 to approximately RMB113.0 million as at 30 June 2015 primarily attributable to the additional proceeds received on pre-sales of Stage 1 of Phase 1 of The Cullinan Bay Project.

**Amount due from a related party**

Amount due from a related party as at 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 of nil, approximately RMB23.3 million, nil and nil respectively represented receivable from Mr. Tsoi which was unsecured, non-interest bearing and repayable on demand.

## INDEBTEDNESS AND CONTINGENT LIABILITIES

As at 31 December 2012, 2013 and 2014, 30 June and 31 August 2015, the Target Group had total indebtedness of approximately RMB428.0 million, RMB492.7 million, RMB241.3 million, RMB229.8 million and RMB231.2 million respectively.

The following table sets forth a summary of the indebtedness of the Target Group as at the dates indicated:

| | As at 31 December | | | As at 30 June | As at 31 August |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | | (Unaudited) |
| Secured bank borrowings | | | | | |
| — current portion | 6,600 | 55,600 | 17,175 | 9,000 | 10,000 |
| — non-current portion | 8,000 | 14,300 | 170,000 | 167,000 | 165,000 |
| | 14,600 | 69,900 | 187,175 | 176,000 | 175,000 |
| Amounts due to related parties | 413,409 | 422,766 | 54,112 | 53,764 | 56,247 |
| Total | 428,009 | 492,666 | 241,287 | 229,764 | 231,247 |

### Secured bank borrowings

The total outstanding secured bank borrowings as at 31 December 2012, 2013 and 2014, 30 June and 31 August 2015 were approximately RMB14.6 million, RMB69.9 million, RMB187.2 million, RMB176.0 million and RMB175.0 million respectively. All secured bank borrowings held by the Target Group as at 31 December 2012, 2013 and 2014, 30 June and 31 August 2015 were dominated in RMB.

The following table shows the maturity profile of secured bank borrowings as at the dates indicated:

| | As at 31 December | | | As at 30 June | As at 31 August |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) |
| Total secured bank borrowings are repayable as follows: | | | | | |
| Within one year | 6,600 | 7,600 | 17,175 | 9,000 | 10,000 |
| More than one year but not exceeding two years | 5,600 | 5,500 | 170,000 | 167,000 | 165,000 |
| More than two years but not more than five years | 2,400 | 56,800 | — | — | — |
| | 14,600 | 69,900 | 187,175 | 176,000 | 175,000 |
| Less: Carrying amount of secured bank borrowings that are repayable on demand due to breach of loan covenants (shown under current liabilities) | — | (50,000) | — | — | — |
| Less: Amounts due for settlement within one year shown under current liabilities | (6,600) | (5,600) | (17,175) | (9,000) | (10,000) |
| Amounts shown under non-current liabilities | 8,000 | 14,300 | 170,000 | 167,000 | 165,000 |

The Target Group's total outstanding secured bank borrowings increased significantly from approximately RMB14.6 million as at 31 December 2012 to approximately RMB187.2 million as at 31 December 2014 primarily for financing the construction and development of The Cullinan Bay Project over the periods. The balance of secured bank borrowings decreased from approximately RMB187.2 million as at 31 December 2014 to approximately RMB176.0 million as at 30 June 2015 and further decreased to approximately RMB[175.0] million as at 31 August 2015 mainly attributable to certain repayment of bank borrowings during the periods.

As at 31 August 2015, the Target Group had aggregate banking facilities of approximately RMB[175.0] million which were fully utilised. The banking facilities were restricted to be used in the Target Group's property development project.

The following table summarises the fixed-rate and variable-rate borrowings of the Target Group as at the dates indicated:

| | As at 31 December | | | At 30 June | At 31 August |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (Unaudited) |
| Fixed-rate borrowings | 3,100 | — | — | — | — |
| Variable-rate borrowings | 11,500 | 69,900 | 187,175 | 176,000 | 175,000 |
| | 14,600 | 69,900 | 187,175 | 176,000 | 175,000 |

The effective interest rates of fixed-rate borrowings were 5.85% as at 31 December 2012. The effective interest rates of variable-rate borrowings were 1.92%, 0.31% to 1.92%, 0.30%, 0.26% and 0.26% plus the PRC Benchmark Lending Rate per annum as at 31 December 2012, 2013 and 2014, 30 June and 31 August 2015 respectively.

Secured bank borrowings of RMB14.6 million and RMB19.9 million as at 31 December 2012 and 2013, respectively, are guaranteed by certain directors and immediate family member of a director of the Target Group. Certain directors of the Target Group also provided unlimited personal guarantee to banks in respect of general facilities granted to the Target Group as at 31 December 2012 and 2013. All guarantees for secured bank borrowings and general facilities had been released or the relevant banking facilities had been repaid as at 31 December 2014.

During the Track Record Period, the Target Group also pledged the following assets to banks for the bank borrowings and other banking facilities granted to the Target Group and a related company:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Inventories | 31,594 | 361,779 | 342,275 | 336,934 |
| Pledged bank deposits | 10,000 | 15,000 | — | — |
| | 41,594 | 376,779 | 342,275 | 336,934 |

*Potential breach of loan covenant during the Track Record Period*

In respect of the secured bank borrowings outstanding as at 31 December 2013, the management of the Target Group discovered that a term of loan agreements relating to the debt-to-asset ratio requirement may have been breached. On discovery of this potential breach, the proposed Directors informed the relevant bank. Since the corresponding loan agreement includes a repayable on demand clause giving the bank an unconditional right to call the loan any time in respect of any breach of terms of loan agreements by the Target Group, and the bank has not confirmed to waive its right to demand immediate repayment, respective outstanding balances of secured bank borrowings of approximately RMB50.0 million as at 31 December 2013 with original loan tenors of over one year were repayable on demand and, therefore, classified as current liabilities for accounting purposes.

Pursuant to the terms of the relevant loan agreements, in case of any breach of financial covenants by the Target Group, the bank is entitled to demand immediate repayment of the principal, interest and fees of the respective loans, exercise its security rights, request for additional guarantees, terminate the relevant loan agreements, or settle the amounts payable under the relevant loan agreements by deducting the same amount in any other bank accounts of the Target Group opened at this bank. On 31 August 2014, the bank agreed not to demand for immediate repayment of respective loans pursuant to a written confirmation from the bank. The bank has further confirmed that, in respect of the Target Group's bank borrowings as at 31 October 2014 and the Latest Practicable Date, it was not aware of any breach of loan covenants by the Target Group or circumstances leading to early loan repayment. As at the Latest Practicable Date, the debt-to-asset ratio of the relevant subsidiary of the Target Group was approximately 26.6% which fulfilled the debt-to-asset ratio requirement of not exceeding 65% as stipulated in the loan agreements.

*Loan covenants*

As at the Latest Practicable Date, the Target Group held total outstanding secured bank borrowings of approximately RMB175.0 million to finance its property construction and development. The material loan covenants of the Target Group's material secured bank borrowings as at the Latest Practicable Date are as follows:

(i) utilise the secured bank borrowings only for the purpose as stipulated in loan agreements in relation to the development of a particular property project or project phase;

(ii) notify the relevant bank the details of any related party transactions entered into by the borrower if such transaction exceeds 10% of the net assets of the borrower;

(iii) obtain written consent from the relevant bank prior to providing assets pledged under the relevant bank borrowing as guarantee in favour of any third parties;

(iv) inform or obtain written consent from the relevant bank in respect of material adverse changes that may affect the borrower's repayment ability, corporate changes, merger, spinning-off, shareholding changes, investment, and obtaining additional debt financing from third parties; and

(v) fulfill certain financial ratios requirement, including debt-to-asset ratio which shall not exceed 65% and/or current ratio which shall not be less than 1.

Save for the above-mentioned potential breach of loan covenant during the Track Record Period, the proposed Directors confirm that the Target Group had (i) no other material breach of loan covenants of bank borrowings; (ii) neither notice of breach of material loan covenants nor demand for early or immediate loan repayment has been received from banks; (iii) no cross default clause of other bank borrowings has been triggered off as a result of the reclassification as at 31 December 2013 and (iv) no delay or default in the repayment of bank borrowings during the Track Record Period and up to the Latest Practicable Date.

*Internal control measures for ongoing compliance with loan covenants*

To ensure ongoing compliance with loan covenants, the Target Group has in place internal control measures, including but not limited to, on a regular basis (i) reviewing loan covenants of existing and new bank borrowings; (ii) assessing the Target Group's current financial position and its outstanding balances of bank borrowings; (iii) reporting findings to the proposed Directors. The Target Group is in the process of strengthening its budgeting system under which monthly covenant compliance forecast would be conducted to ensure compliance with such covenants in the future. In case any potential breach of loan covenants is identified in the future, the proposed Directors will review the matter and promptly liaise with the relevant bank to resolve such potential breach of loan covenants. The proposed Directors consider that these measures can ensure ongoing compliance with loan covenants in the future.

**Amounts due to related parties**

The following table sets forth the breakdown of amounts due to related parties as at the dates indicated:

| | As at 31 December | | | As at 30 June | As at 31 August |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | | (Unaudited) |
| Amounts due to directors | 196,571 | 41,915 | 54,112 | 53,764 | 56,247 |
| Amount due to a related company | 216,838 | 380,851 | — | — | — |
| | 413,409 | 422,766 | 54,112 | 53,764 | 56,247 |

The amounts due to directors as at 31 December 2012, 2013 and 2014, 30 June and 31 August 2015, which were unsecured, non-interest bearing and repayable on demand, were advances from Mr. Tsoi and Mr. Shie for financing the working capital of the Target Group during the Track Record Period.

In respect of the amount due to Mr. Tsoi and Mr. Shie, on 23 October 2014, Mr. Tsoi and Mr. Shie entered into a deed of assignment pursuant to which they shall assign their interests, rights and benefits in balances due from Hengde to the Target Company of approximately RMB170.1 million and RMB208.0 million respectively in consideration for the issue of 4,500,000 shares and 5,500,000 shares of the Target Company respectively, at an issue price of approximately RMB38 per share. The aforesaid consideration shares were allotted and issued to Mr. Tsoi and Mr. Shie on 23 October 2014.

Amount due to a related company as at 31 December 2012 and 2013 represented the advance made by by Mr. Shie and Mr. Tsoi through Jianhong Investment primarily for the support of operation of Yangzhou Dehui and was non-trade nature, unsecured, non-interest bearing and has no fixed repayment term.

**Contingent liabilities**

The contingent liabilities of the Target Group represented the corporate guarantee provided to PRC banks in respect of the mortgage loans provided to customers of the Target Group.

| | As at 31 December | | | As at 30 June | As at 31 August |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | | (Unaudited) |
| Corporate guarantee given to banks in respect of mortgage facilities granted to property buyers | 289,773 | 333,582 | 336,554 | 351,452 | 353,273 |

The guarantees provided by the Target Group to PRC banks in connection with mortgage loans granted to customers for financing their property purchases would be released at the earlier of (i) the receipt of the individual property ownership certificate of the relevant properties by the banks from customers as security for the mortgage loans and (ii) the full settlement of mortgage loans by the customers. As at 31 December 2012, 2013 and 2014, 30 June and 31 August 2015, the outstanding mortgage loan guarantees provided by the Target Group in favour of customers of the Target Group were approximately RMB289.8 million, RMB333.6 million, RMB336.6 million, RMB351.5 million and RMB353.3 million respectively. The proposed Directors believe that in case of default on mortgage loan payments by purchasers, the net realisable value of the underlying properties is expected to cover the outstanding mortgage principal together with the accrued interest and penalties. Accordingly, no provision has been made for these guarantees. During the Track Record Period, the Target Group has not encountered material defaults by purchasers that, in aggregate, had a material adverse effect on the financial conditions and results of operations.

During the year ended 31 December 2014, the Target Group has pledged its inventories to provide guarantee for a general banking facilities granted to a related party. This financial guarantee has no fair value at inception date based on valuation performed by DTZ, a firm of independent and qualified professional valuers. No provision for financial guarantee contracts has been made as the proposed Directors consider that the default risk of borrowers is low. In October 2014, the guarantee provided to the related party has been released.

## COMMITMENTS

### Construction commitments

The Target Group had the following construction commitments as at the dates indicated:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Construction commitments in respect of properties under development for sale contracted for but not provided | 43,647 | 72,308 | 354,973 | 299,228 |

The construction commitments of Target Group as at the end of each reporting period during the Track Record Period were the commitments which will be incurred in accordance with the construction progress of the Target Group's property development projects, including the Binjiang International Project and The Cullinan Bay Project. The construction commitments as at 31 December 2014 and 30 June 2015 were primarily related to the construction and development of The Cullinan Bay Project. The proposed Directors believe the Target Group will be able to settle construction commitments by internally generated funds and secured bank borrowings.

### Operating commitment

The Target Group leased out some of investment properties under operating lease arrangement with a rental term of 20 years. The following table sets forth future non-cancellable minimum lease payments in respect of leases of which the Target Group acts as lessor as at the dates indicated:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | 217 | 246 | 246 | 246 |
| In the second to fifth year inclusive | 1,045 | 1,090 | 1,135 | 1,157 |
| After five years | 4,976 | 4,686 | 4,394 | 4,249 |
| | 6,238 | 6,022 | 5,775 | 5,652 |

The Target Group also entered non-cancellable operating lease arrangements for offices premises and sales centres for an average term of 1 to 3 years with fixed rental. The following table sets forth the future minimum lease payment under non-cancellable operating leases of which the Target Group acts as lessee as at the dates indicated:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | 190 | 426 | 161 | 65 |
| In the second to fifth year inclusive | — | 97 | 22 | 41 |
| | 190 | 523 | 183 | 106 |

## OFF BALANCE SHEET ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, except as disclosed in this section or in the Accountants' Report of the Target Group set out in Appendix I to this circular, the Target Group did not have any outstanding loan capital issued or agrees to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

## KEY FINANCIAL RATIO ANALYSIS

The following table sets forth the key financial ratios of the Target Group as at/for the periods indicated:

| | | Year ended 31 December/ As at 31 December | | | Six months ended 30 June/As at 30 June |
|---|---|---|---|---|---|
| | *Notes* | **2012** | **2013** | **2014** | **2015** |
| Return on equity (%) | *1* | 26.8% | 32.9% | 12.0% | 6.3% *(Note 8)* |
| Return on total assets (%) | *2* | 2.4% | 3.0% | 3.8% | 3.3% *(Note 8)* |
| Current ratio (times) | *3* | 1.0 | 1.0 | 3.3 | 3.0 |
| Quick ratio (times) | *4* | 0.1 | 0.2 | 0.7 | 0.6 |
| Gearing ratio (%) | *5* | 614.8% | 508.0% | 48.2% | 44.4% |
| Net debt to equity ratio (%) | *6* | 583.3% | 477.5% | 23.1% | 20.3% |
| Interest coverage | *7* | N/A | 25.1 | 28.1 | 143.4 |

*Notes:*

(1) Return on equity is calculated based on the profit for the respective year/period divided by the average of total equity at the beginning and the end of year/period and multiplied by 100%.

(2) Return on total assets is calculated based on the profit for the respective year/period divided by the average of total assets at the beginning and the end of year/period and multiplied by 100%.

(3) Current ratio is calculated based on the total current assets as at the respective date divided by the total current liabilities as at the respective date.

(4) Quick ratio is calculated based on the total current assets net of inventories as at the respective date divided by the total current liabilities as at the respective date.

(5) Gearing ratio is calculated based on the total debts (comprising bank borrowings and amounts due to related parties) as at the respective date divided by total equity as at the respective date and multiplied by 100%. Debts are defined to include all liabilities incurred not in the ordinary course of business with trade-related payables excluded.

(6) Net debt to equity ratio is calculated based on all debts net of cash and cash equivalents as at the respective date divided by total equity as at the respective date.

(7) Interest coverage is calculated based on the profit before finance costs and tax divided by finance costs recorded in income statement for the respective year/period.

(8) Profit (on an annualised basis for the period ended 30 June 2015) divided by average total assets/equity and multiplied by 100%.

**Return on equity**

Return on equity increased from approximately 26.8% for the year ended 31 December 2012 to approximately 32.9% for the year ended 31 December 2013 due to the increase in net profit during the year.

Return on equity decreased from approximately 32.9% for the year ended 31 December 2013 to approximately 12.0% for the year ended 31 December 2014 due to the combined effect of the increase in net profit during the year and the increase of total equity as at 31 December 2014 as a result of the issue of shares of the Target Company to Mr. Tsoi and Mr. Shie on 23 October 2014.

**Return on total assets**

Return on total assets increased from approximately 2.4% for the year ended 31 December 2012 to approximately 3.0% for the year ended 31 December 2013 due to the increase in net profit from approximately RMB15.3 million for the year ended 31 December 2012 to approximately RMB27.4 million for the year ended 31 December 2013, outweighing the higher average balance of total assets mainly attributable to the further increase in inventories for the continuous construction of Stage 2 of Phase 4 of the Binjiang International Project and the increase in time deposits, bank balances and cash, restricted and pledged bank deposits and structured deposits primarily raised from new bank borrowings.

Return on total assets increased from approximately 3.0% for the year ended 31 December 2013 to approximately 3.8% for the year ended 31 December 2014 primarily attributable to the increase in net profit from RMB27.4 million for the year ended 31 December 2013 to RMB35.8 million for the year ended 31 December 2014.

**Current ratio**

As at 31 December 2012 and 2013, current ratio maintained stable at approximately 1.0 time.

Current ratio improved from approximately 1.0 time as at 31 December 2013 to approximately 3.3 times as at 31 December 2014 primarily due to the decline in current liabilities as a result of the decrease in amounts due to a related company from RMB380.9 million as at 31 December 2013 to nil as at 31 December 2014 after Mr. Tsoi and Mr. Shie assigned their interests, rights and benefits in balances due from Hengde to the Target Company of approximately RMB378.1 million in aggregate on 23 October 2014.

Current ratio slightly decreased from approximately 3.3 times as at 31 December 2014 to approximately 3.0 times as at 30 June 2015 primarily due to increase in accrued construction costs and pre-sale proceeds received on sales of properties for The Cullinan Bay Project.

**Quick ratio**

Due to the growth of current assets other than inventories from approximately RMB76.9 million as at 31 December 2012 to approximately RMB138.6 million as at 31 December 2013 primarily attributable to increase in time deposits, bank balances and cash, restricted and pledged bank deposits, structured deposits and amount due from a related party, quick ratio rose from approximately 0.1 time as at 31 December 2012 to approximately 0.2 time as at 31 December 2013.

Quick ratio further increased from approximately 0.2 time as at 31 December 2013 to approximately 0.7 time as at 31 December 2014 primarily due to the decline in current liabilities as a result of the decrease in amount due to a related party.

Quick ratio decreased from approximately 0.7 time as at 31 December 2014 to approximately 0.6 time as at 30 June 2015 primarily attributable to the increase in current liabilities as explained for the change of current ratio for the same period in the above paragraph; and partially offset with an increase in inventories resulting from the additions of capitalised costs for construction and development of The Cullinan Bay Project.

**Gearing ratio**

Gearing ratio decreased from approximately 614.8% as at 31 December 2012 to approximately 508.0% as at 31 December 2013 as the equity increased at a rate faster than the growth of total debts.

Gearing ratio significantly decreased from 508.0% as at 31 December 2013 to approximately 48.2% as at 31 December 2014 primarily due to the decrease in amount due to a related company and the increase in share capital as a result of the assignment of the interests, rights and benefits of Mr. Tsoi and Mr. Shie in balances due from Hengde to the Target Company of approximately RMB378.1 million in aggregate in consideration of the issue of shares of the Target Company to Mr. Tsoi and Mr. Shie.

Gearing ratio decreased from approximately 48.2% as at 31 December 2014 to approximately 44.4% as at 30 June 2015 mainly due to the repayment of bank borrowings during the six months ended 30 June 2015.

**Net debt to equity ratio**

The reasons for the fluctuation in net debt to equity ratio as at the end of each period during the Track Record Period are similar to those for changes in gearing ratio as set forth above.

**Interest coverage**

No interest coverage was calculated for the year ended 31 December 2012 as the Target Group capitalised all finance costs incurred in the inventories when the finance costs were directly attributable to the construction of properties.

Interest coverage increased from approximately 25.1 times for the year ended 31 December 2013 to approximately 28.1 times for the year ended 31 December 2014 as the profit before finance costs and tax increased at a faster rate than the increase of finance costs.

Interest coverage increased from approximately 28.1 times for the year ended 31 December 2014 to approximately 143.4 times for the six months ended 30 June 2015, primarily due to the substantial decrease in finance costs recorded in income statement from RMB2.0 million for the year ended 31 December 2014 to RMB0.2 million for the six months ended 30 June 2015 as a result of the settlement of bank borrowings and bills in relation to the construction and development of the Binjiang International Project.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

The Target Group is exposed to various types of financial risks, including market risks (consisting of interest rate risk, other price risk and currency risk), liquidity risk and credit risk in the normal course of its business.

### Interest rate risk

The Target Group is exposed to cash flow interest rate risk in relation to secured bank borrowings, restricted and pledged bank deposits, time deposits and bank balances. The cash flow interest rate risk is mainly concentrated on fluctuations associated with variable rate linked to PRC Benchmark Lending Rate in respect of secured bank borrowings and variable rate restricted and pledged bank deposits, time deposits and bank balances.

The Target Group is also exposed to fair value interest rate risk in relation to fixed rate secured bank borrowings.

The Target Group currently does not have an interest rate hedging policy. However, the management monitor interest rate risk exposure and will consider interest rate hedging should it be necessary.

### Other price risk

The Target Group is exposed to price risk through its investment in structured deposits which are designated as financial assets at FVTPL. The management of the Target Group manages this exposure by selecting the structured deposits with a diversified portfolio of investments with different risks. The Target Group's price risk is mainly concentrated market price of the underlying equity and debts instruments and exchange rate in foreign currency market. The Target Group currently does not use any derivative contracts to hedge its exposure to other price risk. The proposed Directors are considered the price risk as insignificant.

### Currency risk

The Target Group has incurred balances of amounts due to directors which are denominated in foreign currency of relevant group entity and therefore exposed to foreign exchange risk.

The Target Group does not enter into any derivative contracts to minimise the currency risk exposure. However, the management of the Target Group monitors foreign exchange exposure and will consider hedging significant foreign exchange risk should the need arises.

**Liquidity risk**

In the management of the liquidity risk, the Target Group monitors and maintains a level of time deposits, bank balances and cash as well as undrawn banking facilities deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Target Group monitors the utilisation of bank borrowings.

**Credit risk**

The Target Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position and the financial guarantee provided by the Target Group as disclosed in the above section headed "Contingent liabilities". The Target Group's credit risk is primarily attributable to its trade and other receivables, structured deposits, restricted and pledged bank deposits, time deposits and bank balances.

The Target Group's concentration of credit risk by geographical locations is mainly in the PRC, accounted for 99% of the total financial assets as at 31 December 2012 and 2013, 92% and 93% of the total financial assets as at 31 December 2014 and 30 June 2015, respectively.

In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The proposed Directors therefore consider that the credit risk of the Target Group is significantly reduced.

For the financial guarantees provided by the Target Group to secure obligations of the customers of the property units for the repayment of their mortgage loans, if there is a default in repayment by these purchasers, the Target Group is responsible for repaying the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to banks. Under such circumstances, the Target Group is able to take over the ownership of the relevant properties and sell the properties to recover any amounts paid by the Target Group to banks. The proposed Directors therefore consider that the credit risk on such guarantees is significantly reduced.

The Target Group's credit risk position on other receivables closely monitored by management of the Target Group by reviewing the recoverable amount of other receivables as at the end of each reporting period to ensure the adequate impairment losses are made for irrecoverable amounts.

The credit risks on structured deposits, restricted and pledged bank deposits, time deposits and bank balances are limited because the counterparties are reputable banks in the PRC.

## DIVIDEND POLICY

During the Track Record Period, the Company and the Target Group did not declare or pay any dividend, which may not reflect the Company's future intention to declare dividends. The Company currently does not have a fixed dividend policy. The Board has the discretion to determine whether to declare any dividend for any period and, if it decides to declare a dividend, the amount of dividend to be declared. The Company will evaluate its dividend policy from time to time in light of its financial position and the prevailing economic climate. The determination to pay dividends, however, will be made at the discretion of the Board and will be based upon the Company's earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that the Board deems relevant.

## DISTRIBUTABLE RESERVES

As at 30 June 2015, the Target Company had distributable reserves of approximately RMB19.6 million available for distribution to its shareholders.

## RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

The Target Group's business model, revenue and cost structure remained unchanged since 30 June 2015. Based on its unaudited management accounts for the two months ended 31 August 2015, its unaudited average monthly revenue for the two months ended 31 August 2015 was comparatively lower than the average monthly revenue for the six months ended 30 June 2015 primarily due to the lack of delivery of retail shops in July and August 2015 and all revenue for the month represented the sales of residential properties of the Binjiang International Project as compared to the six months ended 30 June 2015 when the delivery of retail shops constituted approximately 58.7% of total sales during the period. As at 31 August 2015, the total indebtedness of the Target Group amounted to approximately RMB231.2 million.

As far as the proposed Directors are aware, there have been no material changes in the general economic and market conditions in the PRC or the property market in which the Target Group operates that would materially and adversely affected its business operations or financial condition since 30 June 2015 and up to the date of this circular. The proposed Directors confirm that there had not been any material adverse change in the financial or trading position or the prospects of the Target Group since 30 June 2015 and up to the date of this circular.

The proposed Directors confirmed that the Target Group has not experienced any withdrawal of banking facilities, requests for early payment of outstanding bank loans or increase in the amount of pledge(s), cancellation or orders, bankruptcy or default of customers or suppliers which have had a material adverse impact on our business operations.

## DISCLOSURE REQUIRED UNDER THE LISTING RULES

The proposed Directors confirm that, as at the Latest Practicable Date, there were no circumstances which, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## PROPERTY INTERESTS AND PROPERTY VALUATION

DTZ, a firm of independent and qualified professional valuers, has valued the property interests of the Target Group as at 31 July 2015 and is of the opinion that the aggregate value of property interests of the Target Group as at such date was RMB924.9 million. The full text of the letter, summary of valuation and valuation certificates with regard to our property interests are set out in the Property Valuation Report in Appendix IV to this circular.

As required under Rule 5.07 of the Listing Rules, the statement below sets forth the reconciliation of the aggregate value of certain properties and land use rights as reflected in the consolidated financial statements as at 30 June 2015 as set out in Appendix I to this circular with the valuation of these property interests as at 31 July 2015 as set out in Appendix IV this circular.

| | *(RMB millions)* |
|---|---|
| **Net book value of properties as at 30 June 2015** | |
| — Properties under development for sale | 616 |
| — Properties held-for-sale | 72 |
| — Investment properties | 118 |
| | 806 |
| Movements for the period from 30 June 2015 to 31 July 2015 | 15 |
| **Net book value as at 31 July 2015** | 821 |
| Net valuation surplus | 104 |
| **Market value of properties as at 31 July 2015 as set out in the property valuation report in Appendix IV to this circular** | 925 |

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following (i) the Capital Reorganisation becoming effective; (ii) the [REDACTED]; (iii) the Subscription; and (iv) the issue of the Consideration Shares will be as follows:

**(i) As at the Latest Practicable Date**

*Authorised share capital*

| *Shares* | | *HK$* |
|---|---|---|
| 3,000,000,000 | Shares of HK$0.10 each | 300,000,000.00 |

*Issued and paid-up share capital*

| | | |
|---|---|---|
| 1,945,996,565 | Shares of HK$0.10 each | 194,599,656.50 |

**(ii) Immediately following (i) the Capital Reorganisation becoming effective; (ii) the [REDACTED]; (iii) the Subscription; and (iv) the issue of the Consideration Shares**

*Authorised share capital*

| *New Shares* | | *HK$* |
|---|---|---|
| 100,000,000,000 | New Shares of HK$0.005 each | 500,000,000.00 |

*Issued and paid-up share capital*

| | | |
|---|---|---|
| 194,599,656 | New Shares of HK$0.005 each immediately upon the Capital Reorganisation becoming effective | 972,998.28 |
| 389,199,312 | New Shares to be allotted and issued under the [REDACTED] to the Qualifying Shareholders on the basis of two (2) [REDACTED] for every one (1) New Share held on the [REDACTED] or, to the [REDACTED] pursuant to the [REDACTED] Agreement | 1,945,996.56 |
| 1,167,597,940 | New Shares to be allotted and issued to the Subscribers under the Subscription Agreements | 5,837,989.70 |
| 4,086,592,787 | New Shares to be allotted and issued to the Vendors under the Acquisition Agreement | 20,432,963.94 |
| **5,837,989,695** | | **29,189,948.48** |

Since 31 December 2014, the date to which the latest audited financial statements of the Company were made up, and up to the Latest Practicable Date, no Shares have been allotted and issued by the Company or bought-back by the Company. The Company did not buy back any Share during the 12 months period immediately preceding the Latest Practicable Date. No part of the equity or debt securities of the Company is [REDACTED] or dealt in, nor is [REDACTED] or permission to deal in the Shares or loan capital of the Company being, or proposed to be, sought on any other stock exchange.

## RANKING

When fully paid and allotted, the [REDACTED], the Subscription Shares and the Consideration Shares will rank pari passu in all respects among themselves, including all rights to dividend and distributions which may be declared, made or paid by the Company, voting and interest in capital, with the New Shares in issue (after the Capital Reorganisation becoming effective) as at the respective date of allotment and issue thereof.

## MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at least 25% of the Company's total issued share capital must at all times be held by the public.

The Subscribers, and the Vendors (if necessary) will take appropriate steps, including entering into [REDACTED] agreement(s) with third party broker(s) or agent(s) to place down a portion of the New Shares to restore sufficient public float of the Company. For further details of the proposed [REDACTED], please refer to the section headed "Letter from the Board — 9. Changes in shareholding structure — [REDACTED] down to restore public float " in this circular.

## OUTSTANDING OPTIONS

Other than a total of 212,903,226 New Shares to be issued to Time Boomer and First Apex under the Subscription Agreements, there were no other outstanding options, warrants or other conversion rights over any part of the Company's share capital as at the Latest Practicable Date.

Other than the capital of the Company, there was no capital of any member of the Group which is under option, or agreed conditionally or unconditionally to be put under option.

## ISSUE MANDATE

A resolution will be proposed at the EGM for the Shareholders, or Independent Shareholders, as the case may be, to approve the grant of a specific mandate to issue the [REDACTED], the Subscription Shares and the Consideration Shares.

For further details of the specific mandate to issue the [REDACTED], the Subscription Shares and the Consideration Shares, please refer to the section headed "Letter from the Board — 8. The [REDACTED], the Subscription Shares, and the Consideration Shares" in this circular.

## CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The Company has only one class of shares, namely ordinary shares, each of which ranks pari passu with the other shares.

Pursuant to the Companies Law and the terms of the New Memorandum and Articles, the Company may from time to time by ordinary shareholders' resolution (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, the Company may, subject to sanction by the courts in the Cayman Islands, reduce its share capital by shareholders' special resolution.

All or any of the special rights attached to the share of the Company or any class of shares of the Company may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class.

For more details, please refer to the section headed "Summary of the principal terms of the New Memorandum and Articles and Cayman Islands Companies Law" set out in Appendix VI of this circular.

As at the Latest Practicable Date, the following persons (not being Directors and chief executive of the Company) had an interest (or long position) or short position in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

| **Name of substantial Shareholder** | **Long/short position** | **Capacity** | **Number of Shares interested** | **Approximate % of the Company's issued share capital** |
|---|---|---|---|---|
| Md. Tan Sook Kiang | Long | Interest of Spouse | [REDACTED] *(Note 1)* | [REDACTED] |
| NKT Holdings Sdn. Bhd. | Long | Beneficial owner | [REDACTED] | [REDACTED] |
| Md. Siew Ai Lian | Long | Interest of controlled corporation | [REDACTED] *(Note 2)* | [REDACTED] |
| Mr. Shie | Long | Interest of controlled corporation | [REDACTED] *(Note 3)* | [REDACTED] |
| Fame Build | Long | Beneficial owner | [REDACTED] | [REDACTED] |
| Mr. Tsoi | Long | Interest of controlled corporation | [REDACTED] *(Note 4)* | [REDACTED] |
| Talent Connect | Long | Beneficial owner | [REDACTED] | [REDACTED] |
| Jinwu | Long | Beneficial owner | [REDACTED] *(Note 5)* | [REDACTED] |
| First Apex | Long | Beneficial owner | [REDACTED] *(Note 6)* | [REDACTED] |
| Daxin Investment Fund | Long | Interest of controlled corporation | [REDACTED] *(Note 7)* | [REDACTED] |

| Name of substantial Shareholder | Long/short position | Capacity | Number of Shares interested | Approximate % of the Company's issued share capital |
|---|---|---|---|---|
| Greater China Capital Limited | Long | Investment manager | [REDACTED] *(Note 7)* | [REDACTED] |
| Mr. Benjamin Kumar Sharma | Long | Interest of controlled corporation | [REDACTED] *(Note 8)* | [REDACTED] |

Immediately upon completion of the Proposed Restructuring, the following persons will have an interest (or long position) or short position in the shares or underlying shares of the Company which would be recorded in the register required to be kept under section 336 of the SFO and would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

| Name of substantial shareholder | Long/short position | Capacity | Number of Shares interested | Approximate % of the Company's issued share capital |
|---|---|---|---|---|
| Mr. Shie | Long | Interest of controlled corporation | [REDACTED] *(Note 3)* | [REDACTED] |
| Fame Build | Long | Beneficial Owner | [REDACTED] | [REDACTED] |
| Mr. Tsoi | Long | Interest of controlled corporation | [REDACTED] *(Note 4)* | [REDACTED] |
| Talent Connect | Long | Beneficial Owner | [REDACTED] | [REDACTED] |
| Jinwu | Long | Beneficial Owner | [REDACTED] *(Note 5)* | [REDACTED] |
| Daxin Investment Fund | Long | Interest of controlled corporation | [REDACTED] *(Note 7)* | [REDACTED] |
| Greater China Capital Limited | Long | Investment Manager | [REDACTED] *(Note 7)* | [REDACTED] |

*Notes:*

(1) These Shares represent (i) [REDACTED] Shares held by Md. Tan Sook Kiang; and (ii) [REDACTED] Shares held by Mr. Ng Kok Hong, the spouse of Md. Tan Sook Kiang. Md. Tan Sook Kiang is deemed by virtue of the SFO to be interested in [REDACTED] Shares.

(2) These Shares are held by NKT Holdings Sdn. Bhd., a company incorporated in Malaysia, which is owned as to 50% by Mr. Ng Kok Tai and as to 50% by Md. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Md. Siew Ai Lian is deemed by virtue of the SFO to be interested in these Shares.

(3) These shares represent 50% of the Consideration Shares to be allotted and issued to Mr. Shie upon completion of the Acquisition Agreement, which will be held by Fame Build, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Shie. Mr Shie is deemed by virtue of the SFO to be interested in these shares.

(4) These shares represent 50% of the Consideration Shares to be allotted and issued to Mr. Tsoi upon completion of the Acquisition Agreement, which will be held by Talent Connect, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Tsoi. Mr. Tsoi is deemed by virtue of the SFO to be interested in these shares.

(5) These shares represent the Subscription Shares to be allotted and issued to Jinwu pursuant to the relevant Subscription Agreements.

(6) These shares represent the Subscription Shares to be allotted and issued to First Apex pursuant to the relevant Subscription Agreements.

(7) Pursuant to the relevant Subscription Agreements, [REDACTED] shares will be allotted and issued to Jinwu, which is owned by Daxin Investment Fund and managed by Greater China Capital Limited as investment manager. Daxin Investment Fund and Greater China Capital Limited are deemed by virtue of the SFO to be interested in the said [REDACTED] shares held by Jinwu.

(8) Pursuant to the relevant Subscription Agreements, [REDACTED] shares will be allotted and issued to First Apex, which is wholly and beneficially owned by Mr. Benjamin Kumar Sharma. Mr. Benjamin Kumar Sharma is deemed by virtue of the SFO to be interested in the said [REDACTED] shares held by First Apex.

Save as disclosed above, the Directors and chief executive of the Company were not aware, as at the Latest Practicable Date, of any person who will have an interest (or long position) or short position in the shares or underlying shares of the Company which would be recorded in the register required to be kept under section 336 of the SFO and would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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[●]

The Directors
**First Mobile Group Holdings Limited**
**Cinda International Capital Limited**

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to China General (HK) Company Limited ("China General") and its subsidiaries (hereinafter collectively referred to as the "China General Group") for each of the three years ended 31 December 2014 and the six months ended 30 June 2015 (the "Relevant Periods") for inclusion in the circular of First Mobile Group Holdings Limited (the "Company") dated [●] in connection with the proposed acquisition of China General (the "Circular").

China General was incorporated in Hong Kong with limited liability under the Hong Kong Company Ordinance on 1 September 1992. The Company is an investment holding company.

Through a group reorganisation (the "Group Reorganisation") which was completed on 9 October 2014 and details of which are set out in note 2 in Section A of this report, 惠安中總房地產開發有限公司 (for identification purpose, Hui An China General Real Estate Development Company Limited), a directly owned subsidiary of China General, established a wholly-owned subsidiary in the People's Republic of China (the "PRC") named 福建省厚德企業管理有限公司 (for identification purpose, Fujian Province Houde Enterprise Management Company Limited) which acquired the entire paid-up capital of 恒德(石獅)投資有限公司 (for identification purpose, Hengde (Shishi) Investment Company Limited, together with its subsidiaries referred to as "Dehui Sub-group"), established in the PRC. Thereafter, China General became the holding company of companies now comprising the China General Group.

At the date of this report, China General has equity interest in the following subsidiaries:

| Name of subsidiaries | Place of establishment | Legal form | Date of establishment | Registered capital/paid-up capital | Attributable equity interest held by the China General Group | | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | At 31 December | | | At 30 June | At the date of | |
| | | | | | 2012 | 2013 | 2014 | 2015 | the report | |
| **Direct** | | | | | | | | | | |
| 惠安中總房地產開發有限公司 Hui An China General Real Estate Development Company Limited* ("Hui An China General") | The PRC | Limited liability company | 22 February 2006 | Registered capital of RMB62,000,000 and paid-up capital of RMB62,000,000 | 98.387% | 98.387% | 98.387% | 98.387% | 98.387% | Property development |
| **Indirect** | | | | | | | | | | |
| 福建省厚德企業管理有限公司 Fujian Province Houde Enterprise Management Company Limited* ("Houde Enterprise") | The PRC | Limited liability company | 20 August 2014 | Registered capital of RMB10,000,000 and paid-up capital of RMB10,000,000 | N/A | N/A | 98.387% | 98.387% | 98.387% | Investment holding |
| 恒德(石獅)投資有限公司 Hengde (Shishi) Investment Company Limited* ("Hengde") | The PRC | Limited liability company | 2 July 2012 | Registered capital of RMB10,000,000 and paid-up capital of RMB10,000,000 | 100% | 100% | 98.387% | 98.387% | 98.387% | Investment holding |
| 揚州德輝房地產開發有限公司 Yangzhou Dehui Real Estate Development Company Limited* ("Yangzhou Dehui") | The PRC | Limited liability company | 17 August 2012 | Registered capital of RMB388,000,000 and paid-up capital of RMB388,000,000 | 100% | 100% | 98.387% | 98.387% | 98.387% | Property development |
| 揚州德泰物業服務有限公司 Yangzhou Detai Property Services Company Limited* ("Yangzhou Detai") | The PRC | Limited liability company | 2 September 2013 | Registered capital of RMB1,000,000 and paid-up capital of RMB1,000,000 | N/A | 100% | 98.387% | 98.387% | 98.387% | Inactive |

* *English names are for identification purpose only*

All companies now comprising the China General Group adopted 31 December as their financial year end date.

The statutory financial statements of China General for the years ended 31 December 2012, 2013 and 2014 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and were audited by Deloitte Touche Tohmatsu.

The statutory financial statements of other subsidiaries established in the PRC for the Relevant Periods, or since their respective dates of establishment, where this is a shorter period, were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises registered in the PRC and were audited by certified public accountants registered in the PRC referred to as below.

| Name | Financial Periods | Auditors |
|---|---|---|
| Hui An China General | For the years ended 31 December 2012, 2013 and 2014 | Xiamen Zhong Yong Xu Accounting Firm Limited Liability Company 廈門中永旭會計事務所有限公司 |
| Houde Enterprise | For the period from 20 August 2014 (date of establishment) to 31 December 2014 | Xiamen Zhong Yong Xu Accounting Firm Limited Liability Company 廈門中永旭會計事務所有限公司 |
| Hengde | For the period from 2 July 2012 (date of establishment) to 31 December 2012 and for the years ended 31 December 2013 and 2014 | Xiamen Zhong Yong Xu Accounting Firm Limited Liability Company 廈門中永旭會計事務所有限公司 |
| Yangzhou Dehui | For the period from 17 August 2012 (date of establishment) to 31 December 2012 and for the years ended 31 December 2013 and 2014 | Yangzhou De Cheng C.P.A. Partnership 揚州德誠聯合會計事務所 |
| Yangzhou Detai | For the period from 2 September 2013 (date of establishment) to 31 December 2013 and for the year ended 31 December 2014 | Yangzhou De Cheng C.P.A. Partnership 揚州德誠聯合會計事務所 |

For the purpose of this report, the directors of China General have prepared the consolidated financial statements of the China General Group for the Relevant Periods in accordance with HKFRSs issued by the HKICPA (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with the Hong Kong Standards of Auditing and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "[REDACTED] and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the China General Group for the Relevant Periods as set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to the Underlying Financial Statements in the preparation of this report for inclusion in the Circular.

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

In our opinion, on the basis of preparation set out in note 2 to Section A below, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the financial position of the China General Group and China General as at 31 December 2012, 2013 and 2014 and at 30 June 2015 and of the financial performance and cash flows of the China General Group for the Relevant Periods.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the China General Group for the six months ended 30 June 2014 together with the notes thereon have been extracted from the China General Group's unaudited consolidated financial information for the same period (the "June 2014 Financial Information") which was prepared by the directors of China General solely for the purpose of this report. We conducted our review on the June 2014 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the June 2014 Financial Information consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 2014 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2014 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

## A. FINANCIAL INFORMATION

### Consolidated Statements of Profit or Loss and Other Comprehensive Income

| | | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | | (unaudited) | |
| Revenue | 6 | 90,603 | 203,689 | 256,532 | 130,109 | 61,310 |
| Cost of sales | | (63,802) | (156,007) | (186,705) | (98,275) | (28,026) |
| Gross profit | | 26,801 | 47,682 | 69,827 | 31,834 | 33,284 |
| Other income | 7 | 448 | 930 | 1,404 | 732 | 2,792 |
| Other gains and losses | 8 | 191 | 1,399 | (428) | (284) | 271 |
| Fair value change of investment properties | 17 | 5,900 | 7,850 | 4,400 | 3,200 | 1,100 |
| Selling expenses | | (4,854) | (7,723) | (9,252) | (5,657) | (2,895) |
| Administrative expenses | | (6,039) | (8,752) | (10,313) | (5,476) | (4,863) |
| Finance costs | 9 | — | (1,650) | (1,977) | (1,360) | (207) |
| Profit before tax | | 22,447 | 39,736 | 53,661 | 22,989 | 29,482 |
| Income tax expense | 10 | (7,152) | (12,364) | (17,848) | (9,004) | (13,475) |
| Profit and total comprehensive income for the year/period | 11 | 15,295 | 27,372 | 35,813 | 13,985 | 16,007 |
| Profit and total comprehensive income for the year/period attributable to: | | | | | | |
| Owners of China General | | 15,031 | 26,836 | 35,094 | 13,650 | 15,726 |
| Non-controlling interests | | 264 | 536 | 719 | 335 | 281 |
| | | 15,295 | 27,372 | 35,813 | 13,985 | 16,007 |

## Consolidated Statements of Financial Position

*China General Group*

| | | At 31 December | | | At 30 June |
|---|---|---|---|---|---|
| | | **2012** | **2013** | **2014** | **2015** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| NON-CURRENT ASSETS | | | | | |
| Plant and equipment | *16* | 1,952 | 2,129 | 1,316 | 950 |
| Investment properties | *17* | 101,500 | 112,800 | 117,200 | 118,300 |
| Deferred tax assets | *27* | 296 | 1,386 | 4,669 | 5,802 |
| | | 103,748 | 116,315 | 123,185 | 125,052 |
| CURRENT ASSETS | | | | | |
| Inventories | *19* | 659,540 | 714,045 | 645,440 | 687,689 |
| Amount due from a related party | *26* | — | 23,301 | — | — |
| Trade and other receivables | *20* | 28,342 | 29,009 | 14,999 | 13,205 |
| Prepaid land appreciation tax | | 15,406 | 14,766 | 11,040 | 5,299 |
| Structured deposits | *21* | — | 25,000 | — | — |
| Restricted and pledged bank deposits | *22* | 11,209 | 17,038 | 12,147 | 32,456 |
| Time deposits, bank balances and cash | *22* | 21,974 | 29,522 | 125,607 | 124,875 |
| | | 736,471 | 852,681 | 809,233 | 863,524 |
| CURRENT LIABILITIES | | | | | |
| Trade and bills payables | *23* | 29,279 | 48,078 | 2,953 | 3,331 |
| Other payables and accruals | *24* | 30,821 | 92,150 | 77,247 | 97,360 |
| Pre-sales proceeds received on sales of properties | *25* | 272,265 | 224,983 | 86,687 | 113,044 |
| Amounts due to related parties | *26* | 413,409 | 422,766 | 54,112 | 53,764 |
| Secured bank borrowings | *28* | 6,600 | 55,600 | 17,175 | 9,000 |
| Income tax payable | | 4,949 | 4,998 | 6,494 | 11,552 |
| | | 757,323 | 848,575 | 244,668 | 288,051 |
| NET CURRENT (LIABILITIES) ASSETS | | (20,852) | 4,106 | 564,565 | 575,473 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 82,896 | 120,421 | 687,750 | 700,525 |
| NON-CURRENT LIABILITIES | | | | | |
| Secured bank borrowings | *28* | 8,000 | 14,300 | 170,000 | 167,000 |
| Deferred tax liabilities | *27* | 5,282 | 9,135 | 16,850 | 16,618 |
| | | 13,282 | 23,435 | 186,850 | 183,618 |
| NET ASSETS | | 69,614 | 96,986 | 500,900 | 516,907 |
| CAPITAL AND RESERVES | | | | | |
| Share capital/paid-up capital | *29* | 21,089 | 21,089 | 389,190 | 389,190 |
| Reserves | | 46,821 | 73,657 | 102,950 | 118,676 |
| Equity attributable to owners of China General | | 67,910 | 94,746 | 492,140 | 507,866 |
| Non-controlling interests | | 1,704 | 2,240 | 8,760 | 9,041 |
| TOTAL EQUITY | | 69,614 | 96,986 | 500,900 | 516,907 |

**Statements of Financial Position**

*China General*

| | | At 31 December | | | At 30 June |
|---|---|---|---|---|---|
| | | 2012 | 2013 | 2014 | 2015 |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| NON-CURRENT ASSETS | | | | | |
| Interests in subsidiaries | *18* | 61,038 | 61,038 | 156,600 | 156,600 |
| Amount due from a subsidiary | *26* | — | — | 285,743 | 294,150 |
| | | 61,038 | 61,038 | 442,343 | 450,750 |
| CURRENT ASSETS | | | | | |
| Other receivables | | — | — | 336 | 315 |
| Bank balances and cash | *22* | 13 | 12 | 11,584 | 11,528 |
| | | 13 | 12 | 11,920 | 11,843 |
| CURRENT LIABILITIES | | | | | |
| Accruals | | 64 | 70 | 39 | 43 |
| Amounts due to related parties | *26* | 43,318 | 41,915 | 54,112 | 53,764 |
| | | 43,382 | 41,985 | 54,151 | 53,807 |
| NET CURRENT LIABILITIES | | (43,369) | (41,973) | (42,231) | (41,964) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 17,669 | 19,065 | 400,112 | 408,786 |
| CAPITAL AND RESERVES | | | | | |
| Share capital | *29* | 11,089 | 11,089 | 389,190 | 389,190 |
| Reserves | *30* | 6,580 | 7,976 | 10,922 | 19,596 |
| TOTAL EQUITY | | 17,669 | 19,065 | 400,112 | 408,786 |

## Consolidated Statements of Changes in Equity

| | Attributable to owners of China General | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Share capital/ paid-up capital** *RMB'000* | **Other non-distributable reserves** *RMB'000* *(Note a)* | **Other reserve** *RMB'000* | **Accumulated profits** *RMB'000* | **Total** *RMB'000* | **Non-controlling interests** *RMB'000* | **Total equity** *RMB'000* |
| At 1 January 2012 | 11,089 | 4,813 | — | 26,977 | 42,879 | 1,440 | 44,319 |
| Profit and total comprehensive income for the year | — | — | — | 15,031 | 15,031 | 264 | 15,295 |
| Transfer of non-distributable reserves | — | 2,043 | — | (2,043) | — | — | — |
| Capital contribution to Hengde | 10,000 | — | — | — | 10,000 | — | 10,000 |
| At 31 December 2012 | 21,089 | 6,856 | — | 39,965 | 67,910 | 1,704 | 69,614 |
| Profit and total comprehensive income for the year | — | — | — | 26,836 | 26,836 | 536 | 27,372 |
| Transfer of non-distributable reserves | — | 1,621 | — | (1,621) | — | — | — |
| At 31 December 2013 | 21,089 | 8,477 | — | 65,180 | 94,746 | 2,240 | 96,986 |
| Profit and total comprehensive income for the year | — | — | — | 35,094 | 35,094 | 719 | 35,813 |
| Transfer of non-distributable reserves | — | 1,099 | — | (1,099) | — | — | — |
| Issue of shares | 378,101 | — | — | — | 378,101 | — | 378,101 |
| Group Reorganisation *(Note b)* | (10,000) | — | (5,801) | — | (15,801) | 5,801 | (10,000) |
| At 31 December 2014 | 389,190 | 9,576 | (5,801) | 99,175 | 492,140 | 8,760 | 500,900 |
| Profit and total comprehensive income for the period | — | — | — | 15,726 | 15,726 | 281 | 16,007 |
| At 30 June 2015 | 389,190 | 9,576 | (5,801) | 114,901 | 507,866 | 9,041 | 516,907 |
| At 1 January 2014 | 21,089 | 8,477 | — | 65,180 | 94,746 | 2,240 | 96,986 |
| Profit and total comprehensive income for the period | — | — | — | 13,650 | 13,650 | 335 | 13,985 |
| At 30 June 2014 (unaudited) | 21,089 | 8,477 | — | 78,830 | 108,396 | 2,575 | 110,971 |

*Note:*

(a) Other non-distributable reserves principally represent statutory reserves required to be appropriated from profit after income tax of the subsidiaries established in the PRC, under the relevant laws and regulations. Allocation to the statutory reserves shall be approved by the board of directors of the relevant subsidiaries. The appropriation to statutory reserves may cease if the balance of the statutory reserves has reached 50% of the registered capital of the respective subsidiaries. The statutory reserves may be used to make up losses or for conversion into capital. The relevant subsidiaries may, upon the approval by a resolution of shareholders' general meeting/board of directors' meeting, convert their statutory reserves into capital in proportion to their then existing shareholdings. However, when converting the statutory reserves into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital of the relevant subsidiary.

(b) Pursuant to the Group Reorganisation (detailed in note 2), Houde Enterprise acquired from 福建建弘投資有限公司 ("Jianhong Investment") the entire paid-up capital of Hengde at a consideration of RMB10,000,000 in cash and the transaction was completed on 9 October 2014. Upon completion of acquisition, Hengde became a wholly-owned subsidiary of Houde Enterprise. The consideration is accounted for as a deemed distribution to Controlling Equity Holders (defined and explained in note 2) and the dilution in Group's ownership interest in Dehui Sub-group amounting to RMB5,801,000 is charged to equity attributable to owners of China General.

## Consolidated Statements of Cash Flows

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| OPERATING ACTIVITIES | | | | | |
| Profit before tax | 22,447 | 39,736 | 53,661 | 22,989 | 29,482 |
| Adjustments for: | | | | | |
| Impairment loss (reversal of impairment loss) on trade and other receivable | 43 | 20 | (68) | — | — |
| Bank interest income | (244) | (682) | (1,151) | (604) | (1,390) |
| Finance costs | — | 1,650 | 1,977 | 1,360 | 207 |
| Depreciation of plant and equipment | 568 | 970 | 1,042 | 611 | 378 |
| Write-off of plant and equipment | — | — | 283 | — | — |
| Fair value changes on investment properties | (5,900) | (7,850) | (4,400) | (3,200) | (1,100) |
| Fair value changes on structured deposits designated as at FVTPL | — | (14) | (30) | (30) | — |
| Net unrealised foreign exchange (gains) losses | (234) | (1,405) | 243 | 314 | (348) |
| Operating cash flows before movements in working capital | 16,680 | 32,425 | 51,557 | 21,440 | 27,229 |
| (Increase) decrease in inventories | (262,314) | (51,513) | 82,882 | 51,360 | (33,576) |
| (Increase) decrease in trade and other receivables | (17,158) | (687) | 14,078 | 12,433 | 1,794 |
| Increase (decrease) in trade and bills payables | 23,212 | 18,799 | (45,125) | (18,753) | 378 |
| (Decrease) increase in other payables and accruals | (10,827) | 61,329 | (14,903) | (26,668) | 20,113 |
| Increase (decrease) in pre-sales proceeds received on sales of properties | 108,075 | (47,282) | (138,296) | (77,372) | 26,357 |
| Cash (used in) generated from operations | (142,332) | 13,071 | (49,807) | (37,560) | 42,295 |
| PRC income tax and land appreciation tax paid | (15,487) | (8,912) | (8,194) | (3,870) | (4,041) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (157,819) | 4,159 | (58,001) | (41,430) | 38,254 |
| INVESTING ACTIVITIES | | | | | |
| Increase in restricted deposits | (47) | (829) | (10,109) | (4,727) | (20,309) |
| Placement of pledged bank deposits | (10,000) | (15,000) | — | — | — |
| Purchase of structured deposits | — | (45,000) | — | — | — |
| Additions to investment properties under construction | (4,600) | (3,450) | — | — | — |
| Advance to a related party | — | (23,301) | (16,419) | (16,419) | — |
| Repayment from a related party | — | — | 39,720 | 24,384 | — |
| Purchase of plant and equipment | (1,221) | (1,147) | (512) | (268) | (12) |
| Withdrawal of pledged bank deposits | — | 10,000 | 15,000 | 5,000 | — |
| Redemption of structured deposits | — | 20,014 | 25,030 | 25,030 | — |
| Interest received from bank deposits | 244 | 682 | 1,151 | 604 | 1,390 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | (15,624) | (58,031) | 53,861 | 33,604 | (18,931) |

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| FINANCING ACTIVITIES | | | | | |
| Advance from directors | 92,496 | 68,545 | 11,954 | — | — |
| Advance from a related party | 216,838 | 74,013 | — | — | — |
| Repayment to directors | (153,120) | (131,796) | — | — | — |
| Repayment to a related party | — | — | (2,750) | — | — |
| Repayment of bank borrowings | (10,730) | (8,700) | (21,855) | (8,160) | (11,175) |
| Interest expense and bills discounting charges paid | (1,931) | (4,642) | (16,254) | (8,416) | (8,880) |
| New bank borrowings raised | 14,000 | 64,000 | 139,130 | 55,130 | — |
| Deemed distribution to Controlling Equity Holders | — | — | (10,000) | — | — |
| Capital contribution to Hengde | 10,000 | — | — | — | — |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | 167,553 | 61,420 | 100,225 | 38,554 | (20,055) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (5,890) | 7,548 | 96,085 | 30,728 | (732) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/ PERIOD | 27,864 | 21,974 | 29,522 | 29,522 | 125,607 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD | 21,974 | 29,522 | 125,607 | 60,250 | 124,875 |

## Notes to the Financial Information

### 1. GENERAL

China General was incorporated in Hong Kong with limited liability with its registered office at Room 401–402, 4/F., Westlands Centre, 70 Westlands Road, Quarry Bay, Hong Kong. The principal place of business is at Daihongbu, Luoyang Town, Huian County, Fujian Province, PRC.

China General is an investment holding company and the principal activities of its subsidiaries are engaged in property development in the PRC.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of China General.

### 2. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL INFORMATION

Prior to the commencement of the Group Reorganisation in 2014, throughout the Relevant Periods, the group entities were under control of Mr. Tsoi Kin Sze (蔡建四) and Mr. Shie Tak Chung (佘德聰) (together referred to as the "Controlling Equity Holders"). Mr. Tsoi Kin Sze and Mr. Shie Tak Chung held 55% and 45% of the issued share capital of China General and each of them also held 50% beneficial interest in 福建建弘投資有限公司 (for identification purpose, Fujian Jianhong Investment Company Limited or "Jianhong Investment"). On 23 October 2014, Mr. Tsoi Kin Sze and Mr. Shie Tak Chung have executed an acting in concert confirmation in respect of China General and Jianhong Investment whereby they confirmed the existence of their acting in concert arrangements in the past, present and future to collectively control over the China General Group. The Group Reorganisation comprised of the following steps:

- On 20 August 2014, Hui An China General established a wholly-owned subsidiary in the PRC, namely Houde Enterprise, for the purpose of acquiring Hengde.

- On 9 October 2014, Houde Enterprise acquired from Jianhong Investment the entire paid-up capital of Hengde at a consideration of RMB10,000,000 in cash. Upon completion of the foregoing, Hengde and its subsidiaries became subsidiaries of China General.

Pursuant to the Group Reorganisation, China General became the holding company of all the companies now comprising China General Group on 9 October 2014. Since the Controlling Equity Holders controlled all the companies now comprising China General Group before and after the Group Reorganisation, the China General Group comprising China General and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity. The Financial Information of the China General Group has been prepared on the basis as if China General had always been the holding company of the China General Group using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Relevant Periods which include the results, changes in equity and cash flows of the entities comprising the China General Group have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of establishment where it is a shorter period.

The consolidated statements of financial position at 31 December 2012, 2013, 2014 and 30 June 2015 have been prepared to present the assets and liabilities of the entities comprising the China General Group as if the current group structure had been in existence at those dates.

## 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the China General Group has consistently adopted HKFRSs, Hong Kong Accounting Standards ("HKAS"), amendments and interpretations which are effective for the China General Group's financial period beginning on 1 January 2015 throughout the Relevant Periods.

At the date of this report, the following new and revised HKFRSs have been issued but are not yet effective. The China General Group has not early applied these standards and amendments.

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 14 | Regulatory Deferral Accounts[2] |
| HKFRS 15 | Revenue from Contracts with Customers[3] |
| Amendments to HKAS 1 | Disclosure Initiative[4] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[4] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[4] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[4] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[4] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[4] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012–2014 Cycle[4] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2016

**HKFRS 9 Financial Instruments**

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category.

Specifically, pursuant to HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Under HKFRS 9, 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 values at the end of subsequent reporting periods. Furthermore, HKFRS 9 requires certain simple debt instruments to be measured at FVTOCI when certain requirements are met. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 adopts an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of China General consider that the adoption of HKFRS 9 in the future may affect the China General Group's financial assets including the impairment assessment but is unlikely to affect the China General Group's financial liabilities. However, it is not practicable to provide a reasonable estimate of the financial effect on the China General Group's financial statements until a detailed review has been completed.

**HKFRS 15 Revenue from Contracts with Customers**

In 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of China General have yet to perform a detailed review on the potential impacts of HKFRS 15. Hence, it is not practicable to provide a reasonable estimate of the financial effect and the relevant disclosures at this juncture.

Except as described above, the directors of China General consider that the application of the other new and revised standards and amendments is unlikely to have a material impact on the China General Group's financial position and performance as well as disclosure.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

The Financial Information has been prepared on the historical cost basis except for investment properties and certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the China General Group takes into account the characteristics of the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except leasing transactions that are within the scope of HKAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

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

The principal accounting policies are set out below.

**Basis of consolidation**

The Financial Information incorporates the financial statements of China General and entities controlled by China General (its subsidiaries). Control is achieved when China General:

- has power over the investee;
- is exposed, or has the rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The China General Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the China General Group obtains control over the subsidiary and ceases when the China General Group loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statements of profit or loss and other comprehensive income from the date the China General Group gains control until the date when the China General Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of China General and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of China General and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the China General Group.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the China General Group's equity therein.

**Merger accounting for business combination involving entities under common control**

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

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

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

**Investment in a subsidiary**

Investment in a subsidiary included in the China General's statement of financial position is stated at cost less any identified impairment loss.

The result of the subsidiary is accounted for on the basis of dividends received and receivable during the Relevant Periods.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the China General Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the China General Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the China General Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Delivery takes place on the date when the property buyers sign the delivery documents or a specific number of days after the date of final collection notice sent by the China General Group to the property buyers pursuant to the sales contract. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position as "Pre-sales proceeds received on sales of properties" under current liabilities.

Interest income is recognised when it is probable that the economic benefits will flow to the China General Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The China General Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

*The China General Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

**Foreign currencies**

In preparing the financial information of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

**Borrowing costs**

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

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

**Retirement benefit costs**

Payments to defined contribution retirement benefit plans including state-managed retirement benefit schemes in the PRC are recognised as an expense when employees have rendered service entitling them to the contributions.

**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 year/period. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The China General Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the China General Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the China General Group expects, at the end of each reporting period, to cover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when 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.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

**Plant and equipment**

Plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. 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.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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 asset) is included in the profit or loss in the period in which the property is derecognised.

**Impairment of tangible assets**

At the end of each reporting period, the China General Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the China General Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

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

**Inventories**

*Properties held-for-sale and properties under development held-for-sale*

Properties held-for-sale and properties under development held-for-sale which are intended to be sold in the ordinary course of business upon completion of development are stated at the lower of cost and net realisable value on an individual basis. Costs comprise the acquisition costs, borrowing cost capitalised in accordance with the Group's accounting policy and other direct costs attributable to such properties and allocated to each unit in each phase based on sellable floor area, using weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and the costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statements 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 ("FVTPL")) 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 FVTPL are recognised immediately in profit or loss.

***Financial assets***

The China General Group's financial assets are classified as loans and receivables and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial debt instrument 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 and 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 finance assets, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than financial assets classified as FVTPL, of which interest income is included in net gains or losses.

*Financial assets at FVTPL*

Financial assets at FVTPL represents financial assets designated as FVTPL on initial recognition.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the China General Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in other gains and losses.

Fair value is determined in the manner described in Note 32(c)(i).

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from a related party and a subsidiary, structured deposits, restricted and pledged bank deposits, time deposits and bank balances and cash) are carried at amortised cost using effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 affected.

Objective evidence of impairment could include:

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

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 profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment 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 instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instrument*

An equity instrument is any contract that evidences a residual interest in the assets of the China General Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

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

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

*Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts issued by the China General Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

***Derecognition***

The China General Group 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 is recognised in profit or loss.

The China General Group derecognises financial liabilities when, and only when, the China General Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the China General Group's accounting policies, which are described in note 4, the directors of China General are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Critical judgment in applying accounting policies**

The following is the critical judgment that the directors of China General have made in the process of applying the China General Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

*Deferred taxation on investment properties*

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model in HKAS 40, the directors of China General have reviewed the China General Group's investment property portfolios together with certain properties characteristics. Investment properties amounting to RMB10,400,000, RMB10,800,000, RMB11,200,000 and RMB11,300,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015 respectively are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring deferred taxation on these investment properties the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The China General Group has estimated the deferred tax taking into account both the land appreciation tax and enterprise income tax on disposal of these investment properties.

For other investment properties amounting RMB91,100,000, RMB102,000,000, RMB106,000,000 and RMB107,000,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015 respectively, the directors of China General have concluded that they are held under a business model to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale as these investment properties cannot be sold or transferred to third parties. For these investment properties, the presumption that investment properties measured using the fair value model are recovered through sale is rebutted and the China General Group has estimated the deferred tax taking into account of enterprise income tax.

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year from the end of each reporting period.

*Land appreciation tax*

The China General Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain property development projects of the China General Group have not finalised their land appreciation tax calculations and payments with local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of land appreciation and its related income tax provisions. The Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and the related income tax provisions in the periods in which such tax is finalised with local tax authorities.

*Determination of net realisable value of properties under development for sale and completed properties for sale*

Properties under development for sale and completed properties for sale are stated at the lower of cost and net realisable value with an aggregate carrying amount of RMB659,540,000, RMB714,045,000, RMB645,440,000 and RMB687,689,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015 respectively. Cost, including the cost of land, development expenditure, borrowing costs capitalised in accordance with the China General Group's accounting policy and other attributable expenses, are allocated to each unit in each phase based on sellable gross floor area, using the weighted average method. The net realisable value is the estimated selling price less estimated selling expenses and estimated cost of completion (if any), which are determined based on best available information. Where there is any decrease in the estimated selling price arising from any changes to the property market conditions in the PRC, there may be write-down on the properties under development for sale and completed properties for sale.

*Estimation of fair value of investment properties*

The valuations of investment properties were determined based on the investment approach by considering the capitalised rental incomes derived from the existing tenancies with due provision for any reversionary income potential of the property interests. For the properties which are currently vacant, or under development the valuation was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term and taking account of estimated cost of completion, where appropriate. Note 17 provides detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of investment properties of the China General Group.

The carrying amount of investment properties at 31 December 2012, 2013 and 2014 and 30 June 2015 was approximately RMB101,500,000, RMB112,800,000, RMB117,200,000 and RMB118,300,000. Notwithstanding that the management employs independent professionally qualified valuers to perform fair value assessments based on these assumptions, the fair value of these investment properties may be higher or lower depending on the future market conditions.

## 6. REVENUE AND SEGMENT INFORMATION

The China General Group is engaged in the property development and revenue represents the net amounts received and receivable for properties sold by the China General Group in the normal course of business to customers for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015.

Information reported to the management of the China General Group, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance is based on a project by project basis. Each individual project constitutes an operating segment. For operating segments that have similar economic characteristics, are produced using similar production process, distributed and sold to similar classes of customers and under similar regulatory environment, their segment information is aggregated into property development operation, as a single reportable segment. The management of the China General Group assesses the performance of the reportable segment based on the revenue and gross profit for the year/period of the China General Group as presented in the consolidated statements of profit or loss and other comprehensive income. The accounting policies of the reportable segment are the same as the China General Group's accounting policies described in note 4. No analysis of the China General Group's assets and liabilities is regularly provided to the management of China General Group for review.

**Entity-wide disclosures**

*Major Products*

Revenue during the Relevant Periods represents sales of properties in a property development project called Binjiang International Project in Huian, Fujian, PRC.

*Geographical information*

The China General Group's operations are located in the PRC. All revenue and non-current assets of the China General Group are generated from and located in the PRC.

*Major Customers*

During the Relevant Periods, the revenue from a single customer or a group of customers under common control which contributed over 10% of total revenue of the China General Group is as follows:

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Customer A | *Note* | *Note* | *Note* | *Note* | 33,931 |

*Note:* The corresponding revenue did not contribute over 10% of the total revenue of the China General Group. There is no single customer or a group of customers under common control which contributed over 10% of the China General Group's revenue for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014.

## 7. OTHER INCOME

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Rental income from investment properties | 202 | 246 | 253 | 123 | 1,402 |
| Bank interest income | 244 | 682 | 1,151 | 604 | 1,390 |
| Others | 2 | 2 | — | 5 | — |
| | 448 | 930 | 1,404 | 732 | 2,792 |

## 8. OTHER GAINS AND LOSSES

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Net foreign exchange gains (losses) | 234 | 1,405 | (243) | (314) | 271 |
| Fair value changes on structured deposits designated as at FVTPL | — | 14 | 30 | 30 | — |
| Write-off of plant and equipment | — | — | (283) | — | — |
| Impairment loss on trade receivables | — | (20) | — | — | — |
| (Impairment loss) reversal of impairment loss on other receivables | (43) | — | 68 | — | — |
| | 191 | 1,399 | (428) | (284) | 271 |

## 9. FINANCE COSTS

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Bills discounting charges *(Note)* | 800 | 3,191 | 1,664 | 1,482 | — |
| Interest on secured bank borrowings wholly repayable within five years | 1,131 | 1,451 | 14,590 | 6,934 | 8,880 |
| Less: amounts capitalised in the cost of qualifying assets | (1,931) | (2,992) | (14,277) | (7,056) | (8,673) |
| | — | 1,650 | 1,977 | 1,360 | 207 |

*Note:* During the Relevant Periods, the China General Group issued bills to suppliers for settlement of the outstanding balances. As part of the financing arrangement, the China General Group agrees to bear the discounting charges imposed by the banks when the suppliers discounted the bills to banks for monies.

Borrowing costs are capitalised on properties under development for sale in respect of bank and other borrowings obtained specifically for financing the property development.

## 10. INCOME TAX EXPENSE

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Current tax: | | | | | |
| PRC Enterprise Income Tax ("EIT") | 6,569 | 7,853 | 7,890 | 3,269 | 6,965 |
| PRC Land Appreciation Tax ("LAT") | 1,370 | 1,748 | 5,526 | 2,279 | 7,875 |
| | 7,939 | 9,601 | 13,416 | 5,548 | 14,840 |
| Deferred tax *(Note 27)* | (787) | 2,763 | 4,432 | 3,456 | (1,365) |
| | 7,152 | 12,364 | 17,848 | 9,004 | 13,475 |

China General is subject to Hong Kong Profits Tax. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015. No provision for taxation in Hong Kong has been made as the China General Group's income neither arises in, nor is derived from, Hong Kong.

Current tax provision represents provision for PRC EIT and PRC LAT. Under the Law of People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC subsidiaries is 25%.

In addition, under the Provisional Regulations of LAT (《中華人民共和國土地增值稅暫行條例》) effective on 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (《中華人民共和國土地增值稅暫行條例實施細則》) effective from 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, being the proceeds of sales of properties less deductible expenditures including borrowing costs and property development expenditures in relation to the gains arising from sales of properties in the PRC effective from 1 January 2004, with an exemption provided for property sales of ordinary residential properties (普通標準住宅) if their appreciation values do not exceed 20% of the sum of the total deductible items.

Under the relevant tax law and implementation regulations in the PRC, withholding income tax is applicable to dividend earned and payable to investors that are "non-tax resident enterprises" in respect of profits earned by PRC subsidiaries since 1 January 2008, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends paid by the PRC subsidiaries to offshore group entities shall be subject to the withholding tax at 10% or a lower treaty rate. China General is subject to withholding tax in relation to the dividends paid by Hui An China General. As China General has decided not to declare any dividends from undistributed earning of Hui An China General amounting to approximately RMB68,393,000, RMB84,598,000, RMB96,284,000 and RMB101,514,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015 respectively to China General in the foreseeable future, no deferred tax liability has been recognised in respect of these undistributed earnings during the Relevant Periods.

The income tax expense for the year/period can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Profit before tax | 22,447 | 39,736 | 53,661 | 22,989 | 29,482 |
| Tax at PRC EIT of 25% *(note)* | 5,611 | 9,934 | 13,415 | 5,747 | 7,370 |
| Tax effect of expenses not deductible for tax purpose | 351 | 1,244 | 343 | 1,481 | 190 |
| Tax effect of income not taxable for tax purpose | (60) | (352) | (1) | — | (282) |
| PRC LAT | 1,370 | 1,748 | 5,526 | 2,279 | 7,875 |
| Tax effect of PRC LAT | (343) | (437) | (1,382) | (570) | (1,969) |
| Deferred tax effect of LAT in respect of fair value change of investment properties | 113 | 113 | 113 | 56 | 28 |
| Others | 110 | 114 | (166) | 11 | 263 |
| Income tax expense for the year/ period | 7,152 | 12,364 | 17,848 | 9,004 | 13,475 |

*Note:* The tax rate represents the statutory tax rate in the jurisdiction where the operations of the China General Group are substantially based. Details of deferred tax movement have been set out in note 27.

## 11. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Profit and total comprehensive income for the year/period has been arrived at after charging (crediting): | | | | | |
| Auditor's remuneration | 17 | 22 | 20 | 16 | 36 |
| Depreciation of plant and equipment | 568 | 970 | 1,042 | 611 | 378 |
| Rental expenses in respect of rented premises under operating lease | 94 | 487 | 647 | 273 | 47 |
| Gross rental income from investment properties | (202) | (246) | (253) | (123) | (1,402) |
| Less: direct operating expenses incurred | 42 | 43 | 53 | 21 | 273 |
| | (160) | (203) | (200) | (102) | (1,129) |
| Cost of properties held-for-sale recognised as an expenses | 63,802 | 156,007 | 186,705 | 98,275 | 28,026 |
| Staff costs | | | | | |
| — other staff costs | 1,160 | 2,439 | 3,057 | 1,328 | 1,739 |
| — retirement benefits contributions | 420 | 808 | 1,038 | 458 | 486 |
| Total staff costs, excluding directors' remunerations | 1,580 | 3,247 | 4,095 | 1,786 | 2,225 |

## 12. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS AND EMPLOYEES' REMUNERATION

The following table sets forth certain information in respect of the directors of China General during the Relevant Periods:

| Name | Position | Date of joining China General and appointment as director | Date of resignation |
|---|---|---|---|
| Mr. Tsoi Kin Sze | Chairman and Director | 17 January 2005 | N/A |
| Mr. Shie Tak Chung | Director and Chief Executive Officer | 17 January 2005 | N/A |
| Ms. Lin Lina 林麗娜 | Director | 17 January 2005 | 22 October 2014 |

Mr. Tsoi Kin Sze and Mr. Shie Tak Chung are also the chief executives of the Company and during the Relevant Periods, no emoluments were paid to any of the directors of China General or for the services rendered as the chief executives.

Neither the chief executives nor any of the directors of China General waived any emoluments during the Relevant Periods.

**Employees' remuneration**

None of the five highest paid employees in the China General Group were directors of China General for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015. The emoluments of the five highest paid individuals for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, were as follows:

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Salaries and allowances | 528 | 749 | 804 | 344 | 401 |
| Contributions to retirement benefits scheme | 109 | 176 | 196 | 75 | 87 |
| | 637 | 925 | 1,000 | 419 | 488 |

The remunerations of each of the five highest paid individuals during the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively are within HK$1,000,000.

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

## 13. DIVIDENDS

**The China General Group and China General**

No dividend was proposed during the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015.

## 14. EARNINGS PER SHARE

No earnings per share information is presented, as its inclusion, for the purpose of this report, is not considered meaningful.

## 15. EMPLOYEE BENEFITS

In accordance with the relevant rules and regulations of the PRC, the China General Group's PRC subsidiaries are required to make contributions to the retirement fund administered by the PRC government ranging from 10% to 22% of the total monthly basic salaries of the current employees. In addition, the China General Group's PRC subsidiaries are required by law to contribute 2% to 15% of basic salaries of the employees for social insurance in relation to staff welfare, housing, medical and education benefits. During the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, the costs charged under such arrangements for the China General Group's PRC subsidiaries amounted to approximately RMB420,000, RMB808,000, RMB1,038,000, RMB458,000 (unaudited) and RMB486,000 respectively.

The China General Group does not have any other significant retirement benefit plans.

## 16. PLANT AND EQUIPMENT

| | Leasehold improvement *RMB'000* | Furniture and equipment *RMB'000* | Motor vehicles *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| COST | | | | |
| At 1 January 2012 | — | 872 | 1,771 | 2,643 |
| Additions | — | 368 | 853 | 1,221 |
| At 31 December 2012 | — | 1,240 | 2,624 | 3,864 |
| Additions | 852 | 295 | — | 1,147 |
| At 31 December 2013 | 852 | 1,535 | 2,624 | 5,011 |
| Additions | — | 267 | 245 | 512 |
| Eliminated on write-off | (852) | — | — | (852) |
| At 31 December 2014 | — | 1,802 | 2,869 | 4,671 |
| Additions | — | 12 | — | 12 |
| At 30 June 2015 | — | 1,814 | 2,869 | 4,683 |
| ACCUMULATED DEPRECIATION | | | | |
| At 1 January 2012 | — | 396 | 948 | 1,344 |
| Provided for the year | — | 255 | 313 | 568 |
| At 31 December 2012 | — | 651 | 1,261 | 1,912 |
| Provided for the year | 249 | 276 | 445 | 970 |
| At 31 December 2013 | 249 | 927 | 1,706 | 2,882 |
| Provided for the year | 320 | 257 | 465 | 1,042 |
| Eliminated on write-off | (569) | — | — | (569) |
| At 31 December 2014 | — | 1,184 | 2,171 | 3,355 |
| Provided for the period | — | 142 | 236 | 378 |
| At 30 June 2015 | — | 1,326 | 2,407 | 3,733 |
| CARRYING AMOUNTS | | | | |
| At 31 December 2012 | — | 589 | 1,363 | 1,952 |
| At 31 December 2013 | 603 | 608 | 918 | 2,129 |
| At 31 December 2014 | — | 618 | 698 | 1,316 |
| At 30 June 2015 | — | 488 | 462 | 950 |

The above items of plant and equipment are depreciated on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Leasehold improvement | 2 to 4 years |
| Furniture and equipment | 3 to 5 years |
| Motor vehicles | 4 to 5 years |

**17. INVESTMENT PROPERTIES**

| | Completed investment properties | Investment properties under construction | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Fair value** | | | |
| At 1 January 2012 | 86,600 | 4,400 | 91,000 |
| Additions | — | 4,600 | 4,600 |
| Increase in fair value recognised in profit or loss | 4,600 | 1,300 | 5,900 |
| At 31 December 2012 | 91,200 | 10,300 | 101,500 |
| Additions | — | 3,450 | 3,450 |
| Increase in fair value recognised in profit or loss | 3,600 | 4,250 | 7,850 |
| At 31 December 2013 | 94,800 | 18,000 | 112,800 |
| Increase in fair value recognised in profit or loss | 4,400 | — | 4,400 |
| Transfer | 18,000 | (18,000) | — |
| At 31 December 2014 | 117,200 | — | 117,200 |
| Increase in fair value recognised in profit or loss | 1,100 | — | 1,100 |
| At 30 June 2015 | 118,300 | — | 118,300 |

| | Years ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Unrealised gains on investment properties revaluation included in consolidated statement of profit or loss and other comprehensive income | 5,900 | 7,850 | 4,400 | 3,200 | 1,100 |

All of the China General Group's property interests held under operating leases to earn rentals or intended to earn rentals in future or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The carrying amount of investment properties are situated on land under the medium term lease in PRC.

The fair value of the China General Group's investment properties at the end of each of the reporting period have been arrived at on the basis of a valuation carried out at these dates by DTZ Debenham Tie Leung Limited, 16/F, Jardine House, 1 Connaught Place, Central, Hong Kong, a firm of independent and qualified professional valuers not connected with the China General Group.

In estimating the fair value of an investment properties, the directors of China General have determined the appropriate valuation techniques and inputs for fair value measurements. The China General Group uses market-observable data to the extent it is available. The China General Group engages third party qualified valuers to perform the valuation. The management of China General Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The China General Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of investment properties.

The fair value was grouped under level 3 and was determined based on the investment approach, by considering the capitalised rental incomes derived from the existing tenancies with due provision for any reversionary income potential of the property interests. For the properties which are currently not rented out or under development, the valuation was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term, taking account of estimated cost of completion, where appropriate. One of the key inputs in valuing the investment properties is the term yield and reversion yield. The term yield and reversion yield is determined by reference to the yields derived from analysing the sales transactions of similar properties in Huian, Fujian Province, PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the China General Group's investment properties.

The following table gives information about how the fair values of these investment properties are determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements are categorised based on the degree to which the inputs to the fair value measurements is observable.

| Investment properties held by the China General Group in the consolidated statement of financial position | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|
| Car parking spaces and a kindergarten located in Fujian, the PRC | Level 3 | Investment Approach<br><br>Key inputs are:<br>— Term yield<br>— Reversion yield<br>— Market rent of comparable properties | Key and unobservable inputs are:<br>— Term yield and reversion yield of car parking spaces: 3.5% and 4.5%<br>— Term yield and reversion yield of kindergarten is 4% and 4.5%<br>— Market rent of comparable properties, by taking accounts of the accessibility, size, locations and environment of properties. | — The higher the term yield and reversion yield, the lower the fair value.<br>— The higher the market rent, the higher the fair value. |
| Car parking spaces under development located in Fujian, the PRC as at 31 December 2012 and 2013 | Level 3 | Investment Approach<br><br>Key inputs are:<br>— Term yield<br>— Reversion yield<br>— Market rent of comparable properties<br>— Future construction cost to completion | Key and unobservable inputs are:<br>— Term yield and reversion yield of car parking spaces: 3.5% and 4.5%<br>— Term yield and reversion yield of kindergarten is 4% and 4.5%<br>— Market rent of comparable properties, by taking accounts of the accessibility, size, locations and environment of properties. | — The higher the term yield and reversion yield, the lower the fair value.<br>— The higher the market rent, the higher the fair value. |

As at 31 December 2012, 2013 and 2014 and 30 June 2015, investment properties amounting to RMB91,100,000, RMB102,000,000, RMB106,000,000 and RMB107,000,000 represented completed car parking spaces and car parking spaces under construction without title certificates which cannot be sold or transferred to other parties according to the relevant laws and regulations in the PRC.

There has been no change from the valuation technique used in the Relevant Periods. In estimating the fair value of the investment properties, the highest and best use of the investment properties is their current use.

There were no transfers into or out of level 3 during the Relevant Periods.

## 18. INTERESTS IN SUBSIDIARIES

**China General**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Unlisted investment, at cost | 61,038 | 61,038 | 61,038 | 61,038 |
| Deemed contribution | — | — | 95,562 | 95,562 |
| | 61,038 | 61,038 | 156,600 | 156,600 |

Deemed contribution of RMB95,562,000 made in 2014 represented the fair value adjustment on non-current interest-free amount due from a subsidiary at initial recognition. Details of amount due from a subsidiary are disclosed in note 26.

## 19. INVENTORIES

Inventories in the consolidated statement of financial position comprise:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Property development | | | | |
| Properties under development for sale | 508,320 | 537,283 | 545,575 | 615,850 |
| Properties held-for-sale | 151,220 | 176,762 | 99,865 | 71,839 |
| | 659,540 | 714,045 | 645,440 | 687,689 |

All of the properties under development and completed properties held-for-sale are located in the PRC. All the properties held-for-sale are stated at cost.

At 31 December 2012, 2013 and 2014 and 30 June 2015, property under development of RMB508,320,000, RMB537,283,000, RMB364,067,000 and RMB423,984,000 are not expected to be realised within one year.

Details of the China General Group's inventories and other assets being pledged to secure borrowings and the general banking facilities are set out in note 28.

## 20. TRADE AND OTHER RECEIVABLES

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 2,888 | 2,938 | 6,989 | 2,216 |
| Less: impairment loss recognised | (10) | (30) | (30) | (30) |
| | 2,878 | 2,908 | 6,959 | 2,186 |
| Other receivables, net of impairment loss recognised | 336 | 1,189 | 226 | 889 |
| Prepaid taxes other than land appreciation tax | 11,971 | 8,808 | 3,901 | 5,620 |
| Deposits paid to suppliers | 11,869 | 13,771 | 3,779 | 4,503 |
| Other deposits and prepayments | 1,288 | 2,333 | 134 | 7 |
| | 28,342 | 29,009 | 14,999 | 13,205 |

The China General Group generally grants no credit period to property buyers and only allows certain customers to settle their balances by instalments. The following is an aged analysis of gross trade receivables based on the date when the revenue from sale of the respective properties was recognised, at the end of each reporting period:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0–30 days | — | 450 | — | 2,066 |
| 31–90 days | 1,230 | 729 | — | 150 |
| 91–180 days | 1,100 | 1,420 | 4,479 | — |
| 181–365 days | 470 | 329 | 2,510 | — |
| Over 365 days | 88 | 10 | — | — |
| | 2,888 | 2,938 | 6,989 | 2,216 |

**Ageing of trade receivables (net of impairment loss recognised) which are past due but not impaired**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 1–30 days | — | 450 | — | 2,036 |
| 31–90 days | 1,230 | 729 | — | 150 |
| 91–180 days | 1,100 | 1,420 | 4,479 | — |
| 181–365 days | 470 | 309 | 2,480 | — |
| Over 365 days | 78 | — | — | — |
| | 2,878 | 2,908 | 6,959 | 2,186 |

Trade receivables that were past due but not provided for impairment loss relate to a number of independent customers. Based on past experience, management believes that no impairment allowance is necessary in respect of these remaining balances as there has not been a significant change in credit quality and the remaining balances are still considered fully recoverable.

**Movement in the allowance on doubtful debts**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of the year/period | 10 | 10 | 30 | 30 |
| Impairment losses recognised in profit or loss | — | 20 | — | — |
| At end of the year/period | 10 | 30 | 30 | 30 |

## 21. STRUCTURED DEPOSITS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Unlisted investment, at fair value | — | 25,000 | — | — |

The structured deposits as at 31 December 2013 of RMB25,000,000 are denominated in Renminbi and issued by a bank in the PRC. The return and principal were not guaranteed by the relevant bank. The structured deposits are designated at FVTPL on initial recognition as they contain non closely related embedded derivative. The directors of China General consider the fair values of the structured deposits, which are measured by reference to the discounted cash flow approach as disclosed in Note 32(c), approximate to their carrying values at 31 December 2013. The expected return rate is 2.4% per annum as at 31 December 2013.

Amount of RMB20,000,000 structured deposits were redeemed in December 2013 and the remaining RMB25,000,000 were redeemed in January 2014 at their principal amounts together with returns which approximated the expected return. The change in fair value up to the date of redemption is not significant.

No structured deposit was acquired during the years ended 31 December 2012 and 2014 and the six months ended 30 June 2014 and 2015.

## 22. TIME DEPOSITS, BANK BALANCES AND CASH AND RESTRICTED AND PLEDGED BANK DEPOSITS

**The China General Group**

Bank balances carry interest at market rates which ranged from 0.0001% to 1.265% per annum as at 31 December 2012, 2013, 2014 and 30 June 2015. The restricted and pledged bank deposits carry interest at market rate which ranged from 0.35% to 0.4% per annum as at 31 December 2012, 2013, 2014 and 30 June 2015.

Time deposits with original maturity of three months amounting to RMB24,000,000 and RMB54,302,000 as at 31 December 2014 and 30 June 2015 carry interest at market rates which ranged from 1.85% to 2.35% per annum respectively.

Time deposits with original maturity more than three months but less than six months amounting to RMB44,000,000 and RMB17,000,000 as at 31 December 2014 and 30 June 2015 carry interest at market rates which ranged from 2.05% to 2.55% per annum respectively. Since the time deposits could be withdrawn before the original maturity date and without giving any notices to the banks, those time deposits are classified as cash and cash equivalents.

Pledged bank deposits amounting to RMB10,000,000 and RMB15,000,000 as at 31 December 2012 and 2013 respectively are pledged to banks to secure general banking facility granted to the China General Group as set out in note 28. Restricted bank deposits amounting to RMB1,209,000, RMB2,038,000, RMB12,147,000 and RMB32,456,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015 respectively represented designated bank accounts solely for collecting pre-sales proceeds and settlement of construction costs of properties and will be released upon the completion of the development of properties.

At 31 December 2012 and 2013, included in bank balances and cash of RMB8,762,000 and RMB3,369,000 respectively were kept in personal bank accounts under the name of Mr. Wang De Lin, the General Manager of the China General Group. These bank accounts under the name of Mr. Wang De Lin were closed in 2014.

**China General**

Bank balances carry interest at market rates which ranged from 0.0001% to 0.01% per annum as at 31 December 2012, 2013 and 2014 and 30 June 2015 respectively.

## 23. TRADE AND BILLS PAYABLES

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 4,279 | 3,078 | 2,953 | 3,331 |
| Bills payables | 25,000 | 45,000 | — | — |
| | 29,279 | 48,078 | 2,953 | 3,331 |

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of each of the reporting period.

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 0–60 days | 177 | 91 | 44 | 502 |
| 61–90 days | — | 122 | — | — |
| 91–180 days | 25,750 | 25,050 | 116 | 398 |
| 181 days–1 year | 66 | 20,040 | 274 | 22 |
| Over 1 year | 3,286 | 2,775 | 2,519 | 2,409 |
| | 29,279 | 48,078 | 2,953 | 3,331 |

The credit period on construction payable and bills payable is normally within 90 days from the invoice date and 1 year from the bills issue date, respectively for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015.

The China General Group has financial risk management policies in place to ensure all payables are settled within the credit frame.

## 24. OTHER PAYABLES AND ACCRUALS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Accrued construction costs | 20,361 | 79,387 | 62,032 | 80,932 |
| Accrual of social insurance and housing fund | 3,355 | 4,040 | 4,628 | 4,660 |
| Accrued staff costs | 256 | 578 | 640 | 200 |
| Public maintenance fund received from customers *(Note)* | 3,709 | 3,805 | 4,014 | 4,833 |
| Other tax payables | 1,456 | 2,446 | 3,945 | 4,752 |
| Accrual agency fee | 132 | 433 | 555 | 916 |
| Interest payable | — | 99 | — | — |
| Deposits received from suppliers | 1,125 | 904 | 904 | 355 |
| Others | 427 | 458 | 529 | 712 |
| | 30,821 | 92,150 | 77,247 | 97,360 |

*Note:* The public maintenance fund is received on behalf of the Ministry of Housing and Urban-Rural Development of PRC from the property buyers as maintenance fund for the public facilities within the residential properties. Such fund would be returned to Ministry of Housing and Urban-Rural Development upon request.

## 25. PRE-SALES PROCEEDS RECEIVED ON SALES OF PROPERTIES

Pre-sales proceeds received on sales of properties represent proceeds received on property unit sales that have not been recognised as revenue in accordance with the China General Group's revenue recognition policy.

## 26. AMOUNTS DUE FROM (TO) RELATED PARTIES

Directors' and a related company current account disclosed pursuant to Companies Ordinance are as follows:

### The China General Group

| | | At 31 December | | | At 30 June | Maximum amount outstanding during | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Years ended 31 December | | | Six months ended 30 June |
| | | **2012** | **2013** | **2014** | **2015** | **2012** | **2013** | **2014** | **2015** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Mr. Tsoi Kin Sze | Unsecured, non-interest bearing and repayable on demand | (151,571) | (41,915) | (27,056) | (26,882) | N/A | N/A | N/A | N/A |
| Mr. Shie Tak Chung | Unsecured, non-interest bearing and repayable on demand | (45,000) | — | (27,056) | (26,882) | N/A | N/A | N/A | N/A |
| Jianhong Investment | Non-trade, unsecured, non-interest bearing and repayable on demand | (216,838) | (380,851) | — | — | N/A | N/A | N/A | N/A |
| | | (413,409) | (422,766) | (54,112) | (53,764) | N/A | N/A | N/A | N/A |
| Mr. Tsoi Kin Sze | Unsecured, non-interest bearing and repayable on demand | — | 23,301 | — | — | — | 23,301 | 23,301 | — |

**China General**

| | | At 31 December | | | At 30 June |
|---|---|---|---|---|---|
| | | **2012** | **2013** | **2014** | **2015** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Mr. Tsoi Kin Sze | Unsecured, non-interest bearing and repayable on demand | (43,318) | (41,915) | (27,056) | (26,882) |
| Mr. Shie Tak Chung | Unsecured, non-interest bearing and repayable on demand | — | — | (27,056) | (26,882) |
| | | (43,318) | (41,915) | (54,112) | (53,764) |

The amounts due from (to) directors represented advance from (to) Mr. Tsoi Kin Sze and Mr. Shie Tak Chung, directors of China General as at 31 December 2012, 2013 and 2014 and 30 June 2015.

The amount due to Jianhong Investment represented advances from Mr. Tsoi Kin Sze and Mr. Shie Tak Chung through Jianhong Investment (defined and explained in note 2), as at 31 December 2012 and 2013. The amount is non-trade nature, unsecured, non-interest bearing and has no fixed repayment term. In 2013, Mr. Tsoi Kin Sze and Mr. Shie Tak Chung assigned their loans to the China General Group of RMB45,000,000 each to Jianhong Investment. On 1 January 2014, Mr. Tsoi Kin Sze and Mr. Shie Tak Chung agreed with Jianhong Investment to assign the balance payable by the China General Group to Jianhong Investment amounting to RMB378,101,000 to Mr. Tsoi Kin Sze and Mr. Shie Tak Chung.

During the year ended 31 December 2012, Mr. Tsoi Kin Sze and Mr. Shie Tak Chung paid RMB90,000,000 on behalf of the China General Group for settlement of certain land costs.

In respect of amounts due to Mr. Tsoi Kin Sze and Mr. Shie Tak Chung, on 23 October 2014, China General, Mr. Tsoi Kin Sze and Mr. Shie Tak Chung entered into a deed of assignment, pursuant to which Mr. Tsoi Kin Sze and Mr. Shie Tak Chung shall assign their interests, rights and benefits in balances due from Hengde to China General amounting of RMB170,145,000 and RMB207,956,000, respectively in consideration for the issue of 4,500,000 shares and 5,500,000 shares of China General, respectively, at an issue price of HK$48 (equivalent to approximately RMB38 per share) and these contributed as non-cash transactions. The aforesaid consideration shares were allotted and issued to Mr. Tsoi Kin Sze and Mr. Shie Tak Chung on 23 October 2014.

The amount due from a director was fully settled in October 2014. The amounts due to directors are expected to be fully settled prior to completion of acquisition of China General by the Company.

As at 31 December 2014 and 30 June 2015, the amount due from a subsidiary with carrying amount of RMB285,743,000 and RMB294,150,000 respectively (principal amount of RMB378,101,000) is unsecured, non-interest bearing, repayable on demand and denominated in RMB. In the opinion of the directors of China General, China General will not demand repayment within one year from the end of reporting period and the amount due from a subsidiary is therefore considered as non-current. Such interest-free advance is measured at amortised cost using the 5 years PRC Benchmark Lending Rate at 6% per annum at 31 December 2014 based on estimated timing of repayment.

## 27. DEFERRED TAX

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of deferred tax balances for financial reporting purposes.

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred tax assets | 296 | 1,386 | 4,669 | 5,802 |
| Deferred tax liabilities | (5,282) | (9,135) | (16,850) | (16,618) |
| | (4,986) | (7,749) | (12,181) | (10,816) |

The following are the major deferred tax assets and liabilities recognised and movements thereon during the Relevant Periods:

| | Revaluation of investment properties | LAT on presold properties | Deferred tax on pre-sales proceeds | Tax losses | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2012 | (10,449) | (1,897) | 6,573 | — | (5,773) |
| (Charge) credit to profit or loss | (1,588) | (1,974) | 4,053 | 296 | 787 |
| At 31 December 2012 | (12,037) | (3,871) | 10,626 | 296 | (4,986) |
| (Charge) credit to profit or loss | (2,076) | (4) | (1,773) | 1,090 | (2,763) |
| At 31 December 2013 | (14,113) | (3,875) | 8,853 | 1,386 | (7,749) |
| (Charge) credit to profit or loss | (1,212) | 714 | (5,797) | 1,863 | (4,432) |
| At 31 December 2014 | (15,325) | (3,161) | 3,056 | 3,249 | (12,181) |
| (Charge) credit to profit or loss | (305) | 815 | 1,600 | (745) | 1,365 |
| At 30 June 2015 | (15,630) | (2,346) | 4,656 | 2,504 | (10,816) |

At 31 December 2012, 2013 and 2014 and 30 June 2015, the China General Group has unused tax losses of RMB1,184,000, RMB5,544,000, RMB12,996,000 and RMB10,016,000 respectively available for offset against future profits and deferred tax asset in respect of such losses has been fully recognised. The tax losses will be expired ranging from 2017 to 2020.

## 28. SECURED BANK BORROWINGS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| The maturity profile of secured bank borrowings is as follows: | | | | |
| Within one year | 6,600 | 7,600 | 17,175 | 9,000 |
| More than one year but not exceeding two years | 5,600 | 5,500 | 170,000 | 167,000 |
| More than two years but not more than five years | 2,400 | 56,800 | — | — |
| | 14,600 | 69,900 | 187,175 | 176,000 |
| Less: Carrying amount of secured bank borrowing that are repayable on demand due to breach of loan covenants (shown under current liabilities) | — | (50,000) | — | — |
| Less: Amounts due for settlement within one year shown under current liabilities | (6,600) | (5,600) | (17,175) | (9,000) |
| Amounts due for settlement after one year | 8,000 | 14,300 | 170,000 | 167,000 |

During the year ended 31 December 2013, in respect of bank borrowings with a carrying amount of RMB50,000,000 as at 31 December 2013, the China General Group discovered they may breach a term of the loan agreement, which is the debt-to-asset ratio of a subsidiary. On discovery of the potential breach, the management of China General Group informed the lender. Since the lender has not confirmed to waive its right to demand immediate payment, the secured bank borrowing has been classified as a current liability as at 31 December 2013. On 31 August 2014, the bank agreed to repay based on original repayment term of the loan pursuant to a confirmation from the bank.

Secured bank borrowings of RMB14,600,000 and RMB19,900,000 as at 31 December 2012 and 2013, respectively, are guaranteed by certain directors and immediate family member of a director of China General. The guarantees were released in 2014.

As at 31 December 2012 and 2013, certain directors of China General have provided unlimited personal guarantee to banks in respect of general facilities granted to China General. The personal guarantees were released in 2014.

The China General Group pledged the following assets to banks for the borrowings and other general banking facilities granted to the China General Group:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Inventories | 31,594 | 361,779 | 342,275 | 336,934 |
| Pledged bank deposits | 10,000 | 15,000 | — | — |
| | 41,594 | 376,779 | 342,275 | 336,934 |

At 31 December 2012, 2013 and 2014 and 30 June 2015, all borrowings are denominated in RMB and the analysis of the China General Group's fixed-rate borrowings based on their contractual maturity dates are as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Fixed-rate borrowings within one year | 3,100 | — | — | — |

In addition, the China General Group has variable-rate borrowings which carry interest linked to PRC Benchmark Lending Rate and interest is reset annually. The analysis of the China General Group's variable-rate borrowings based on their contractual maturity dates (or reset dates) are as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Variable-rate borrowings: | | | | |
| Within one year | 3,500 | 7,600 | 17,175 | 9,000 |
| More than one year, but not exceeding two years | 5,600 | 5,500 | 170,000 | 167,000 |
| More than two years, but not exceeding five years | 2,400 | 56,800 | — | — |
| | 11,500 | 69,900 | 187,175 | 176,000 |

The ranges of effective interest rates (which are the contracted interest rates) on the China General Group's borrowings are as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| Effective interest rate per annum: | | | | |
| Fixed-rate borrowings | 5.85% | N/A | N/A | N/A |
| Variable-rate borrowings: | | | | |
| PRC Benchmark Lending Rate | + 1.92% | + 0.31% to 1.92% | + 0.30% | + 0.26% |

**29. SHARE CAPITAL/PAID-UP CAPITAL**

**The China General Group**

The share capital/paid-up capital as at 31 December 2012 and 2013 represented the combined share capital of China General and the paid-up capital of Hengde.

The share capital as at 31 December 2014 and 30 June 2015, represented the share capital of China General.

**China General**

| | **Number of shares** | **Share capital** *RMB'000* |
|---|---|---|
| Authorised: | | |
| At 1 January 2012, 31 December 2012 and 31 December 2013 — ordinary shares of HK$1 each | 10,000,000 | 11,089 |
| At 31 December 2014 and 30 June 2015 *(Note 1)* | N/A | N/A |
| Issued and fully paid: | | |
| At 1 January 2012, 31 December 2012 and 31 December 2013 — ordinary shares of HK$1 each | 10,000,000 | 11,089 |
| Issue of shares on 23 October 2014 *(note 2)* | 10,000,000 | 378,101 |
| At 31 December 2014 and 30 June 2015 with no par value | 20,000,000 | 389,190 |

*Notes:*

(1) Under the Hong Kong Companies Ordinance (Cap. 622) with effect from 3 March 2014, the concept of authorised share capital no longer exists and China General's shares no longer have a par value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.

(2) On 23 October 2014, the Company allotted and issued 4,500,000 and 5,500,000 shares, at a price of HK$48 (equivalent to approximately RMB38) per share to Mr. Tsoi Kin Sze and Mr. Shie Tak Chung respectively for capitalization of shareholder loans as disclosed in note 26. The new shares ranked pari passu with the existing shares in all respects.

## 30. RESERVES OF CHINA GENERAL

| | Accumulated profits<br>*RMB'000* |
|---|---|
| At 1 January 2012 | 6,355 |
| Profit and total comprehensive income for the year | 225 |
| At 31 December 2012 | 6,580 |
| Profit and total comprehensive income for the year | 1,396 |
| At 31 December 2013 | 7,976 |
| Profit and total comprehensive income for the year | 2,946 |
| At 31 December 2014 | 10,922 |
| Profit and total comprehensive income for the period | 8,674 |
| At 30 June 2015 | 19,596 |

## 31. CAPITAL RISK MANAGEMENT

The China General Group manages its capital to ensure that entities in the China General Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The China General Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the China General Group consists of debt, which includes amounts due to related parties and secured bank borrowings, as disclosed in notes 26 and 28, respectively, net of time deposits, bank balances and cash and equity attributable to owners of China General, comprising share capital/ paid up capital and reserves.

The management of the China General Group reviews the capital structure from time to time. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the China General Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debts or the redemption of existing debts.

## 32. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | THE CHINA GENERAL GROUP | | | | CHINA GENERAL | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 30 June | At 31 December | | | At 30 June |
| | 2012 | 2013 | 2014 | 2015 | 2012 | 2013 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial assets** | | | | | | | | |
| Loans and receivables (including cash and cash equivalents) | 36,278 | 73,630 | 146,861 | 164,827 | 13 | 12 | 297,663 | 305,993 |
| Structured deposits designated as at FVTPL | — | 25,000 | — | — | — | — | — | — |
| **Financial liabilities** | | | | | | | | |
| Amortised cost | 457,715 | 541,202 | 244,769 | 233,807 | 43,318 | 41,915 | 54,112 | 53,764 |

**b. Financial risk management objectives and policies**

The China General Group's and China General's major financial instruments include trade and other receivables, amounts due from a related party and a subsidiary, structured deposits, restricted and pledged bank deposits, time deposits, bank balances and cash, trade and bills payables, other payables, amounts due to related parties, secured bank borrowings and financial guarantee contracts. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (interest rate risk, other price risk and currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risks***

*(i) Interest rate risk*

The China General Group is exposed to cash flow interest rate risk in relation to secured bank borrowings, restricted and pledged bank deposits, time deposits and bank balances. The cash flow interest rate risk is mainly concentrated on fluctuations associated with variable rate linked to PRC Benchmark Lending Rate in respect of secured bank borrowings and variable rate restricted and pledged bank deposits, time deposits and bank balances.

The China General Group was also exposed to fair value interest rate risk in relation to fixed rate secured bank borrowings in 2012.

China General is exposed to insignificant interest rate risk as the interest rates of its interest bearing financial assets are not expected to fluctuate significantly at the each of the reporting periods.

The China General Group currently does not have an interest rate hedging policy. However, the management monitors interest rate risk exposure and will consider interest rate hedging should the need arise.

No sensitivity analysis of time deposits and bank balances is presented as a reasonably possible change in interest rate would not have significant impact on profit or loss of the China General Group.

In addition, no sensitivity analysis is presented for variable-rate borrowings as they were raised for property development and any change in interest rate would substantially be capitalised to property under development for sale and have no material impact to profit or loss of the China General Group until sale of these properties take place.

*(ii) Other price risk*

The China General Group is exposed to price risk through its investment in structured deposits which is designated as financial assets at FVTPL. The China General Group's price risk is mainly concentrated on market price of the underlying equity and debts instruments and exchange rate in foreign currency market. The China General Group currently does not use any derivative contracts to hedge its exposure to other price risk. However, the management considered the price risk is insignificant given the short maturity of the structured deposits.

*(iii) Currency risk*

The China General Group and China General have a portion of amounts due to related parties which is denominated in foreign currency of relevant group entity, hence they are exposed to foreign exchange risk.

The carrying amounts of the China General Group's and China General's foreign currency denominated monetary liabilities at the end of each of the reporting period are as follows:

**The China General Group and China General**

| | Liabilities | | | |
|---|---|---|---|---|
| | At 31 December | | | At 30 June |
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| HKD | 43,318 | 41,915 | 54,112 | 53,764 |

The China General Group and China General do not enter into any derivative contracts to minimise the currency risk exposure. However, management monitors foreign exchange exposure and will consider hedging significant foreign exchange risk should the need arises.

Sensitivity analysis

The China General Group is mainly exposed to the effects of fluctuations of HKD.

The following table details the China General Group's and China General's sensitivity to a reasonably possible change of 5% in HKD against RMB while all other variables are held constant. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each of the reporting period for a 5% change in foreign currency rates.

An analysis of sensitivity to currency risk is as follows:

| | Years ended 31 December | | | Six months ended 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Increase (decrease) in post-tax profit for the year/period | | | | |
| — if RMB weakens against HKD | (2,166) | (2,096) | (2,706) | (2,688) |
| — if RMB strengthens against HKD | 2,166 | 2,096 | 2,706 | 2,688 |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year/period end exposure does not reflect the exposure during the year/period.

***Liquidity risk***

In the management of the liquidity risk, the China General Group monitors and maintains a level of time deposits, bank balances and cash are deemed adequate by the management to finance the China General Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings.

The following tables detail the China General Group's and China General's remaining contractual maturities for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the China

General Group and China General can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

*The China General Group*

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1–2 years | 2–5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 31 December 2012** | | | | | | | |
| Trade and bills payables | — | 4,279 | 25,000 | — | — | 29,279 | 29,279 |
| Other payables | — | 427 | — | — | — | 427 | 427 |
| Amounts due to related parties | — | 413,409 | — | — | — | 413,409 | 413,409 |
| Secured bank borrowings | | | | | | | |
| — fixed rate | 5.85 | 45 | 3,128 | — | — | 3,173 | 3,100 |
| — variable rate | 8.32 | 236 | 4,221 | 6,266 | 2,488 | 13,211 | 11,500 |
| Corporate guarantee for mortgage facilities granted to property buyers | — | 289,773 | — | — | — | 289,773 | — |
| | | 708,169 | 32,349 | 6,266 | 2,488 | 749,272 | 457,715 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1–2 years | 2–5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 31 December 2013** | | | | | | | |
| Trade and bills payables | — | 3,078 | 45,000 | — | — | 48,078 | 48,078 |
| Other payables | — | 458 | — | — | — | 458 | 458 |
| Amounts due to related parties | — | 422,766 | — | — | — | 422,766 | 422,766 |
| Secured bank borrowings | | | | | | | |
| — variable rate | 7.03 | 50,634 | 6,654 | 4,367 | 11,257 | 72,912 | 69,900 |
| Corporate guarantee for mortgage facilities granted to property buyers | — | 333,582 | — | — | — | 333,582 | — |
| | | 810,518 | 51,654 | 4,367 | 11,257 | 877,796 | 541,202 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1–2 years | 2–5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 31 December 2014** | | | | | | | |
| Trade and bills payables | — | 2,953 | — | — | — | 2,953 | 2,953 |
| Other payables | — | 529 | — | — | — | 529 | 529 |
| Amounts due to related parties | — | 54,112 | — | — | — | 54,112 | 54,112 |
| Secured bank borrowings | | | | | | | |
| — variable rate | 6.38 | 2,943 | 25,913 | 170,969 | — | 199,825 | 187,175 |
| Corporate guarantee for mortgage facilities granted to property buyers | — | 336,554 | — | — | — | 336,554 | — |
| | | 397,091 | 25,913 | 170,969 | — | 593,973 | 244,769 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1–2 years | 2–5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 30 June 2015** | | | | | | | |
| Trade and bills payables | — | 3,331 | — | — | — | 3,331 | 3,331 |
| Other payables | — | 712 | — | — | — | 712 | 712 |
| Amounts due to related parties | — | 53,764 | — | — | — | 53,764 | 53,764 |
| Secured bank borrowings | | | | | | | |
| — variable rate | 5.75 | 2,495 | 16,625 | 172,237 | — | 191,357 | 176,000 |
| Corporate guarantee for mortgage facilities granted to property buyers | — | 351,452 | — | — | — | 351,452 | — |
| | | 411,957 | 16,625 | 172,237 | — | 600,818 | 233,807 |

* As explained in note 28, the China General Group breached certain of the terms of the bank borrowings with a carrying amount of RMB50,000,000 as at 31 December 2013.

Since the lender has not confirmed to waive its right to demand immediate payment at 31 December 2013, the loan has been included in the "Repayable on demand or less than 3 months" time band in the above maturity analysis. On 31 August 2014, the bank agreed to repay based on original repayment term for the loan pursuant to a confirmation from the bank.

The following table details the China General Group's aggregate principal and interest cash outflows for bank borrowings with breached terms based on scheduled repayment date set out in the loan agreements. To the extent that interest flows are variable rate, the undiscounted amount is derived from interest rate at the end of reporting period.

*The China General Group*

| | Weighted average effective interest rate | Less than 3 month | 3 months to 1 year | 1–2 year | 2–5 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Bank borrowings that the China General Group has breached certain borrowing terms** | | | | | | | |
| As at 31 December 2013 | 7.026% | 866 | 4,647 | 5,373 | 48,949 | 59,835 | 50,000 |

The amounts included above for variable interest rate financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each of the reporting period.

*China General*

| | Weighted average effective interest rate | Repayable on demand | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 31 December 2012** | | | | |
| Amount due to a related party | — | 43,318 | 43,318 | 43,318 |

| | Weighted average effective interest rate | Repayable on demand | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 31 December 2013** | | | | |
| Amount due to a related party | — | 41,915 | 41,915 | 41,915 |

| | Weighted average effective interest rate | Repayable on demand | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 31 December 2014** | | | | |
| Amounts due to related parties | — | 54,112 | 54,112 | 54,112 |

| | Weighted average effective interest rate | Repayable on demand | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 30 June 2015** | | | | |
| Amounts due to related parties | — | 53,764 | 53,764 | 53,764 |

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

***Credit risk***

The China General Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position and the financial guarantee provided by China General Group as disclosed in note 35. The China General Group's credit risk is primarily attributable to its trade and other receivables, amount due from a related party, structured deposits, restricted and pledged bank deposits, time deposits and bank balances.

The China General Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 99% of the total financial assets as at 31 December 2012 and 2013, 92% and 93% of the total financial assets as at 31 December 2014 and 30 June 2015, respectively.

In order to minimise the credit risk on trade and other receivables, the management of the China General Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the China General Group reviews the recoverable amount of each individual trade 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 China General considers that the China General Group's credit risk is significantly reduced.

In relation to the provision of guarantees by China General Group to banks to secure obligations of the purchasers of the property units for the repayment of their mortgage loans, if there is a default in repayment by these purchasers, the China General Group is responsible for repaying the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to banks. Under such circumstances, the China General Group is able to take over the ownership of the relevant properties and sell the properties to recover any amounts paid by the China General Group to banks. In this regard, the directors of China General consider that the China General Group's credit risk on such guarantees is significantly reduced. Detailed disclosure of these guarantees has been made in note 35.

Other than concentration of credit risk on structured deposits, restricted and pledged bank deposits, time deposits and bank balances, which are deposited with several banks in PRC with good reputation, the China General Group does not have any other significant concentration of credit risk.

**c. Fair value measurements of financial instruments**

*(i) Fair value of the China General Group's financial assets that are measured at fair value on recurring basis*

Certain China General Group's financial assets are measured at fair value at the end of each reporting period.

The fair value hierarchy of structured deposits is level 3. The valuation of structured deposits classified as financial assets designed at FVTPL is determined using the discounted cash flows. Key unobservable inputs included expected return rate and a discount rate that reflects the credit risk of the counterparty bank.

The directors of China General consider that the impact of the fluctuation in the expected return rate to the fair value of the structured deposits was insignificant as the structured deposits have short maturity and have been redeemed in January 2014, and therefore no sensitivity analysis is presented.

Reconciliation of Level 3 fair value measurements of financial asset.

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of the year/ period | — | — | 25,000 | — |
| Acquired during the year/period | — | 45,000 | — | — |
| Proceeds received on redemption | — | (20,014) | (25,030) | — |
| Fair value change recognised in profit or loss | — | 14 | 30 | — |
| At the end of the year/period | — | 25,000 | — | — |

*(ii) Fair value of the China General Group's financial assets and financial liabilities that are not measured at fair value on recurring basis*

The directors of China General consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values based on discounted cash flows analysis.

## 33. OPERATING COMMITMENTS

**The China General Group as lessor**

Completed investment properties with a carrying amount of approximately RMB10,400,000, RMB10,800,000, RMB11,200,000 and RMB118,300,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015 respectively are held for rental purpose.

At the end of each of the reporting period, the China General Group had contracted with tenants for the following future minimum lease payments in respect of leasing of certain investment properties. Leases are negotiated for terms of 20 years with fixed rentals.

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Leasing of investment properties | | | | |
| Within one year | 217 | 246 | 246 | 246 |
| In the second to fifth year inclusive | 1,045 | 1,090 | 1,135 | 1,157 |
| After five years | 4,976 | 4,686 | 4,394 | 4,249 |
| | 6,238 | 6,022 | 5,775 | 5,652 |

**The China General Group as lessee**

At the end of each of the reporting period, the China General Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year | 190 | 426 | 161 | 65 |
| In the second to fifth year inclusive | — | 97 | 22 | 41 |
| | 190 | 523 | 183 | 106 |

Operating lease payment represented rentals payable by the China General Group for certain office premises. Leases are negotiated for an average term of 1 to 3 years with fixed rental.

## 34. OTHER COMMITMENTS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Construction commitments in respect of properties under development for sale contracted for but not provided in the Financial Information | 43,647 | 72,308 | 354,973 | 299,228 |

## 35. CONTINGENT LIABILITIES

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Corporate guarantee given to banks in respect of mortgage facilities granted to property buyers | 289,773 | 333,582 | 336,554 | 351,452 |

In accordance with market practice, the China General Group provides guarantees for the property buyers' mortgage loans with PRC banks to facilitate their purchases of China General Group's properties. Guarantees for mortgages on properties begin simultaneously with the respective mortgage, and are generally discharged at the earlier of: (i) the property buyers obtains the individual property ownership certificate, and (ii) the full settlement of mortgage loans by the property buyers. The outstanding financial guarantee providing with guarantee period up to the full settlement of mortgage loan as at 31 December 2012, 2013 and 2014 and 30 June 2015 amounted to RMB289,773,000, RMB333,582,000, RMB336,554,000 and RMB351,452,000 respectively. Pursuant to terms of the guarantees, for a given mortgage loan, if there is any default of the mortgage payments by a property buyer, the China General Group is responsible to repay to the bank outstanding balance of the mortgage loan as well as accrued interests and penalties owned by the defaulted property buyer. If the China General Group fails to do so, the mortgage bank will first deduct the bank balance existing in the bank owned by the property buyer. Any shortfall will be recovered through auction the underlying property and recover the remaining balance from the China General Group if the outstanding loan amount exceeds the net foreclosure sale proceed. The China General Group do not conduct independent credit checks on their property buyers but rely on the credit checks conducted by the mortgage banks.

In the opinion of the directors of China General, the fair values of the financial guarantee contracts of the China General Group are insignificant at initial recognition and the directors of China General consider that the possibility of default by the relevant buyers is remote and, in case of default in payments, the net realisable value of the related properties is expected to cover the outstanding mortgage principals together with the accrued interest and penalties. Accordingly, no provision has been made in the Financial Information for these guarantees.

During the year ended 31 December 2014, the China General Group has pledged its inventories and provided guarantee of RMB27,000,000 in respect of banking facility to a related company, 泉州華建商貿有限公司 which is controlled by sister-in-law of Mr Tsoi Kin Sze. Based on the valuation performed by an independent valuer, DTZ Debenham Tie Leung Limited, this financial guarantee has no fair value at inception date as the assets pledged exceeded the borrowing granted to the related company. In October 2014, the guarantee provided to the related company has been released.

## 36. RELATED PARTY DISCLOSURES

Apart from details of the balances with related parties disclosed in the consolidated statements of financial position and other details disclosed elsewhere in the Financial Information, the China General Group has not entered into any significant transactions with related parties during the Relevant Periods.

**Compensation of key management of personnel**

The remuneration of directors and other members of key management during the Relevant Periods was as follows:

| | **Years ended 31 December** | | | **Six months ended 30 June** | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Short-term benefits | 457 | 719 | 773 | 340 | 390 |
| Post-employment benefits | 100 | 164 | 176 | 76 | 88 |
| | 557 | 883 | 949 | 416 | 478 |

The remuneration of directors and key executives is determined by having regard to the performance of individuals of the China General Group and market trends.

## B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the China General's directors by China General or any of its subsidiaries during the Relevant Periods.

## C. SUBSEQUENT EVENTS

The following events and transactions took place subsequent to 30 June 2015:

- [●]

## D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the China General Group, China General or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2015.

Yours faithfully
**[Deloitte Touche Tohmatsu]**
*Certified Public Accountants*
Hong Kong

## SUMMARY FINANCIAL INFORMATION OF THE GROUP

A summary of the results and the assets and liabilities of the Group as extracted from the relevant annual audited reports and interim reports of the Company is set out below:

| **RESULTS** | **For the years ended 31 December** | | | **For the six months ended 30 June** | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue | 23,186 | — | — | — | — |
| Loss before tax | (203,242) | (188,903) | (117,477) | (30,331) | (79,231) |
| Income tax | 11 | 25 | — | — | — |
| Loss for the year/period | (203,231) | (188,878) | (117,477) | (30,331) | (79,231) |
| Other comprehensive income/ (loss) for the year/period | (2,194) | 11,223 | 23,709 | 2,838 | 11,700 |
| Total comprehensive loss for the year/period, net of tax | (205,425) | (177,655) | (93,768) | (27,493) | (67,531) |
| **Loss for the year/period attributable to:** | | | | | |
| Owners of the Company | (203,228) | (188,878) | (117,477) | (30,331) | (79,231) |
| Non-controlling interests | (3) | — | — | — | — |
| | (203,231) | (188,878) | (117,477) | (30,331) | (79,231) |
| **Total comprehensive loss for the year/period attributable to:** | | | | | |
| Owners of the Company | (205,422) | (177,655) | (93,768) | (27,493) | (67,531) |
| Non-controlling interests | (3) | — | — | — | — |
| | (205,425) | (177,655) | (93,768) | (27,493) | (67,531) |
| **Loss per share** | | | | | |
| Basic and diluted (HK cents per share) | (10.44) | (9.71) | (6.04) | (1.56) | (4.07) |

| **ASSETS AND LIABILITIES** | **As at 31 December** | | | **As at 30 June** |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Non-current assets | 777 | 278 | 101 | 43 |
| Current assets | 5,483 | 664 | 367 | 423 |
| Current liabilities | (1,732,532) | (1,904,869) | (1,998,163) | (2,065,692) |
| Non-current liabilities | — | — | — | — |
| **NET LIABILITIES** | (1,726,272) | (1,903,927) | (1,997,695) | (2,065,226) |
| **Attributable to:** | | | | |
| Owners of the Company | (1,724,740) | (1,902,395) | (1,996,163) | (2,063,694) |
| Non-controlling interests | (1,532) | (1,532) | (1,532) | (1,532) |
| **TOTAL EQUITY** | (1,726,272) | (1,903,927) | (1,997,695) | (2,065,226) |

中汇
ZHONGHUI

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF**
**FIRST MOBILE GROUP HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

We were engaged to audit the consolidated financial statements of First Mobile Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages II-[●] to II-[●], which comprise the consolidated and Company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company (the "Directors") are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for disclaimer of opinion**

1. *Opening balances and corresponding figures*

Our audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2013 (the "2013 Financial Statements"), which form the basis for the corresponding figures presented in the current year's consolidated financial statements, was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit and the material uncertainty in relation to going concern, and details of which are set out in our audit report dated [●] 2014. Accordingly, we were then unable to form an opinion as to whether the 2013 Financial Statements gave a true and fair view of the state of affairs of the Group and the Company as at 31 December 2013 and of the Group's results and cash flows for the year then ended.

2. *No access to accounting books and records of a liquidated subsidiary and gain on deconsolidation of a liquidated subsidiary*

As explained in note 10 to the consolidated financial statements, due to no access to the documents, accounting books and records of a liquidated subsidiary, First Mobile Group Sdn. Bhd. ("FMGSB"), we were unable to carry out audit procedures to satisfy ourselves as to whether the loss of approximately HK$1,292,000 of FMGSB for the period from 1 January 2014 to 5 February 2014 and the net liabilities of approximately HK$238,972,000 of FMGSB deconsolidated from the Group on 5 February 2014 were fairly stated.

In view of the circumstances mentioned above, we were also unable to carry out audit procedures to satisfy ourselves as to whether the gain on deconsolidation of FMGSB of approximately HK$227,198,000, as included in the consolidated profit or loss of the Group, was fairly stated.

3. *Financial guarantee liabilities*

Certain general banking facilities of FMGSB were secured by corporate guarantees given by the Company and FMGSB has also given corporate guarantees to secure certain general banking facilities for its liquidated subsidiaries.

Due to insufficiency of supporting documentation and explanations as explained in point 2 above, we were unable to carry out audit procedures to satisfy ourselves as to whether the financial guarantee liabilities of approximately HK$185,386,000 as included in the consolidated and Company statements of financial positions have been fairly stated.

We were also unable to carry out audit procedures to satisfy ourselves as to whether the provision for financial guarantee liabilities of approximately HK$172,398,000 as included in consolidated profit or loss of the Group have been fairly stated.

Any adjustments to the figures as described from points 1 to 3 above might have a significant consequential effect on the Group's results and cash flows for the two years ended 31 December 2014 and 2013, the financial position of the Group as at 31 December 2014 and 2013 and the financial position of the Company as at 31 December 2014 and 2013, and the related disclosures thereof in the consolidated financial statements.

## MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that a proposal for resumption of trading in the Company's shares and the restructuring of the Group has been submitted to the Stock Exchange of Hong Kong Limited to pursue a restructuring of the Company. The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Group will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

### Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ZHONGHUI ANDA CPA Limited**
**Pang Hon Chung**
*Certified Public Accountants*
Practising Certificate Number P05988
Hong Kong, [● March 2015]

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2014*

| | *Notes* | **2014** *HK$'000* | **2013** *HK$'000* |
|---|---|---|---|
| **Revenue** | *8* | — | — |
| Cost of sales | | — | — |
| **Gross profit** | | — | — |
| Other income | *9* | 24 | 4,252 |
| Selling and distribution expenses | | (1) | (3) |
| General and administrative expenses | | (20,455) | (19,028) |
| Other operating expenses | | (159) | (7,558) |
| Provision for financial guarantee liabilities | *23* | (172,398) | — |
| Gain on deconsolidation of a liquidated subsidiary | *10* | 227,198 | — |
| **Profit/(loss) from operations** | | 34,209 | (22,337) |
| Finance costs | *11* | (151,686) | (166,566) |
| **Loss before tax** | | (117,477) | (188,903) |
| Income tax | *12* | — | 25 |
| **Loss for the year attributable to owners of the Company** | *13, 14* | (117,477) | (188,878) |
| **Other comprehensive income after tax:** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences reclassified to profit or loss upon deconsolidation of a liquidated subsidiary | *10* | 8,859 | — |
| Exchange differences on translation of foreign operations | | 14,850 | 11,223 |
| | | 23,709 | 11,223 |
| **Total comprehensive loss for the year attributable to owners of the Company** | | (93,768) | (177,655) |
| **Loss per share** | | | |
| — Basic and diluted (HK cents per share) | *17* | (6.04) | (9.71) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 DECEMBER 2014*

| | Notes | 2014<br>HK$'000 | 2013<br>HK$'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Property, plant and equipment | 18 | 101 | 278 |
| **Current assets** | | | |
| Inventories | | — | 25 |
| Prepayments, deposits and other receivables | | 285 | 188 |
| Cash and bank balances | | 82 | 451 |
| | | 367 | 664 |
| **Current liabilities** | | | |
| Trade and bills payables | 20 | 426,163 | 542,641 |
| Accruals and other payables | 21 | 944,767 | 790,340 |
| Bank borrowings | 22 | 407,392 | 478,483 |
| Current tax liabilities | | 1,455 | 1,469 |
| Financial guarantee liabilities | 23 | 185,386 | 58,936 |
| Convertible loans | 24 | 33,000 | 33,000 |
| | | 1,998,163 | 1,904,869 |
| **Net current liabilities** | | (1,997,796) | (1,904,205) |
| **NET LIABILITIES** | | (1,997,695) | (1,903,927) |
| **Capital and reserves** | | | |
| Share capital | 25 | 194,600 | 194,600 |
| Reserves | 26 | (2,190,763) | (2,096,995) |
| Equity attributable to owners of the Company | | (1,996,163) | (1,902,395) |
| Non-controlling interests | | (1,532) | (1,532) |
| **TOTAL EQUITY** | | (1,997,695) | (1,903,927) |

## STATEMENT OF FINANCIAL POSITION

*AS AT 31 DECEMBER 2014*

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Current assets** | | | |
| Other receivable | | 285 | 275 |
| Bank and cash balances | | 18 | 21 |
| | | 303 | 296 |
| **Current liabilities** | | | |
| Accruals and other payables | | 34,669 | 19,293 |
| Amount due to subsidiaries | *19* | 5,534 | 4,660 |
| Financial guarantee liabilities | *23* | 1,185,080 | 1,153,823 |
| | | 1,225,283 | 1,177,776 |
| **NET LIABILITIES** | | (1,224,980) | (1,177,480) |
| **Capital and reserves** | | | |
| Share capital | *25* | 194,600 | 194,600 |
| Reserves | *26* | (1,419,580) | (1,372,080) |
| **TOTAL EQUITY** | | (1,224,980) | (1,177,480) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED 31 DECEMBER 2014*

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium account** | **Merger reserve** | **Foreign currency translation reserve** | **Capital reserve** | **Accumulated losses** | **Total** | **Non-controlling interests** | **Total equity** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2013 | 194,600 | 127,539 | 3,982 | 22,681 | 2,609 | (2,076,151) | (1,724,740) | (1,532) | (1,726,272) |
| Total comprehensive loss for the year | — | — | — | 11,223 | — | (188,878) | (177,655) | — | (177,655) |
| At 31 December 2013 and 1 January 2014 | 194,600 | 127,539 | 3,982 | 33,904 | 2,609 | (2,265,029) | (1,902,395) | (1,532) | (1,903,927) |
| Total comprehensive loss for the year | — | — | — | 23,709 | — | (117,477) | (93,768) | — | (93,768) |
| At 31 December 2014 | 194,600 | 127,539 | 3,982 | 57,613 | 2,609 | (2,382,506) | (1,996,163) | (1,532) | (1,997,695) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

*FOR THE YEAR ENDED 31 DECEMBER 2014*

| | 2014 | 2013 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Cash flows from operating activities** | | |
| Loss before tax: | (117,477) | (188,903) |
| Adjustments for: | | |
| Interest income | — | (1) |
| Finance costs | 151,686 | 166,566 |
| Depreciation of property, plant and equipment | 179 | 388 |
| Gains on disposal of property, plant and equipment | — | (112) |
| Impairment on trade receivables | — | 419 |
| Impairment on inventories | 17 | — |
| Reversal of impairment on trade receivables | — | (151) |
| Impairment on prepayments, deposits and other receivables | 125 | 4,117 |
| Reversal of impairment on other receivables | — | (3,545) |
| Provision for financial guarantee liabilities | 172,398 | — |
| Gain on deconsolidation of a liquidated subsidiary | (227,198) | — |
| Operating loss before working capital changes | (20,270) | (21,222) |
| Change in inventories | — | 49 |
| Change in trade receivables | — | 595 |
| Change in prepayments, deposits and other receivables | (239) | (484) |
| Change in trade and bills payables | 1,200 | 1,261 |
| Change in accruals and other payables | 10,016 | 2,908 |
| Cash used in operations | (9,293) | (16,893) |
| Overseas tax paid | (14) | (419) |
| Overseas tax refunded | — | 3,545 |
| Interest received | — | 1 |
| Interest paid | (257) | (1,040) |
| **Net cash used in operating activities** | (9,564) | (14,806) |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | — | (3) |
| Proceeds from disposals of property, plant and equipment | — | 192 |
| Net cash inflows on deconsolidation of a subsidiary | 56,183 | — |
| **Net cash generated from investing activities** | 56,183 | 189 |
| **Cash flows from financing activities** | | |
| Repayment of finance lease payable | — | (106) |
| **Net cash used in financing activities** | — | (106) |
| **Net increase in cash and cash equivalents** | 46,619 | (14,723) |
| Effect of changes in foreign exchange rates | 5,509 | 5,118 |
| Cash and cash equivalents at beginning of year | (60,494) | (50,889) |
| **Cash and cash equivalents at end of year** | (8,366) | (60,494) |
| **Analysis of cash and cash equivalents** | | |
| Bank and cash balances | 82 | 451 |
| Bank overdrafts, secured | (8,448) | (60,945) |
| | (8,366) | (60,494) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 31 DECEMBER 2014*

### 1. GENERAL INFORMATION

First Mobile Group Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, KYI-1106, Grand Cayman, Cayman. The address of its principal place of business is Workshop 6, Level 1, Wah Yiu Industrial Centre, 30–32 Au Pui Wan Street, Fotan, Shatin, New Territories, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and its shares have been suspended from trading since 27 November 2009.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 29 to the consolidated financial statements.

### 2. BASIS OF PREPARATION

**Suspension of trading in shares of the Company**

At the request of the Company, trading in shares of the Company has been suspended since 27 November 2009. Pursuant to a letter from the Stock Exchange on 3 June 2010, among other things, the Company was required to submit a viable resumption proposal (the "Resumption Proposal") to the Stock Exchange, which should address the Company's ability to meet certain conditions for resumption of trading in shares of the Company.

On 2 November 2010, the Stock Exchange issued another letter to the Company informing that the Company had been placed in the first delisting stage under Practice Note 17 (the "PN 17") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company is required to submit a Resumption Proposal to the Stock Exchange by 1 May 2011 to demonstrate that the Company has:

(a) sufficient level of operations or assets of sufficient value required under Rule 13.24 of the Listing Rules;

(b) adequate internal controls to meet obligations under the Listing Rules; and

(c) sufficient working capital for at least twelve months from resumption date.

The Company submitted a resumption proposal to the Stock Exchange on 1 April 2011 with a view to seek the Stock Exchange's approval for the resumption of trading in the shares of the Company. However, on 26 May 2011, the Stock Exchange informed the Company that this resumption proposal has not satisfactorily demonstrated sufficiency of operations or asset under Rule 13.24 of the Listing Rules and the Company has been placed in the second stage of delisting procedures commencing on 26 May 2011 pursuant to PN17.

On 8 November 2011, the Company submitted a revised resumption proposal to the Stock Exchange to seek their approval for the resumption of trading in the shares of the Company. On 16 March 2012, the Company provided further information to the Stock Exchange in response to the Stock Exchange's queries and in support of the revised resumption proposal.

At the end of the second delisting stage, the Company did not provide a Resumption Proposal to the Stock Exchange to demonstrate its sufficiency of operations or assets for [REDACTED]. Therefore, the Stock Exchange placed the Company in the third delisting stage on 20 June 2012.

Subsequently, on 4 December 2012, the Company has submitted another resumption proposal to the Stock Exchange, which involves, inter alia, the Company's proposed acquisition of the entire equity interest in Chongqing Fuling Julong Electric Power Co., Ltd ("Julong") (the"Original Acquisition"). Further details of the Original Acquisition are described in the Group's Annual Report 2012 and the Company's announcement dated 21 December 2012, 18 January 2013, 13 May 2013, 24 June 2013 and 19 July 2013.

**Proposed restructuring of the Group**

As mentioned in the Company's announcements dated 2 December 2013, 9 January and 26 February 2014, in the course of preparing for the [REDACTED] for the Julong Group, certain regulatory issues were identified and given the substantial effort already spent in seeking to resolve those regulatory issues regarding the proposed acquisition of Julong and the lack of progress as at the final deadline for submission of a [REDACTED] for the Resumption Proposal to the Listing Committee, the Directors consider that it is not in the interests of the Company and the Shareholders as a whole to continue with the Original Acquisition, for the purpose of seeking the resumption of trading in shares of the Company.

To continue with the Resumption Proposal, the Company has identified a new target company and entered into an agreement (the "Acquisition Agreement") on 31 March 2014 with the Vendors, pursuant to which the Company will acquire the entire issued share capital of China General (HK) Company Limited ("China General", together with its subsidiaries the "Target Group"). Upon completion of the reorganisation of the Target Group, the Target Group will hold interest in certain real estate projects in Yangzhou, Jiangsu Province and Quanzhou, Fujian Province in the People's Republic of China.

Pursuant to the Acquisition Agreement, the Company will carry out the Proposed Restructuring (the "Amended Proposed Restructuring") which will now involves the proposed capital reorganisation and creditors schemes, the [REDACTED], the subscription and the working facility capitalisation, the acquisition, the application for the granting of the whitewash waiver and the disposal of the three companies together with their subsidiaries within the Group. The completion of the Amended Proposed Restructuring is conditional upon fulfilment of certain key conditions precedent which include, among other things, the passing of the resolutions by the shareholders of the Company at the extraordinary general meeting, the granting of the whitewash waiver by the Securities and Futures Commission of Hong Kong, the capital reorganisation becoming effective, and the submission of the Resumption Proposal to the Stock Exchange and the satisfaction of the conditions set out in the letter from the Stock Exchange to the Company granting in-principle approval to the Resumption Proposal.

The details of the conditions precedent and the updates on the Amended Proposed Restructuring are further described in the announcement dated 22 August 2014 (the "Amendment Announcement"). The Amended Proposed Restructuring, if successfully implemented, consists of, among other things, the principal elements in notes and paragraphs below. Unless otherwise specified, capitalised terms used herein shall have the same meanings as in the Amendment Announcement.

*(a) Capital Reorganisation*

The Company will undergo the Capital Reorganisation comprising the Capital Reduction, Share Premium Cancellation and Share Consolidation. Before the Capital Reorganisation, the authorised share capital of the Company is HK$300,000,000 divided into 3,000,000,000 Shares of HK$0.10 each, and the issued share capital of the Company is HK$194,599,656.50 divided into 1,945,996,565 Shares of HK$0.10 each. Immediately after completion of the Capital Reorganisation, the authorised share capital of the Company will be HK$500,000,000 divided into 100,000,000,000 Adjusted Shares of HK$0.005 each and the issued share capital of the Company will be reduced to HK$972,998.28 divided into 194,599,656 Adjusted Shares of HK$0.005 each. The Adjusted Shares after Capital Reorganisation will be identical and rank pari passu in all respects with each other.

*(b) Creditors Schemes*

The schemes of arrangement entered into between the Company and its creditors (the "Creditors Schemes") have been approved by the creditors at the creditors' meeting held on 21 December 2010 and sanctioned by the High Court on 8 February 2011 and the Grand Court on 28 April 2011, respectively as stated in the announcements of the Company dated 14 February and 6 May 2011. Subject to any approvals/ consents in respect of any modification of the Creditors Schemes having being obtained, the Creditors Schemes will become legally binding on the Company and its creditors upon fulfillment of the conditions to be set out in the subscription agreements in relation to the subscription and upon the filing of the orders of the High Court and the Grand Court with the relevant companies registries in Hong Kong and the Cayman Islands respectively.

As part of the Amended Proposed Restructuring, pursuant to the Creditors Schemes, upon effective, all or any claims and against the Company and all the indebtedness of the Company will be compromised and discharged through (i) a cash payment of HK$162 million (which will be funded by the Company out of the proceeds of the subscription); (ii) the transfer of the Scheme Subsidiaries to Scheme Company or the Scheme Administrators (or their nominees) for the benefit of the creditors under the Creditors Schemes; and (iii) all or any claims of the Retained Subsidiaries against the Scheme Subsidiaries in respect of transactions or events incurred up to the date on which the Creditors Schemes become effective shall be assigned and/or transferred and/or novated from the Retained Subsidiaries to Scheme Company or the Scheme Administrators (or their nominees).

Please refer to the Announcement for the details of the Creditors Schemes.

*(c) The Disposal*

According to the Company's announcements dated 31 October 2014, as part of the Amended Proposed Restructuring, the Company will dispose of certain of its subsidiaries to some or all of the Existing Controlling Shareholders or their nominee(s). Subject to the disposal agreement, The Purchaser has conditionally agreed to acquire and the Company has conditionally agreed to sell the entire issued share capital of Marzo Holdings Limited, Value Day Limited and MDL (the "Disposed Companies"), each being a wholly-owned subsidiary of the Company (the "Disposal"). The Disposed Companies, together with their subsidiaries, are the Retained Subsidiaries which will be disposed of under the Amended Proposed Restructuring. Upon completion of the Disposal, the Company will no longer be interested in the Retained Subsidiaries.

*(d) Acquisition of the New Target*

The asset to be acquired under the Acquisition Agreement is the Sale Equity Interest, being the entire equity interest in China General. As at the date of the Announcement, the entire issued share capital of China General is owned as to 45% by Mr. Shie and 55% by Mr. Tsoi respectively. Upon the completion of Acquisition, the Target Group will become wholly owned subsidiaries of the Company.

The Acquisition constitutes a very substantial acquisition and a reverse takeover for the Company under Chapter 14 of the Listing Rules and a connected transaction for the Company pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules and is therefore subject to the approval of the Independent Shareholders at the EGM and the Stock Exchange's approval of the Company's [REDACTED].

The information relating to the acquisition agreement as required under the Takeovers Code and the Listing Rules will be set out in the Announcement.

As disclosed in the Company's announcement dated on 12 September 2014, the Company received a letter dated 11 September 2014 from the Listing (Review) Committee (the "LRC Letter"), which stated that the Listing (Review) Committee decided to grant a final extension to 31 October 2014 for the Company to submit a [REDACTED] relating to the Target Group (the "Proposal"), and not any other proposal. The LRC Letter also stated that no further extensions of time will be granted to the Company, and the Listing (Review) Committee further decided to cancel the listing of the Shares on the Stock Exchange should the Company fail to do the above by 31 October 2014 or the Proposal fail to proceed for any reasons.

As stated in the Company's announcement dated on 31 October 2014 and 30 December 2014, the Company has made a [REDACTED] relating to the Acquisition of the New Target to the Stock Exchange on 30 October 2014 and the Stock Exchange is still in the process of reviewing the Company's [REDACTED].

**Going concern basis**

The Group incurred a loss attributable to owners of the Company of approximately HK$117,477,000 (2013: HK$188,878,000) for the year ended 31 December 2014 and as at that date, the Group had net current liabilities of approximately HK$1,997,796,000 (2013: HK$1,904,205,000) and net liabilities of approximately HK$1,997,695,000 (2013: HK$1,903,927,000) respectively.

The condition above indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. To address the issues above, the Company had explored and negotiated with its creditors and potential investor for a proposed restructuring of the Group.

The consolidated financial statements have been prepared on a going concern basis, as the Company is preparing the Resumption Proposal, the successful implementation of which will effect, including but not limited to, the Amended Proposed Restructuring to settle with the Company's creditors and allow the trading in the shares of the Company being resumed. The Directors are of the view that the major procedures of the Amended Proposed Restructuring will eventually be agreed upon by the Company's creditors, the Investor, and the Company's shareholders, and will be successfully implemented.

Should the Group be unable to achieve a successful restructuring as mentioned above, or alternatively under other available options of restructuring, and therefore be unable to continue its business as a going concern, adjustments might have to be made to the carrying amounts of the Group's assets to state them at their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities to current assets and liabilities, respectively.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. HKFRSs comprise Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are further disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

*(b) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

*(c) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated profit or loss as part of the gain or loss on disposal.

**Property, plant and equipment**

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

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

| | |
|---|---|
| Leasehold improvements | 12.5%–50% |
| Motor vehicles | 20%–25% |
| Furniture, fixtures and equipment | 8%–25% |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

**Operating leases**

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

**Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

**Trade and other receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

**Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

**Financial guarantee contract liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

(a) the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

(b) the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

**Convertible loans**

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

**Trade and other payables**

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**Equity instruments**

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

**Revenue recognition**

Revenue comprises the fair value of the consideration for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts allowed and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Revenue from the sale of mobile phones and related accessories is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the mobile phones and related accessories are delivered to customers and title has passed to the customers.

(b) Rental income under operating leases is recognised on a straight line basis over the lease terms.

(c) Interest income is recognised on a time-proportion basis using the effective interest method.

**Employee benefits**

*(a) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(b) Pension obligations*

Pursuant to the relevant regulations of the governments in Malaysia and Indonesia, the subsidiaries of the Group in these countries participate in respective government retirement benefit schemes (the "Schemes") whereby these subsidiaries are required to contribute to the Schemes to fund the retirements benefits of the eligible employees. Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums for each employees with reference to the salary scale, as stipulated under the requirements in respective countries. The governments of respective countries are responsible for the entire pension obligations payable to retired employees. The Schemes are defined contribution schemes. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to profit or loss as incurred.

The Group's subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on 5% of the employees' relevant income, subject to a ceiling of monthly relevant income of HK$25,000 (HK$30,000, with effect from 1 June 2014) and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

**Taxation**

Income tax represents the sum of the current tax and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Related parties**

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

**Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

**Events after the reporting period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

**Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

**Going concern basis**

These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful conclusion of the Group's Amended Proposed Restructuring as explained in note 2 to the financial statements.

## 6. FINANCIAL RISK MANAGEMENT

The major financial instruments of the Group include trade payables, bills payables, borrowings and financial guarantee liabilities. The activities of the Group expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk) and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Risk management is carried out by the Directors under policies approved by the Board of Directors. The Directors identify, evaluate and hedge financial risks in close co-operation with the Group's operating units.

### (a) Market risk

*Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar ("USD"), Malaysia Ringgit ("RM") and Euro ("EUR"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

Pursuant to Hong Kong's Linked Exchange Rate System under which HK$ is pegged to USD, management considers there are no significant foreign exchange risks arising from the Group's operation in Hong Kong with respect to transactions denominated in USD.

At 31 December 2014, if HK$ had weakened or strengthened by 5% (2013: 5%) against EUR, with all other variables held constant, loss before tax for the year would have been approximately HK$2,937,000 (2013: HK$3,901,000) higher or lower, mainly as a result of foreign exchange gains or losses on translation of EUR-denominated trade payables and bank borrowings in relation to the operation in Hong Kong.

*Interest rate risk*

The Group's interest rate risk arises from bank and cash balances, and bank borrowings. Bank and cash balances, and bank borrowings with variable rates expose the Group to cash flow interest rate risk.

The Group has followed a policy which involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favorable pricing opportunities arise.

At the end of the reporting period, if interest rates had been increased or decreased by 50 (2013: 50) basis points and all other variables were held constant, the loss before tax of the Group would increase or decrease by approximately HK$992,000 (2013: HK$992,000) mainly as a result of higher or lower interest expenses on floating rate borrowings.

### (b) Liquidity risk

The Group encounters difficulty in meeting its current obligations when they fall due. Most of the Group's debts would be repayable on demand or within one year as at 31 December 2014 and 2013 based on the carrying value of borrowings and payables reflected in the financial statements.

The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the Amended Proposed Restructuring, as further explained in note 2 to the financial statements.

### (c) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. SEGMENT INFORMATION

As the Group's operation in trading and distribution of mobile phones and related accessories had been scaled down to inactive for the year ended 2014 and 2013, the Directors considered that there were no reportable segment for the two years ended 31 December 2014 and 2013.

## 8. REVENUE

No transactions were concluded to generate any trading income by the Group during the year.

## 9. OTHER INCOME

| | **2014** | **2013** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income | — | 1 |
| Gain on disposal of property, plant and equipment | — | 112 |
| Reversal of impairment on trade receivable | — | 151 |
| Reversal of impairment on other receivable | — | 3,545 |
| Sundry income | 24 | 443 |
| | 24 | 4,252 |

## 10. GAIN ON DECONSOLIDATION OF A LIQUIDATED SUBSIDIARY

As detailed in the 2013 Financial Statements, a winding-up order was issued by the High Court in Malaysia, Shah Alam on 5 February 2014 ordering, among other things, that FMGSB, be wound up and that the official receiver of Malaysia be appointed as liquidator of FMGSB. As a result, the directors and the staffs of the Company were not able to access the documents, accounting books and records of FMGSB.

In view of the circumstances as described in the preceding paragraph, the Directors have lost the access to the accounting books and records of FMGSB for the calculation of the gain on deconsolidation as at 5 February 2014.

| | *HK$'000* |
|---|---|
| Net liabilities of the subsidiary deconsolidated: | |
| Prepayment, deposits and other receivables | 17 |
| Cash and bank balances | 24 |
| Trade and bills payables | (108,330) |
| Accruals and other payables | (5,047) |
| Amounts due to the Group | (2,915) |
| Bank overdrafts | (56,207) |
| Bank borrowings | (20,566) |
| Financial guarantee liabilities | (45,948) |
| Net liabilities of the deconsolidated subsidiary | (238,972) |
| Impairment of amount due from the deconsolidated subsidiary | 2,915 |
| Release of the related foreign currency translation reserves | 8,859 |
| Gain on deconsolidation of a liquidated subsidiary | (227,198) |

Net cash inflows from deconsolidation of the subsidiary were as follows:

| | *HK$'000* |
|---|---|
| Cash and cash equivalent deconsolidated: | |
| Cash and bank balances | 24 |
| Bank overdrafts | (56,207) |
| | (56,183) |

## 11. FINANCE COSTS

| | **2014** *HK$'000* | **2013** *HK$'000* |
|---|---|---|
| Interest expenses on borrowings and payables wholly repayable within five years | | |
| — bank borrowings | 46,048 | 60,814 |
| — finance leases | — | 13 |
| — convertible loans | 1,041 | 1,172 |
| — trade payables | 104,597 | 104,567 |
| | 151,686 | 166,566 |

## 12. INCOME TAX

| | **2014** *HK$'000* | **2013** *HK$'000* |
|---|---|---|
| Current tax — Overseas: | | |
| Over provision in prior year | — | (25) |
| | — | (25) |

No provision for Hong Kong profits tax has been made for the year, as the Group has no estimated assessable profits arising in Hong Kong and overseas. Tax on overseas profits had been calculated on the estimated assessable profits for that year at the rates of tax prevailing in the countries in which the Group operates.

The reconciliation between the income tax and loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

| | **2014** *HK$'000* | **2013** *HK$'000* |
|---|---|---|
| Loss before tax: | (117,477) | (188,903) |
| Calculated at a domestic tax rate of 16.5% (2013: 16.5%) | (19,384) | (31,169) |
| Effect of different tax rates in other countries | 11,672 | 10,534 |
| Income not subject to tax | (37,607) | (1,381) |
| Expenses not deductible for tax purpose | 45,297 | 14,726 |
| Over provision in prior year | — | (25) |
| Tax losses not recognised | 22 | 7,290 |
| | — | (25) |

At the end of the reporting period, subject to agreement with tax authorities, the Group has unused tax losses of approximately HK$2,318,544,000 (2013: HK$2,318,521,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams of the Group.

## 13. LOSS FOR THE YEAR

The Group's loss for the year was arrived at after charging/(crediting) the amounts as set out below.

| | 2014 | 2013 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cost of inventories sold | — | — |
| Auditor's remuneration | 851 | 629 |
| Depreciation of property, plant and equipment | 179 | 388 |
| Operating leases expenses | 170 | 302 |
| Impairment on inventories* | 17 | — |
| Impairment on trade receivables** | — | 419 |
| Impairment on prepayments, deposits and other receivables* | 125 | 4,117 |
| Staff costs (including Directors' remuneration): | | |
| — salaries, bonuses and allowances | 3,251 | 3,097 |
| — retirement benefits scheme contributions | 78 | 78 |
| | 3,329 | 3,175 |
| Exchange losses* | — | 335 |
| Gains on disposals of property, plant and equipment* | — | (112) |
| Reversal of impairment on trade receivable | — | (151) |
| Reversal of impairment on other receivable | — | (3,545) |

* These items were included in other operating expenses.
** These items were included in general and administrative expenses.

## 14. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss for the year attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of a loss of approximately HK$47,500,000 (2013: HK$56,178,000).

## 15. DIRECTOR'S AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The remuneration of each Director for the year ended 31 December 2014 is set out below:

| | Salary | Retirement benefit costs | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive Director:* | | | |
| Ng Kok Hong | 1,063 | 17 | 1,080 |
| Ng Kok Tai | — | — | — |
| Ng Kok Yang | — | — | — |
| | 1,063 | 17 | 1,080 |

The remuneration of each Director for the year ended 31 December 2013 is set out below:

| | Salary | Retirement benefit costs | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive Director:* | | | |
| Ng Kok Hong | 1,065 | 15 | 1,080 |
| Ng Kok Tai | — | — | — |
| Ng Kok Yang | — | — | — |
| | 1,065 | 15 | 1,080 |

During the year ended 31 December 2014, Mr. Ng Kok Hong, Mr. Ng Kok Tai and Mr. Ng Kok Yang, being executive Directors of the Company, have agreed to waive their total emoluments of approximately HK$2,967,000 (2013: HK$2,965,000), HK$1,950,000 (2013: HK$1,950,000) and HK$2,470,000 (2013: HK$2,470,000). Save as disclosed above, there was no other arrangement under which a Director waived or agreed to waive any emoluments during the year.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group are as follows:

| | 2014 | 2013 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Directors | 1,080 | 1,080 |
| Employees | 1,692 | 1,828 |
| | 2,772 | 2,908 |

The Group's five highest paid individuals for both years included one director and four employees. Details of the emoluments of the Directors are reflected in the analysis presented above. The details of the aggregate emoluments of the four employees, all falling within the band of HK$1,000,000 or below, for the year are as follows:

| | 2014 | 2013 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries, allowances and benefit-in-kind | 1,625 | 1,759 |
| Retirement benefit costs | 67 | 69 |
| | 1,692 | 1,828 |

Save as disclosed above, for the two years ended 31 December 2014 and 2013, no other emoluments had been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 16. DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2014 (2013: nil).

## 17. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company was based on the loss for the year attributable to owners of the Company of approximately HK$117,477,000 (2013: HK$188,878,000) and the weighted average number of 1,945,996,565 (2013: 1,945,996,565) ordinary shares in issue during the year.

### (b) Diluted loss per share

No diluted loss per share is presented as the exercise of the Group's outstanding convertible loans would be anti-dilutive for both years.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | |
|---|---|---|---|---|
| | **Leasehold improvements** *HK$'000* | **Motor vehicles** *HK$'000* | **Furniture, fixtures and equipment** *HK$'000* | **Total** *HK$'000* |
| **Cost:** | | | | |
| At 1 January 2013 | 501 | 977 | 14,397 | 15,875 |
| Additions | — | — | 3 | 3 |
| Disposals | — | (247) | (166) | (413) |
| Exchange differences | (106) | (8) | (193) | (307) |
| At 31 December 2013 and 1 January 2014 | 395 | 722 | 14,041 | 15,158 |
| Exchange differences | — | — | (1) | (1) |
| At 31 December 2014 | 395 | 722 | 14,040 | 15,157 |
| **Accumulated depreciation:** | | | | |
| At 1 January 2013 | 456 | 841 | 13,801 | 15,098 |
| Charge for the year | 43 | 91 | 254 | 388 |
| Disposals | — | (205) | (125) | (330) |
| Exchange differences | (104) | (5) | (167) | (276) |
| At 31 December 2013 and 1 January 2014 | 395 | 722 | 13,763 | 14,880 |
| Charge for the year | — | — | 179 | 179 |
| Exchange differences | — | — | (3) | (3) |
| At 31 December 2014 | 395 | 722 | 13,939 | 15,056 |
| **Carrying amount:** | | | | |
| At 31 December 2014 | — | — | 101 | 101 |
| At 31 December 2013 | — | — | 278 | 278 |

## 19. INVESTMENTS IN SUBSIDIARIES

| | | Company | |
|---|---|---|---|
| | | **2014** | **2013** |
| | *Notes* | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | *(a)* | 233,433 | 233,433 |
| Less: Impairments | *(c)* | (233,433) | (233,433) |
| | | — | — |
| Amount due from subsidiaries | *(b)* | 339,266 | 339,266 |
| Less: Impairments | *(c)* | (339,266) | (339,266) |
| | | — | — |
| Amount due to subsidiaries | *(b)* | 5,534 | 4,660 |

*Notes:*

(a) Particulars of principal subsidiaries are set out in note 29 to the financial statements.

(b) The balances with subsidiaries were unsecured, interest free and had no fixed terms of repayment.

(c) At 31 December 2014 and 2013, the Directors performed an impairment testing on the Group's investments in subsidiaries and the amount due from subsidiaries, and they considered that their carrying amounts are in excess of the recoverable amounts as a result of the persistent operating losses of its subsidiaries. Accordingly, the provisions for impairment of approximately HK$233,433,000 (2013: HK$233,433,000) against the investments in subsidiaries and approximately HK$339,266,000 (2013: HK$339,266,000) were made against the amount due from subsidiaries at the end of the reporting period.

## 20. TRADE AND BILLS PAYABLES

| | Group | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Trade payables | 426,163 | 438,073 |
| Bills payables | — | 104,568 |
| | 426,163 | 542,641 |

At the end of the reporting period, the ageing of all trade payables are over 120 days.

Included in the trade payables at the end of the reporting period, approximately HK$401,529,000 (2013: HK$409,375,000) of which were secured by certain corporate guarantees granted by the Company to the former largest supplier of the Group and certain trade insurance companies. Included in the guaranteed trade payables, approximately HK$344,500,000 (2013: HK$344,500,000) and approximately HK$57,029,000 (2013: HK$64,875,000) of which were interest-bearing at approximately 2.5% per month and at approximately 1.95% per annum respectively.

At the end of the reporting period, the Group has no bills payable (2013: The bills payables of the Group were interest-bearing at approximately 8.29% per annum).

The carrying amounts of the Group's trade and bills payables were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| USD | 344,511 | 408,372 |
| EUR | 55,923 | 65,047 |
| RM | 2,392 | 44,540 |
| HK$ | 12,269 | 13,448 |
| INR | 1,325 | 1,348 |
| VND | 7,780 | 7,857 |
| Others | 1,963 | 2,029 |
| | 426,163 | 542,641 |

## 21. ACCRUALS AND OTHER PAYABLES

| | Group | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Interest payables *(note (a))* | 854,267 | 705,557 |
| Accrual | 62,257 | 72,651 |
| Amounts due to a director *(note (b))* | 3,668 | 972 |
| Amounts due to the Vendors *(note (c))* | 11,801 | — |
| Other payables | 12,774 | 11,160 |
| | 944,767 | 790,340 |

*Notes:*

(a) Included in the interest payables at the end of the reporting period, approximately HK$212,802,000 (2013: HK$172,911,000) of which were secured by certain corporate guarantees granted by the Company to the former largest supplier of the Group and certain banks.

(b) The amounts due to a director are unsecured, non-interest bearing and no fixed repayment terms.

(c) Amounts due to the Vendors represent the professional fees and expenses incurred by the Company in relation to the Amended Proposed Restructuring which are unsecured, non-interest bearing and will be capitalized as a contribution after the completion of the Amended Proposed Restructuring.

## 22. BANK BORROWINGS

| | Group | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Bank loans, secured | 398,946 | 417,537 |
| Bank overdrafts, secured | 8,446 | 60,946 |
| | 407,392 | 478,483 |

(a) The carrying amounts of the bank borrowings were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| USD | 192,985 | 194,109 |
| HK$ | 211,585 | 209,050 |
| RM | — | 72,751 |
| EUR | 2,822 | 2,573 |
| | 407,392 | 478,483 |

(b) The effective interest rates of the bank borrowings at the end of the reporting period were as follows:

| | Bank loans | | Bank overdrafts | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| USD | 5.7% | 5.7% | — | — |
| HK$ | 4.3% | 4.3% | 5.9% | 5.9% |
| RM | — | 7.6% | — | 9.1% |
| EUR | 4.4% | 4.4% | — | — |

(c) The Group's bank borrowings were secured by certain corporate guarantees granted by the Company.

## 23. FINANCIAL GUARANTEE LIABILITIES

**Group**

The Company has given corporate guarantees to certain banks to secure for the general banking facilities of FMGSB, Exquisite Model Sdn. Bhd. ("EM") and Mobile Distribution (M) Sdn. Bhd. ("MDM") totaling approximately HK$185,386,000. In view that FMGSB, EM and MDM are currently in liquidation, and on ground that the potential claims of these corporate guarantees granted by the Company may be exercised by the relevant banks, a provision for financial guarantee liabilities of approximately HK$172,398,000 have been made against the potential uncovered exposures to be borne by the Company under such guarantees.

**Company**

At 31 December 2014, the Company has given corporate guarantees to certain banks, trade credit insurance companies and the former largest supplier of the Group to secure for the general banking facilities and trade credits granted to certain of its subsidiaries, and approximately HK$1,185,080,000 (2013: HK$1,153,823,000) of which were utilised by the subsidiaries as at that date. The Group has breached certain bank covenant requirements and defaulted in repayment of certain bank borrowings. At the end of the reporting period, it is probable that the Company will be liable to the potential claims under any of these guarantees. Accordingly, a provision for financial guarantee liabilities of approximately HK$1,185,080,000 (2013: HK$1,153,823,000) for the Company has been made against the probable uncovered exposures to be borne by the Company under those guarantees at the end of the reporting period.

## 24. CONVERTIBLE LOANS

(a) Time Boomer Limited ("Time Boomer"), a party nominated by the Investor to provide HK$13 million out of HK$50 million standby working capital facility pursuant to the terms of the Exclusivity Agreements, entered into the Loan Agreements (the "TB Loan") and Option Agreements (the "TB Option") with Mobile Distribution Limited ("MDL"), a wholly-owned subsidiary of the Company. Pursuant to a supplemental deed with Time Boomer to amend the terms of the TB Option such that

Time Boomer shall now be entitled to subscribe for 83,870,968 New Shares at a total exercise price of HK$13 million, or HK$0.155 per New Share, upon fulfillment of certain conditions precedent as described in the Announcement.

Interest of 8 per cent per annum will be paid monthly up until the Time Boomer Loan is converted or redeemed.

The interest charged for the year is calculated by applying an effective interest rate of 8.3% per annum to the liability component.

The TB Loan is secured by (i) the FMG Share Charge over a total of 68.5% of the entire issued shares of the Company held by the Major Shareholders; (ii) the Personal Guarantees given by Mr. Ng Kok Hong and Ms. Tan Sook Kiang; (iii) the share charges over the entire issued share capital of MDL; and (iv) the Fixed and Floating Charge over the assets of MDL. The FMG Share Charge, the Personal Guarantees and the Fixed and Floating Charge will continue to be in force and, subject to the terms and conditions as further described in the Company's announcement dated 14 July 2011.

(b) First Apex Investments Limited ("First Apex"), a party nominated by the Investor to provide HK$20 million out of HK$50 million standby working capital facility pursuant to the terms of the Exclusivity Agreements, entered into the Loan Agreements (the "FA Loan") and Option Agreements (the "FA Option") with MDL. Pursuant to a termination deed with First Apex terminating the FA Option and a new option deed with First Apex pursuant to which the Company will now grant to First Apex an option to subscribe for 129,032,258 New Shares at a total exercise price of HK$20 million or approximately HK$0.155 per New Share, upon fulfillment of certain conditions precedent as described in the Announcement.

The FA Loan does not bear any interest.

The interest charged for the year is calculated by applying an effective interest rate of approximately 0% per annum to the liability component.

The FA Loan is secured by (i) the FMG Share Charge over a total of 68.5% of the entire issued shares of the Company held by the Major Shareholders; (ii) the Personal Guarantee given by Mr. Ng Kok Hong; (iii) the share charges over the entire issued share capital of MDL; and (iv) the Fixed and Floating Charge over the assets of MDL. The FMG Share Charge, the Personal Guarantee and the Fixed and Floating Charge will continue to be in force and, subject to the terms and conditions as further described in the Company's announcement dated 14 February 2012.

As further disclosed in the Company's announcements dated 12 May 2015, the repayment date of the TB Loan and the FA Loan has extend to 31 March 2016.

(c) The liability components of the TB Loan and FA Loan at the end of the reporting period is analysed as follows:

| | Convertible Loans — Group | | |
|---|---|---|---|
| | **Time Boomer** | **First Apex** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Liability components at 1 January 2013 | 12,976 | 19,892 | 32,868 |
| Interest charged | 1,064 | 108 | 1,172 |
| Interest paid | (1,040) | — | (1,040) |
| Liability component at 31 December 2013 and 1 January 2014 | 13,000 | 20,000 | 33,000 |
| Interest charged | 1,041 | — | 1,041 |
| Interest paid | (257) | — | (257) |
| Interest included in accruals and other payables | (784) | — | (784) |
| Liability components at 31 December 2014 | 13,000 | 20,000 | 33,000 |

The Directors estimate the fair value of the liability component of the convertible loans at 31 December 2014 to be approximately HK$33,755,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

## 25. SHARE CAPITAL

| | Company | |
|---|---|---|
| | *Number of ordinary shares HK$0.10 each* | *HK$'000* |
| Authorised: | | |
| At 31 December 2013 and 2014 | 3,000,000,000 | 300,000 |
| Issued and fully paid: | | |
| At 31 December 2013 and 2014 | 1,945,996,565 | 194,600 |

**Capital Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No major changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2014 and 2013.

The capital structure of the Group consists of debt, which includes bank borrowings, financial guarantee liabilities and convertible loans as disclosed in notes 22, 23 and 24, and equity attributable to owners of the Company, comprising share capital and reserves.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as debt to total assets. Debt is calculated as total borrowings (including current and non-current bank and other borrowings and financial guarantee liabilities but excluding trade and bills payables, accruals and other payables and tax payables as shown in the consolidated statement of financial position).

The gearing ratios at 31 December 2014 and 2013 were as follows:

| | Group | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Total borrowings | 625,778 | 570,419 |
| Total assets | 468 | 942 |
| Gearing ratio | 133,713% | 60,554% |

The gearing ratios above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the Amended Proposed Restructuring as further explained in note 2 to the financial statements.

## 26. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Company

| | **Share premium** | **Capital reserve** | **Accumulated losses** | **Total** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2013 | 287,281 | — | (1,603,183) | (1,315,902) |
| Loss for the year | — | — | (56,178) | (56,178) |
| At 31 December 2013 and 1 January 2014 | 287,281 | — | (1,659,361) | (1,372,080) |
| Loss for the year | — | — | (47,500) | (47,500) |
| At 31 December 2014 | 287,281 | — | (1,706,861) | (1,419,580) |

### (c) Nature and purpose of reserves

*(i) Share premium account*

Pursuant to the Companies Law (1998 Revision) of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the equity holders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

*(ii) Merger reserve*

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefor.

*(iii) Capital reserve*

The capital reserve comprises (a) the fair value of the number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 4 to the consolidated financial statements and (b) the equity component of the convertible loan issued by the Group which is the difference between the gross proceeds of the issue of the convertible loans and the fair value assigned to the liability component, representing the conversion option for the holder to convert the note into equity.

*(iv) Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the financial statements.

## 27. OPERATING LEASE COMMITMENTS

Leases for office premises are negotiated for terms ranging from 1 to 2 years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2014** | **2013** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | 166 | 163 |
| In the second to fifth years, inclusive | 33 | 199 |
| | 199 | 362 |

## 28. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, there are certain updates on the Group's Amended Proposed Restructuring in progress, and further details of which are stated in note 2 to these financial statements.

## 29. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The Directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the following list contains only the subsidiaries at the end of the reporting period which principally affect the results or financial position of the Group.

| **Name of the subsidiary** | **Place of incorporation/ registration/ operation** | **Issued and paid-up share capital/ registered capital** | **Percentage of equity interest attributable to the Group 2014** | **2013** | **Principal activities** |
|---|---|---|---|---|---|
| ***Direct subsidiary:*** | | | | | |
| E-Tech Resources Limited | British Virgin Islands | 10,000 shares of US$1 each | 100% | 100% | Investment holding |

| Name of the subsidiary | Place of incorporation/ registration/ operation | Issued and paid-up share capital/ registered capital | Percentage of equity interest attributable to the Group 2014 | 2013 | Principal activities |
|---|---|---|---|---|---|
| ***Indirect subsidiaries:*** | | | | | |
| é-Touch Mobile Private Limited | India | 10,000 shares of Indian Rupees 10 each | 95% | 95% | Inactive |
| First Asia Mobile, Inc. | Republic of the Philippines | 12,500,000 shares of P$1 each | 100% | 100% | Inactive |
| First Telecom International Limited | Hong Kong | HK$50,000,000 ordinary shares<br><br>HK$3,019,944 non-voting deferred shares | 100% | 100% | Inactive |
| Lets Do Mobile Philippines Inc. | Republic of the Philippines | 85,000,000 shares of P$1 each | 100% | 100% | Inactive |
| Matrix Star Limited | Hong Kong | HK$1 ordinary shares | 100% | — | Inactive |
| Mobile Distribution Limited | Hong Kong | HK$1 ordinary shares | 100% | 100% | Inactive |
| Mobile performances SARL | France | 850 shares of 10 EUR each | 100% | 100% | Inactive |
| Multi Brand Telecom Services Trade Joint Stock Company | Vietnam | Vietnam Dong 2,000,000,000 | 90% | 90% | Inactive |
| Precision SARL | France | 850 shares of 10 EUR each | 100% | 100% | Inactive |
| PT. Comworks Indonesia | Indonesia | 330,000 shares of USD1 each | 100% | 100% | Inactive |

## 30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on [●] 2015.

中汇
ZHONGHUI

**INDEPENDENT AUDITOR'S REPORT**
**TO THE SHAREHOLDERS OF**
**FIRST MOBILE GROUP HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

We were engaged to audit the consolidated financial statements of First Mobile Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages II-[●] to II-[●], which comprise the consolidated and Company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company (the "Directors") are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for disclaimer of opinion**

*1. No access to accounting books and records of a subsidiary in liquidation*

At the adjourned hearing of the Winding-up Petition on 5 February 2014, the Shah Alam High Court in Malaysia ordered among other things that the Company's wholly-owned subsidiary, First Mobile Group Sdn. Bhd. ("FMGSB"), be wound up and that the Official Receiver of Malaysia be appointed as the provisional liquidator of FMGSB, as a result the directors and the staffs of the Company were not able to access the documents, accounting books and records of FMGSB.

The consolidated financial statements have been prepared based on the accounting books and records maintained by the Company and its subsidiaries. In view of the circumstances as described in the preceding paragraph, the Directors have lost the access to have accounting books and records of FMGSB as presented below included in the Group's financial statements for the year ended 31 December 2013.

Due to the insufficiency of supporting documentation and explanations, we were unable to carry out audit procedures to satisfy ourselves as to whether the following income and expenses for the year ended 31 December 2013 and the assets and liabilities as at that date, and the related disclosure notes relating to FMGSB, as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements.

| | **For the year ended 31 December 2013** |
|---|---|
| | *HK$'000* |
| **Income and expenses:** | |
| Administrative expenses | (252) |
| Other operating expenses | (3,452) |
| Finance costs | (15,045) |
| Loss for the year | (18,749) |

| | As at 31 December 2013 *HK$'000* |
|---|---|
| **Assets and liabilities:** | |
| Prepayments, deposits and other receivables | 16 |
| Cash and bank balances | 23 |
| Trade and bills payables | (105,850) |
| Accruals and other payables | (6,089) |
| Bank overdrafts | (54,158) |
| Bank borrowings | (18,593) |
| Net liabilities | (184,651) |

We were also unable to obtain sufficient reliable evidence to satisfy ourselves as to whether the Group has any significant contingent liabilities and commitments as at 31 December 2013 in respect of FMGSB that need to be adjusted for or disclosed in the consolidated financial statements.

2. *Financial guarantee liabilities*

Due to no access to accounting books and records of the FMGSB we were unable to carry out audit procedures to satisfy ourselves as to whether the financial guarantee liabilities of approximately HK$58,936,000 included in the consolidated and Company statements of financial positions have been accurately recorded and properly accounted for in the consolidated financial statements.

Any adjustments to the figures as described from points 1 to 2 above might have significant consequential effects on the Group's results and cash flows for the year ended 31 December 2013 and the financial position of the Group and of the Company as at 31 December 2013, and the related disclosures thereof in the consolidated financial statements.

## MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that a proposal for resumption of trading in the Company's shares and the restructuring of the Group has been submitted to the Stock Exchange of Hong Kong Limited to pursue a restructuring of the Company. The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Group will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

**Disclaimer of opinion**

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ZHONGHUI ANDA CPA Limited**
**Pang Hon Chung**
*Certified Public Accountants*
Practising Certificate Number P05988
Hong Kong, [● 2014]

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | *Notes* | **2013**<br>*HK$'000* | **2012**<br>*HK$'000* |
|---|---|---|---|
| **Revenue** | *8* | — | 23,186 |
| Cost of sales | | — | (23,004) |
| **Gross profit** | | — | 182 |
| Other income | *9* | 4,252 | 142 |
| Selling and distribution expenses | | (3) | (739) |
| General and administrative expenses | | (19,028) | (14,397) |
| Other operating expenses | | (7,558) | (18,810) |
| Provision for financial guarantee liabilities | *27* | — | (31,139) |
| Gain on deconsolidation of a liquidated subsidiary | *10* | — | 24,508 |
| **Loss from operations** | | (22,337) | (40,253) |
| Finance costs | *11* | (166,566) | (162,989) |
| **Loss before tax** | | (188,903) | (203,242) |
| Income tax | *12* | 25 | 11 |
| **Loss for the year** | *13* | (188,878) | (203,231) |
| **Other comprehensive income/(loss):** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences reclassified to profit or loss upon deconsolidation of a liquidated subsidiary | *10* | — | 1,514 |
| Exchange differences on translation of foreign operations | | 11,223 | (3,708) |
| | | 11,223 | (2,194) |
| **Total comprehensive loss for the year** | | (177,655) | (205,425) |
| **Loss for the year attributable to:** | | | |
| Owners of the Company | | (188,878) | (203,228) |
| Non-controlling interests | | — | (3) |
| | *14* | (188,878) | (203,231) |
| **Total comprehensive loss for the year attributable to:** | | | |
| Owners of the Company | | (177,655) | (205,422) |
| Non-controlling interests | | — | (3) |
| | | (177,655) | (205,425) |
| **Loss per share** | | | |
| — Basic and diluted (HK cents per share) | *17* | (9.71) | (10.44) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 DECEMBER 2013*

| | *Notes* | **2013** *HK$'000* | **2012** *HK$'000* |
|---|---|---|---|
| **Non-current asset** | | | |
| Property, plant and equipment | *18* | 278 | 777 |
| **Current assets** | | | |
| Inventories | *20* | 25 | 74 |
| Trade receivables | *21* | — | 868 |
| Prepayments, deposits and other receivables | *22* | 188 | 3,863 |
| Cash and bank balances | | 451 | 678 |
| | | 664 | 5,483 |
| **Current liabilities** | | | |
| Trade and bills payables | *23* | 542,641 | 546,246 |
| Accruals and other payables | *24* | 790,340 | 623,718 |
| Bank borrowings | *25* | 478,483 | 468,745 |
| Finance lease payables | *26* | — | 106 |
| Current tax liabilities | | 1,469 | 1,913 |
| Financial guarantee liabilities | *27* | 58,936 | 58,936 |
| Convertible loans | *28* | 33,000 | 32,868 |
| | | 1,904,869 | 1,732,532 |
| **Net current liabilities** | | (1,904,205) | (1,727,049) |
| **Total assets less current liabilities** | | (1,903,927) | (1,726,272) |
| **NET LIABILITIES** | | (1,903,927) | (1,726,272) |
| **Capital and reserves** | | | |
| Share capital | *29* | 194,600 | 194,600 |
| Reserves | *30* | (2,096,995) | (1,919,340) |
| Equity attributable to owners of the Company | | (1,902,395) | (1,724,740) |
| Non-controlling interests | | (1,532) | (1,532) |
| **TOTAL EQUITY** | | (1,903,927) | (1,726,272) |

## STATEMENT OF FINANCIAL POSITION

*AS AT 31 DECEMBER 2013*

| | *Notes* | **2013** | **2012** |
|---|---|---|---|
| | | *HK$'000* | *HK$'000* |
| **Current assets** | | | |
| Other receivable | | 275 | 258 |
| Bank and cash balances | | 21 | 23 |
| | | 296 | 281 |
| **Current liabilities** | | | |
| Accruals and other payables | | 19,293 | 8,063 |
| Amount due to a subsidiary | *19* | 4,660 | 3,362 |
| Financial guarantee liabilities | *27* | 1,153,823 | 1,110,158 |
| | | 1,177,776 | 1,121,583 |
| **NET LIABILITIES** | | (1,177,480) | (1,121,302) |
| **Capital and reserves** | | | |
| Share capital | *29* | 194,600 | 194,600 |
| Reserves | *30* | (1,372,080) | (1,315,902) |
| **TOTAL EQUITY** | | (1,177,480) | (1,121,302) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | *Notes* | **2013** *HK$'000* | **2012** *HK$'000* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax: | | (188,903) | (203,242) |
| Adjustments for: | | | |
| Interest income | | (1) | (1) |
| Finance costs | | 166,566 | 162,989 |
| Depreciation of property, plant and equipment | | 388 | 666 |
| Gains on disposal of property, plant and equipment | | (112) | (32) |
| Reversal of impairment on inventories | | — | (981) |
| Impairment on trade receivables | | 419 | 447 |
| Reversal of impairment on trade receivables | | (151) | — |
| Impairment on prepayments, deposits and other receivables | | 4,117 | 13,843 |
| Reversal of impairment on other receivables | | (3,545) | — |
| Provision for financial guarantee liabilities | | — | 31,139 |
| Gain on deconsolidation of a liquidated subsidiary | 10 | — | (24,508) |
| Operating loss before working capital changes | | (21,222) | (19,680) |
| Change in inventories | | 49 | 2,648 |
| Change in trade receivables | | 595 | 1,649 |
| Change in prepayments, deposits and other receivables | | (484) | (8,286) |
| Change in trade and bills payables | | 1,261 | 8,183 |
| Change in accruals and other payables | | 2,908 | (9,243) |
| Cash used in operations | | (16,893) | (24,729) |
| Hong Kong profits tax paid | | — | (25) |
| Overseas tax paid | | (419) | (120) |
| Overseas tax refunded | | 3,545 | — |
| Interest received | | 1 | 1 |
| Interest paid | | (1,040) | (1,043) |
| **Net cash used in operating activities** | | (14,806) | (25,916) |
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (3) | (430) |
| Proceeds from disposals of property, plant and equipment | | 192 | 129 |
| Net cash inflows on deconsolidation of a subsidiary | 10 | — | 2,579 |
| Decrease in pledged bank deposits | | — | 221 |
| **Net cash generated from investing activities** | | 189 | 2,499 |
| **Cash flows from financing activities** | | | |
| Repayment of finance lease payable | | (106) | (174) |
| Proceeds from issue of convertible loan | | — | 20,000 |
| **Net cash (used in)/generated from financing activities** | | (106) | 19,826 |
| **Net increase in cash and cash equivalents** | | (14,723) | (3,591) |
| Effect of changes in foreign exchange rates | | 5,118 | (2,504) |
| Cash and cash equivalents at beginning of year | | (50,889) | (44,794) |
| **Cash and cash equivalents at end of year** | | (60,494) | (50,889) |
| **Analysis of cash and cash equivalents** | | | |
| Bank and cash balances | | 451 | 678 |
| Bank overdrafts, secured | | (60,945) | (51,567) |
| | | (60,494) | (50,889) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED 31 DECEMBER 2013*

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium account** | **Merger reserve** | **Foreign currency translation reserve** | **Capital reserve** | **Accumulated losses** | **Total** | **Non-controlling interests** | **Total equity** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2012 | 194,600 | 127,539 | 3,982 | 24,875 | 778 | (1,872,923) | (1,521,149) | (1,529) | (1,522,678) |
| Total comprehensive loss for the year | — | — | — | (2,194) | — | (203,228) | (205,422) | (3) | (205,425) |
| Equity component of convertible loan | — | — | — | — | 1,831 | — | 1,831 | — | 1,831 |
| At 31 December 2012 and 1 January 2013 | 194,600 | 127,539 | 3,982 | 22,681 | 2,609 | (2,076,151) | (1,724,740) | (1,532) | (1,726,272) |
| Total comprehensive income/(loss) for the year | — | — | — | 11,223 | — | (188,878) | (177,655) | — | (177,655) |
| At 31 December 2013 | 194,600 | 127,539 | 3,982 | 33,904 | 2,609 | (2,265,029) | (1,902,395) | (1,532) | (1,903,927) |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 31 DECEMBER 2013*

### 1. GENERAL INFORMATION

First Mobile Group Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, KYI-1106, Grand Cayman, Cayman. The address of its principal place of business is Workshop 6, Level 1, Wah Yiu Industrial Centre, 30-32 Au Pui Wan Street, Fotan, Shatin, New Territories, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and its shares were suspended from trading since 27 November 2009.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 33 to the consolidated financial statements.

### 2. BASIS OF PREPARATION

**Suspension of trading in shares of the Company**

At the request of the Company, trading in shares of the Company had been suspended since 27 November 2009. Pursuant to a letter from the Stock Exchange on 3 June 2010, among other things, the Company was required to submit a viable resumption proposal (the "Resumption Proposal") to the Stock Exchange, which should address the Company's ability to meet certain conditions for resumption of trading in shares of the Company.

On 2 November 2010, the Stock Exchange issued another letter to the Company informing that the Company had been placed in the first delisting stage under Practice Note 17 (the "PN 17") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company is required to submit a Resumption Proposal to the Stock Exchange by 1 May 2011 to demonstrate that the Company has:

(a) sufficient level of operations or assets of sufficient value required under Rule 13.24 of the Listing Rules;

(b) adequate internal controls to meet obligations under the Listing Rules; and

(c) sufficient working capital for at least twelve months from resumption date.

The Company submitted a resumption proposal to the Stock Exchange on 1 April 2011 with a view to seek the Stock Exchange's approval for the resumption of trading in the shares of the Company. However, on 26 May 2011, the Stock Exchange informed the Company that this resumption proposal has not satisfactorily demonstrated sufficiency of operations or asset under Rule 13.24 of the Listing Rules and the Company has been placed in the second stage of delisting procedures commencing on 26 May 2011 pursuant to PN17.

On 8 November 2011, the Company submitted a revised resumption proposal to the Stock Exchange to seek their approval for the resumption of trading in the shares of the Company. On 16 March 2012, the Company provided further information to the Stock Exchange in response to the Stock Exchange's queries and in support of the revised resumption proposal.

At the end of the second delisting stage, the Company did not provide a viable resumption proposal to the Stock Exchange to demonstrate its sufficiency of operations or assets for listing. Therefore, the Stock Exchange placed the Company in the third delisting stage on 20 June 2012.

Subsequently, on 4 December 2012, the Company has submitted another resumption proposal to the Stock Exchange, which involves, inter alia, the Company's proposed acquisition of the entire equity interest in Chongqing Fuling Julong Electric Power Co., Ltd ("Julong") (the"Original Acquisition"). Further details of the Original Acquisition are described in the Group's Annual Report 2012, the Acquisition of Julong and the Company's announcement dated 21 December 2012, 18 January 2013, 13 May 2013, 24 June 2013 and 19 July 2013.

**Proposed restructuring of the Group**

As mentioned in the Company's announcements dated 2 December 2013, 9 January and 26 February 2014, respectively, in the course of preparing for the [REDACTED] for the Julong Group, certain regulatory issues were identified and given the substantial effort already spent in seeking to resolve those regulatory issues regarding the proposed acquisition of Julong and the lack of progress as at the final deadline for submission of a [REDACTED] for the Resumption Proposal to the Listing Committee, the Directors consider that it is not in the interests of the Company and the Shareholders as a whole to continue with the Original Acquisition, for the purpose of seeking the resumption of trading in Shares.

To continue with the Resumption Proposal, the Company has identified a new target company and entered into the Acquisition Agreement on 31 March 2014 with the Vendors, pursuant to which the Company will acquire the Sale Equity Interest. Upon completion of the reorganisation of the Target Group, the Target Group will hold interest in certain real estate projects in Yangzhou, Jiangsu Province and Quanzhou, Fujian Province in the People's Republic of China.

Pursuant to the Acquisition Agreement, the Company will carry out the Proposed Restructuring (the "Amended Proposed Restructuring") which will now involves the proposed capital reorganisation and creditors schemes; the proposed [REDACTED]; the subscription and the working facility capitalisation; the acquisition; the application for the granting of the whitewash waiver and the disposal. The completion of the Amended Proposed Restructuring is conditional upon fulfilment of certain key conditions precedent which include, among other things, the passing of the resolutions by the shareholders of the Company at the extraordinary general meeting; the granting of the whitewash waiver by the Securities and Futures Commission of Hong Kong; the capital reorganisation becoming effective; and the submission of the Resumption Proposal to the Stock Exchange and the satisfaction of the conditions set out in the letter by the Stock Exchange to the Company granting in-principle approval to the Resumption Proposal.

The details of the conditions precedent and the updates on the Amended Proposed Restructuring are further described in the announcement dated [22 August 2014] (the "Announcement"). The Amended Proposed Restructuring, if successfully implemented, consists of, among other things, the principal elements in notes and paragraphs below. Unless otherwise specified, capitalised terms used herein shall have the same meanings as in the Announcement.

*(a) Capital Reorganisation*

The Company will undergo the Capital Reorganisation comprising the Capital Reduction, Share Premium Cancellation and Share Consolidation. Before the Capital Reorganisation, the authorised share capital of the Company is HK$300,000,000 divided into 3,000,000,000 Shares of HK$0.10 each, and the issued share capital of the Company is HK$194,599,656.50 divided into 1,945,996,565 Shares of HK$0.10 each. Immediately after completion of the Capital Reorganisation, the authorised share capital of the Company will be HK$500,000,000 divided into 100,000,000,000 New Shares of HK$0.005 each and the issued share capital of the Company will be reduced to HK$972,998.28 divided into 194,599,656 New Shares of HK$0.005 each. The New Shares after Capital Reorganisation will be identical and rank pari passu in all respects with each other.

*(b) Creditor Schemes*

Pursuant to the proposed Creditor Schemes, upon effective, all or any claims against the Company will be compromised and discharged through (i) a cash payment of HK$162 million (which will be funded by the Company out of the proceeds of the subscription and the [REDACTED]); (ii) the funds received through the realisation or winding up of the Scheme Subsidiaries after payment of their respective liabilities; and (iii) assignments and/or transfers of balances between Scheme Subsidiaries and the Company together with the Retained Subsidiaries up to the Effective Date to Newco or the Administrators (or their nominees) for the purpose of the Creditor Schemes.

At the Scheme Meeting held on 21 December 2010, the Creditor Schemes proposed to be made between the Company and the Creditors were unanimously approved by the Creditors attending and voting at such meeting in person or by proxy.

On 8 February 2011, the Hong Kong Scheme was sanctioned by the High Court. The Hong Kong Scheme will become effective and legally binding on the Company and the Creditors upon (i) fulfillment of conditions as stipulated under the Hong Kong Scheme, including amongst others, fulfillment of the specified conditions precedent to the Subscription Agreements; and (ii) filing of the abovementioned order of the High Court with the Registrar of Companies in Hong Kong.

On 28 April 2011, the scheme of arrangement proposed to be made between the Company and the Creditors pursuant to section 86 of the Companies Law of the Cayman Islands (the"Cayman Scheme") was sanctioned by the Grand Court. The Hong Kong Scheme and the Cayman Scheme will become effective and legally binding on the Company and the Creditors upon fulfillment of the specified conditions precedent to the Subscription Agreements.

*(c) The Disposal*

Subject to completion of the Acquisition, the Company will dispose of the Retained Subsidiaries which retained under the control of the Company through its wholly-owned subsidiary, Marzo Holdings Limited, Value Day Limited and Mobile Distribution Limited to some or all of the Existing Controlling Shareholders or their nominees, at consideration to be determined based on net carrying amounts of the assets and liabilities of the Retained Subsidiaries.

*(d) Acquisition of the New Target*

The asset to be acquired under the Acquisition Agreement is the Sale Equity Interest, being the entire equity interest in China General (HK) Company Limited ("China General"). As at the date of the Announcement, the entire issued share capital of China General is owned as to 45.0% by Mr. Shie and 55.0% by Mr. Tsoi respectively. Upon the completion of Acquisition, the Target Group will become wholly-owned subsidiaries of the Company.

The Acquisition constitutes a very substantial acquisition and a reverse takeover for the Company under Chapter 14 of the Listing Rules and a connected transaction for the Company pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules and is therefore subject to the approval of the Independent Shareholders at the EGM and the Stock Exchange's approval of the Company's [REDACTED].

The information relating to the acquisition agreement as required under the Takeovers Code and the Listing Rules will be set out in the Announcement.

As disclosed in the Company's announcement dated on 12 September 2014, the Company received a letter dated 11 September 2014 from the Listing (Review) Committee (the "LRC Letter"), which stated that the Listing (Review) Committee decided to grant a final extension to 31 October 2014 for the Company to submit a [REDACTED] relating to the Target Group (the "Proposal"), and not any other proposal. The LRC Letter also stated that no further extensions of time will be granted to the Company, and the Listing (Review) Committee further decided to cancel the listing of the Shares on the Stock Exchange should the Company fail to do the above by 31 October 2014 or the Proposal fail to proceed for any reasons.

**Going concern basis**

The Group incurred a loss attributable to owners of the Company of approximately HK$188,878,000 (2012: HK$203,228,000) for the year ended 31 December 2013 and as at that date, the Group had net current liabilities of approximately HK$1,904,205,000 (2012: HK$1,727,049,000) and net liabilities of approximately HK$1,903,927,000 (2012: HK$1,726,272,000) respectively.

The condition above indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. To address the issues above, the Company had explored and negotiated with its creditors, investor, the Vendors and any other parties concerned for the Amended Proposed Restructuring of the Group.

The consolidated financial statements have been prepared on a going concern basis, as the Company is preparing the Resumption Proposal, the successful implementation of which will effect, including but not limited to, the Amended Proposed Restructuring to settle with the Creditors and allow the trading in the shares of the Company being resumed. The Directors are of the view that the major procedures of the Amended Proposed Restructuring will eventually be agreed upon by the Company's Creditors, the Investor, the Vendors, the Company's shareholders and any other parties concerned, and will be successfully implemented.

Should the Group be unable to achieve a successful restructuring as mentioned above, or alternatively under other available options of restructuring, and therefore be unable to continue its business as a going concern, adjustments might have to be made to the carrying amounts of the Group's assets to state them at their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities to current assets and liabilities, respectively.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year.

### (a) Amendments to HKAS 1 "Presentation of Financial Statements"

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these financial statements, are further disclosed in note 5 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

**Consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

*(b) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognized in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

*(c) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated statement of profit or loss as part of the gain or loss on disposal.

**Property, plant and equipment**

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

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

| | |
|---|---|
| Leasehold improvements | 12.5%–50% |
| Motor vehicles | 20%–25% |
| Furniture, fixtures and equipment | 8%–25% |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

**Leases**

*(a) Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

*(b) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

**Inventories**

Inventories primarily comprise mobile phones and related accessories for resale and are stated at the lower of cost and net realisable value. Cost is determined using first-in-first-out basis and comprise invoiced value of purchases, and where appropriate, freight, insurance and delivery charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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

**Trade and other receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

**Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

**Financial guarantee contract liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

(a) the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

(b) the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts.

**Convertible loans**

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

**Trade and other payables**

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**Equity instruments**

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

**Revenue recognition**

Revenue comprises the fair value of the consideration for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts allowed and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Revenue from the sale of mobile phones and related accessories is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the mobile phones and related accessories are delivered to customers and title has passed to the customers.

(b) Rental income under operating leases is recognised on a straight line basis over the lease terms.

(c) Interest income is recognised on a time-proportion basis using the effective interest method.

**Employee benefits**

*(a) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(b) Pension obligations*

Pursuant to the relevant regulations of the governments in Malaysia and Indonesia, the subsidiaries of the Group in these countries participate in respective government retirement benefit schemes (the "Schemes") whereby these subsidiaries are required to contribute to the Schemes to fund the retirements benefits of the eligible employees. Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums for each employees with reference to the salary scale, as stipulated under the requirements in respective countries. The governments of respective countries are responsible for the entire pension obligations payable to retired employees. The Schemes are defined contribution schemes. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to profit or loss as incurred.

The Group's subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on 5% of the employees' relevant income, subject to a ceiling of monthly relevant income of HK$20,000 (HK$25,000, with effect from 1 June 2012) and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

**Taxation**

Income tax represents the sum of the current tax and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Related parties**

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

**Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

**Events after the reporting period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

**Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

**Going concern basis**

These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful conclusion of the Group's Amended Proposed Restructuring as explained in note 2 to the financial statements.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*(a) Income tax*

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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.

*(b) Interest payables*

The determination of the interest payables, which included in the consolidated statement of financial position under accruals and other payables, involves management's estimation. The Group assesses the probability and magnitude of the outflow of resources embodying economic benefits will be required to settle the obligations and if the expectation differs from the original estimate, such a difference may impact the carrying amount of the accrued interest as at 31 December 2013.

**6. FINANCIAL RISK MANAGEMENT**

The major financial instruments of the Group include trade and other receivables, bank and cash balances, trade payables, bills payables, borrowings and financial guarantee liabilities. The activities of the Group expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Risk management is carried out by the Directors under policies approved by the Board of Directors. The Directors identify, evaluate and hedge financial risks in close co-operation with the Group's operating units.

**(a) Market risk**

*Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar ("USD"), Malaysia Ringgit ("RM"), Indonesia Rupiah ("IDR") and Euro ("EUR"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

Pursuant to Hong Kong's Linked Exchange Rate System under which HK$ is pegged to USD, management considers there are no significant foreign exchange risks arising from the Group's operation in Hong Kong with respect to transactions denominated in USD.

At 31 December 2013, if HK$ had weakened or strengthened by 5% (2012: 5%) against EUR, with all other variables held constant, loss before tax for the year would have been approximately HK$3,901,000 (2012: HK$3,233,000) higher or lower, mainly as a result of foreign exchange gains or losses on translation of EUR-denominated trade receivables, trade payables and bank borrowings in relation to the operation in Hong Kong.

*Interest rate risk*

The Group's interest rate risk arises from bank and cash balances, and bank borrowings. Bank and cash balances, and bank borrowings with variable rates expose the Group to cash flow interest rate risk.

The Group has followed a policy which involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favorable pricing opportunities arise.

At the end of the reporting period, if interest rates had been increased or decreased by 50 (2012: 50) basis points and all other variables were held constant, the loss before tax of the Group would increase or decrease by approximately HK$992,000 (2012: HK$1,304,000) mainly as a result of higher or lower interest expenses on floating rate borrowings.

**(b) Credit risk**

The Group is exposed to credit risk mainly in relation to its trade and other receivables, cash deposits with banks and maximum exposure of credit risk is equal to the carrying amounts of these financial assets. Cash and bank transactions counter parties are limited to financial institutions with good credit rating.

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 96% (2012: 51%) and approximately 100% (2012: 78%) of the Group's trade receivables were due from the Group's largest trade debtor and the five largest trade debtors, respectively. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group reviews the recoverable amount of the trade and other receivables on a regular basis and provision for doubtful debts is made in accordance with the Group's policies. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

**(c) Liquidity risk**

The Group encounters difficulty in meeting its current obligations when they fall due. Most of the Group's debts would be repayable on demand or within one year as at 31 December 2013 and 2012 based on the carrying value of borrowings and payables reflected in the financial statements.

The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the Amended Proposed Restructuring, as further explained in note 2 to the financial statements.

**(d) Fair value**

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. SEGMENT INFORMATION

The Group's revenue and loss for the years ended 31 December 2013 and 2012 were mainly derived from its only operating segment of trading and distribution of mobile phones and related accessories.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Other operation of the Group mainly comprises holding of properties, none of them meet any of the quantitative thresholds for determining a reportable segment separately. The presentation of information for other operations are included in the trading and distribution of mobile phones and related accessories segment.

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include interest income, finance costs, gain on deconsolidation of a liquidated subsidiary, provision for financial guarantee liabilities, share of results of an associate, income tax and unallocated income and expenses. Segment assets consist primarily of property, plant and equipment, inventories, trade receivables, other receivables, prepayments and operating cash, and mainly exclude tax assets and other unallocated assets. Segment liabilities comprise operating liabilities and exclude items such as borrowings, lease payables, tax payables, financial guarantee liabilities and convertible loans. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

**Information about reportable segment profit or loss, assets and liabilities:**

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Year ended 31 December:** | | |
| Revenue from external customers | — | 23,186 |
| Segment loss | (22,338) | (33,623) |
| Interest income | 1 | 1 |
| Interest expense | 166,566 | 162,989 |
| Provision for financial guarantee liabilities | — | 31,139 |
| Gain on deconsolidation of a liquidated subsidiary | — | (24,508) |
| Depreciation | 388 | 666 |
| Income tax | (25) | (11) |
| Other material non-cash items: | | |
| Reversal of impairment on inventories | — | (981) |
| Reversal of impairment on trade receivable | (151) | — |
| Reversal of impairment on other receivable | (3,545) | — |
| Impairment on trade receivables | 419 | 447 |
| Impairment on prepayments, deposits and other receivables | 4,117 | 13,843 |
| Gain on disposal of property, plant and equipment | (112) | (32) |
| Additions to segment non-current assets | 3 | 430 |
| **At 31 December:** | | |
| Segment assets | 942 | 6,260 |
| Segment liabilities | 1,332,981 | 1,169,964 |

**Reconciliations of reportable segment profit or loss, assets and liabilities:**

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Profit or loss:** | | |
| Total profit or loss of reportable segments | (22,338) | (33,623) |
| Unallocated profit or loss: | | |
| Provision for financial guarantee liabilities | — | (31,139) |
| Gain on deconsolidation of a liquidated subsidiary | — | 24,508 |
| Finance costs | (166,566) | (162,989) |
| Income tax | 25 | 11 |
| Interest income | 1 | 1 |
| Consolidated loss for the year | (188,878) | (203,231) |
| **Assets:** | | |
| Total assets of reportable segments/total consolidated assets | 942 | 6,260 |
| Liabilities: | | |
| Total liabilities of reportable segments | 1,332,981 | 1,169,964 |
| Unallocated liabilities: | | |
| Bank borrowings | 478,483 | 468,745 |
| Finance lease payables | — | 106 |
| Current tax liabilities | 1,469 | 1,913 |
| Financial guarantee liabilities | 58,936 | 58,936 |
| Convertible loans | 33,000 | 32,868 |
| Consolidated total liabilities | 1,904,869 | 1,732,532 |

**Geographical information:**

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | — | 14,314 | 193 | 368 |
| Malaysia | — | 1,606 | — | — |
| Indonesia | — | 7,266 | 85 | 409 |
| | — | 23,186 | 278 | 777 |

In presenting the geographical information, revenue is based on the location of the customers.

## 8. REVENUE

Revenue comprises the fair value of the consideration for the sale of goods in the ordinary course of the Group's activities received and receivables during the year. Revenue is shown, net of value-added tax, returns, rebates and discounts allowed and after eliminating sales within the Group. An analysis of the Group's revenue is as follows:

| | **2013** | **2012** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Turnover from sales of mobile phones and related accessories, net | — | 23,186 |

## 9. OTHER INCOME

| | **2013** | **2012** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest income | 1 | 1 |
| Gain on disposal of property, plant and equipment | 112 | 32 |
| Reversal of impairment on trade receivable | 151 | — |
| Reversal of impairment on other receivable | 3,545 | — |
| Sundry income | 443 | 109 |
| | 4,252 | 142 |

## 10. GAIN ON DECONSOLIDATION OF A LIQUIDATED SUBSIDIARY

As detailed in the Company's announcement dated 17 February 2012, a winding-up order was issued by the High Court of Malaya, Kuala Lumpur on 14 February 2012 ordering among other things that Mobile Distribution (M) Sdn. Bhd. ("MDM"), an indirect wholly-owned subsidiary of the Company, be wound up and that the official receiver of Malaysia be appointed as liquidator of MDM. The Directors considered that the control over MDM has been lost since then. The results, assets and liabilities, and cash flows of MDM were deconsolidated from the Group's consolidated financial statements with effect from 14 February 2012.

| | **MDM** |
|---|---|
| | **2012** |
| | *HK$'000* |
| Net liabilities of the subsidiary deconsolidated: | |
| Cash and bank balances | 2 |
| Trade and bills payables | (5,527) |
| Accruals and other payables | (112) |
| Amounts due to the Group | (23,137) |
| Bank overdrafts | (2,581) |
| Bank borrowings | (17,804) |
| Net liabilities of the deconsolidated subsidiary | (49,159) |
| Impairment of amount due from the deconsolidated subsidiary | 23,137 |
| Release of the related foreign currency translation reserves | 1,514 |
| Gain on deconsolidation of a liquidated subsidiary | (24,508) |

Net cash inflows from deconsolidation of the subsidiary were as follows:

| | **MDM** |
|---|---|
| | **2012** |
| | *HK$'000* |
| Cash and cash equivalent deconsolidated: | |
| Cash and bank balances | (2) |
| Bank overdrafts | 2,581 |
| | 2,579 |

## 11. FINANCE COSTS

| | **2013** | **2012** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest expenses on borrowings and payables wholly repayable within five years | | |
| — bank borrowings | 60,814 | 55,159 |
| — finance leases | 13 | 49 |
| — convertible loans | 1,172 | 3,181 |
| — trade payables | 104,567 | 104,600 |
| | 166,566 | 162,989 |

## 12. INCOME TAX

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Current tax — Hong Kong profits tax: | | |
| Over provision in prior year | — | (11) |
| Current tax — Overseas: | | |
| Over provision in prior year | (25) | — |
| | (25) | (11) |

No provision for Hong Kong profits tax has been made for the year, as the Group has no estimated assessable profits arising in Hong Kong and overseas. Hong Kong profits tax was calculated at 16.5% of the estimated assessable profits for last year. Tax on overseas profits had been calculated on the estimated assessable profits for that year at the rates of tax prevailing in the countries in which the Group operates.

The reconciliation between the income tax and loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Loss before tax: | (188,903) | (203,242) |
| Calculated at a domestic tax rate of 16.5% (2012: 16.5%) | (31,169) | (33,535) |
| Effect of different tax rates in other countries | 10,534 | 527 |
| Income not subject to tax | (1,381) | (4,038) |
| Expenses not deductible for tax purpose | 14,726 | 25,136 |
| Over provision in prior year | (25) | (11) |
| Tax losses not recognised | 7,290 | 11,910 |
| | (25) | (11) |

At the end of the reporting period, subject to agreement with tax authorities, the Group has unused tax losses of approximately HK$2,318,521,000 (2012: HK$2,311,231,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams of the Group.

## 13. LOSS FOR THE YEAR

The Group's loss for the year was arrived at after charging/(crediting) the amounts as set out below.

| | 2013<br>*HK$'000* | 2012<br>*HK$'000* |
|---|---|---|
| Cost of inventories sold | — | 23,004 |
| Auditors' remuneration | 629 | 745 |
| Depreciation of property, plant and equipment | 388 | 666 |
| Operating leases: | | |
| — land and buildings | 302 | 749 |
| — office equipment | — | 16 |
| Impairment on trade receivables** | 419 | 447 |
| Impairment on prepayments, deposits and other receivables* | 4,117 | 13,843 |
| Staff costs (including Directors' remuneration): | | |
| — salaries, bonuses and allowances | 3,097 | 6,092 |
| — equity-settled share-based payments | | — |
| — retirement benefits scheme contributions | 78 | 109 |
| | 3,175 | 6,201 |
| Exchange losses* | 335 | 4,962 |
| Gains on disposals of property, plant and equipment* | (112) | (32) |
| Reversal of impairment on trade receivable | (151) | — |
| Reversal of impairment on other receivable | (3,545) | — |
| Reversal of impairment on inventories#<br>(included in cost of inventories sold) | — | (981) |

* These items were included in other operating expenses.

** These items were included in general and administrative expenses.

\# The impairments on inventories were reversed as their carrying amounts were subsequently recovered with the higher net realisable values.

## 14. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss for the year attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of a loss of approximately HK$56,178,000 (2012: HK$59,668,000).

## 15. DIRECTOR'S AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The remuneration of each Director for the year ended 31 December 2013 is set out below:

| | Salary<br>*HK$'000* | Retirement benefit costs<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| *Executive Director:* | | | |
| Ng Kok Hong | 1,065 | 15 | 1,080 |
| Ng Kok Tai | — | — | — |
| Ng Kok Yang | — | — | — |
| | 1,065 | 15 | 1,080 |

The remuneration of each Director for the year ended 31 December 2012 is set out below:

| | Salary | Retirement benefit costs | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive Director:* | | | |
| Ng Kok Hong | 1,020 | 14 | 1,034 |
| Ng Kok Tai | 51 | 6 | 57 |
| Ng Kok Yang | — | — | — |
| | 1,071 | 20 | 1,091 |

During the year ended 31 December 2013, Mr. Ng Kok Hong, Mr. Ng Kok Tai and Mr. Ng Kok Yang, being executive Directors of the Company, have agreed to waive their emoluments of approximately HK$2,965,000 (2012: HK$3,010,000), HK$1,950,000 (2012: HK$1,899,000) and HK$2,470,000 (2012: HK$2,470,000). Save as disclosed above, there was no other arrangement under which a Director waived or agreed to waive any emoluments during the year.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group are as follows:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Directors | 1,080 | 1,034 |
| Employees | 1,828 | 2,146 |
| | 2,908 | 3,180 |

The Group's five highest paid individuals for both years included one director and four employees. Details of the emoluments of the Directors are reflected in the analysis presented above. The details of the aggregate emoluments of the four employees, all falling within the band of HK$1,000,000 or below, for the year are as follows:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries, allowances and benefit-in-kind | 1,759 | 2,104 |
| Retirement benefit costs | 69 | 42 |
| | 1,828 | 2,146 |

Save as disclosed above, for the two years ended 31 December 2013 and 2012, no other emoluments had been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

**16. DIVIDEND**

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2013 (2012: nil).

## 17. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company was based on the loss for the year attributable to owners of the Company of approximately HK$188,878,000 (2012: HK$203,228,000) and the weighted average number of 1,945,996,565 (2012: 1,945,996,565) ordinary shares in issue during the year.

### (b) Diluted loss per share

No diluted loss per share is presented as the exercise of the Group's outstanding convertible loans would be anti-dilutive for both years.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | |
|---|---|---|---|---|
| | **Leasehold improvements** | **Motor vehicles** | **Furniture, fixtures and equipment** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost:** | | | | |
| At 1 January 2012 | 658 | 1,198 | 14,079 | 15,935 |
| Additions | 26 | — | 404 | 430 |
| Disposals | — | (205) | (18) | (223) |
| Written off during the year | (151) | — | — | (151) |
| Exchange differences | (32) | (16) | (68) | (116) |
| At 31 December 2012 and 1 January 2013 | 501 | 977 | 14,397 | 15,875 |
| Additions | — | — | 3 | 3 |
| Disposals | — | (247) | (166) | (413) |
| Exchange differences | (106) | (8) | (193) | (307) |
| At 31 December 2013 | 395 | 722 | 14,041 | 15,158 |
| **Accumulated depreciation:** | | | | |
| At 1 January 2012 | 503 | 793 | 13,507 | 14,803 |
| Charge for the year | 132 | 181 | 346 | 659 |
| Disposals | — | (122) | (4) | (126) |
| Eliminated on written off | (151) | — | — | (151) |
| Exchange differences | (28) | (11) | (48) | (87) |
| At 31 December 2012 and 1 January 2013 | 456 | 841 | 13,801 | 15,098 |
| Charge for the year | 43 | 91 | 254 | 388 |
| Disposals | — | (205) | (125) | (330) |
| Exchange differences | (104) | (5) | (167) | (276) |
| At 31 December 2013 | 395 | 722 | 13,763 | 14,880 |
| **Carrying amount:** | | | | |
| At 31 December 2013 | — | — | 278 | 278 |
| At 31 December 2012 | 45 | 136 | 596 | 777 |

The net carry amounts of the Group's assets under finance leases included in the total amounts of motor vehicles at the end of the reporting period amounted to approximately HK$nil (2012: HK$136,000).

## 19. INVESTMENTS IN SUBSIDIARIES

| | *Notes* | Company 2013 *HK$'000* | Company 2012 *HK$'000* |
|---|---|---|---|
| Unlisted shares, at cost | *(a)* | 233,433 | 233,433 |
| Less: Impairments | *(c)* | (233,433) | (233,433) |
| | | — | — |
| Amount due from a subsidiary | *(b)* | 339,266 | 339,266 |
| Less: Impairments | *(c)* | (339,266) | (339,266) |
| | | — | — |
| Amount due to a subsidiary | *(b)* | 4,660 | 3,362 |

*Notes:*

(a) Particulars of principal subsidiaries are set out in note 36 to the financial statements.

(b) The balances with subsidiaries were unsecured, interest free and had no fixed terms of repayment.

(c) At 31 December 2013 and 2012, the Directors performed an impairment testing on the Group's investments in subsidiaries and the amount due from a subsidiary, and they considered that their carrying amounts are in excess of the recoverable amounts as a result of the persistent operating losses of its subsidiaries. Accordingly, the provisions for impairment of approximately HK$233,433,000 (2012: HK$233,433,000) against the investments in subsidiaries and approximately HK$339,266,000 (2012: HK$339,266,000) were made against the amount due from a subsidiary at the end of the reporting period.

## 20. INVENTORIES

| | Group 2013 *HK$'000* | Group 2012 *HK$'000* |
|---|---|---|
| Merchandises | 748 | 3,675 |
| Less: Impairments | (723) | (3,601) |
| | 25 | 74 |

## 21. TRADE RECEIVABLES

The normal credit period granted to the customers of the Group was up to 30 days (2012: 30 days), except for the sales made to certain creditworthy customers to which a longer credit period may be granted on a case by case basis. At the end of the reporting period, the aging analysis of the trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | *HK$'000* | *HK$'000* |
| 1–30 days | — | 173 |
| 31–60 days | — | 21 |
| 61–90 days | — | — |
| 91–120 days | — | 21 |
| Over 120 days | 1,237,044 | 1,239,000 |
| Less: Impairments | (1,237,044) | (1,238,347) |
| | — | 868 |

The creation or release of provision for impaired trade receivable have been included in "General and administrative expenses" of the consolidated statement of profit or loss. Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote. Impaired amounts were directly written off against trade receivables when there was no expectation of recovering additional cash.

At the end of the reporting period, trade receivables of the Group amounting to approximately HK$1,237,044,000 (2012: HK$1,238,347,000) were impaired. The individually impaired trade receivables mainly related to customers that had prolonged their repayment due to unexpected financial difficulties.

Movements on the impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | *HK$'000* | *HK$'000* |
| At 1 January | 1,238,347 | 1,238,654 |
| Impairments for the year | 419 | 447 |
| Reversal of impairment | (151) | — |
| Deconsolidation of a subsidiary | (391) | (129) |
| Exchange differences | (1,180) | (625) |
| At 31 December | 1,237,044 | 1,238,347 |

## 22. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | *HK$'000* | *HK$'000* |
| Prepayments | 293 | 258 |
| Deposits and other receivables | 18,779 | 24,571 |
| | 19,072 | 24,829 |
| Less: Impairments | (18,884) | (20,966) |
| | 188 | 3,863 |

Included in the impairments recognised in respect of prepayments, deposits and other receivables were individually impaired deposits and other receivables with the aggregate amounts of approximately HK$18,884,000 (2012: HK$20,966,000) with the equivalent gross amounts at the end of reporting period. The individually impaired amounts relate to counterparties that were in default of repayment. The Group did not hold any collateral or other credit enhancements over these balances.

Save as disclosed, none of the above assets was either past due or impaired, and the financial assets included in the above balances related to receivables for which there was no recent history of default.

## 23. TRADE AND BILLS PAYABLES

| | **Group** | |
|---|---|---|
| | **2013** | **2012** |
| | *HK$'000* | *HK$'000* |
| Trade payables | 438,073 | 435,603 |
| Bills payables | 104,568 | 110,643 |
| | 542,641 | 546,246 |

At the end of the reporting period, the ageing analysis of the trade payables is as follows:

| | **Group** | |
|---|---|---|
| | **2013** | **2012** |
| | *HK$'000* | *HK$'000* |
| 1–30 days | — | 9 |
| 31–60 days | — | 16 |
| 61–90 days | — | 178 |
| 91–120 days | — | — |
| Over 120 days | 438,073 | 435,400 |
| | 438,073 | 435,603 |

Included in the trade payables at the end of the reporting period, approximately HK$409,375,000 (2012: HK$406,589,000) of which were secured by certain corporate guarantees granted by the Company to the former largest supplier of the Group and certain trade insurance companies. Included in the guaranteed trade payables, approximately HK$344,500,000 (2012: HK$344,500,000) and approximately HK$64,875,000 (2012: HK$62,089,000) of which were interest-bearing at approximately 2.5% per month and at approximately 1.95% per annum respectively.

At the end of the reporting period, the Group's bills payables were secured by certain corporate guarantees granted by the Company. The bills payables of the Group were interest-bearing at approximately nil (2012: 8.29%) per annum.

The carrying amounts of the Group's trade and bills payables were denominated in the following currencies:

| | **Group** | |
|---|---|---|
| | **2013** | **2012** |
| | *HK$'000* | *HK$'000* |
| USD | 408,372 | 405,374 |
| EUR | 65,047 | 61,808 |
| RM | 44,540 | 54,190 |
| HK$ | 13,448 | 13,159 |
| INR | 1,348 | 1,522 |
| VND | 7,857 | 7,956 |
| Others | 2,029 | 2,237 |
| | 542,641 | 546,246 |

## 24. ACCRUALS AND OTHER PAYABLES

| | Group 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest payables | 658,524 | 487,193 |
| Accrual | 78,872 | 54,861 |
| Other payables | 52,944 | 81,664 |
| | 790,340 | 623,718 |

Included in the interest payables at the end of the reporting period, approximately HK$172,911,000 (2012: HK$113,102,568) of which were secured by certain corporate guarantees granted by the Company to the former largest supplier of the Group and certain banks.

## 25. BANK BORROWINGS

| | Group 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank loans, secured | 417,537 | 417,178 |
| Bank overdrafts, secured | 60,946 | 51,567 |
| | 478,483 | 468,745 |

(a) The carrying amounts of the bank borrowings were denominated in the following currencies:

| | Group 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| USD | 194,109 | 195,560 |
| HK$ | 209,050 | 204,844 |
| RM | 72,751 | 65,638 |
| EUR | 2,573 | 2,703 |
| | 478,483 | 468,745 |

(b) The effective interest rates of the bank borrowings at the end of the reporting period were as follows:

| | Bank loans | | Bank overdrafts | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| USD | 5.7% | 5.7% | — | — |
| HK$ | 4.3% | 4.3% | 5.9% | 5.9% |
| RM | 7.6% | 7.6% | 9.1% | 9.1% |
| EUR | 4.4% | 4.4% | — | — |

(c) The Group's bank borrowings were secured by certain corporate guarantees granted by the Company.

## 26. FINANCE LEASE PAYABLES

At the end of the reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

| | Group | | | |
|---|---|---|---|---|
| | **Minimum lease payments 2013** | **Minimum lease payments 2012** | **Present value of minimum lease payments 2013** | **Present value of minimum lease payments 2012** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total minimum finance lease payment payables within one year | — | 130 | — | 230 |
| Future finance charges | — | (24) | | |
| Total net finance lease payables | — | 106 | | |
| Portion classified as current liabilities | — | (106) | | |
| Non-current portion | — | — | | |

It is the Group's policy to lease certain of its motor vehicles under finance leases. At the end of the reporting period, the average effective borrowing rate was nil (2012: 3.9%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's finance lease payables are secured by the lessor's title to the leased assets.

## 27. FINANCIAL GUARANTEE LIABILITIES

**Group**

The Company and FMGSB have given corporate guarantees to certain banks to secure for the general banking facilities of Exquisite Model Sdn. Bhd. ("EM") and MDM totaling approximately HK$58,936,000. In view that EM and MDM are currently in liquidation, and on ground that the potential claims of these corporate guarantees granted by the Company and FMGSB may be exercised by the relevant banks, a provision for financial guarantee liabilities of approximately HK$58,936,000 have been made against the potential uncovered exposures to be borne by the Company and FMGSB under such guarantees.

**Company**

At 31 December 2013, the Company has given corporate guarantees to certain banks, trade credit insurance companies and the former largest supplier of the Group to secure for the general banking facilities and trade credits granted to certain of its subsidiaries, and approximately HK$1,153,823,000 (2012: HK$1,110,158,000) of which were utilised by the subsidiaries as at that date. The Group has breached certain bank covenant requirements and defaulted in repayment of certain bank borrowings. At the end of the reporting period, it is probable that the Company will be liable to the potential claims under any of these guarantees. Accordingly, a provision for financial guarantee liabilities of approximately HK$1,153,823,000 (2012: HK$1,110,158,000) for the Company has been made against the probable uncovered exposures to be borne by the Company under those guarantees at the end of the reporting period.

## 28. CONVERTIBLE LOANS

(a) Time Boomer Limited ("Time Boomer"), a party nominated by the Investor to provide HK$13 million out of HK$50 million standby working capital facility pursuant to the terms of the Exclusivity Agreements, entered into the Loan Agreements (the "TB Loan") and Option Agreements (the "TB

Option") with Mobile Distribution Limited ("MDL"), a wholly-owned subsidiary of the Company. Pursuant to a supplemental deed with Time Boomer to amend the terms of the TB Option such that Time Boomer shall now be entitled to subscribe for 83,870,968 New Shares at a total exercise price of HK$13 million, or HK$0.155 per New Share, upon fulfillment of certain conditions precedent as described in the Announcement.

Interest of 8 per cent per annum will be paid monthly up until the Time Boomer Loan is converted or redeemed.

The interest charged for the year is calculated by applying an effective interest rate of 8.6% per annum to the liability component.

The TB Loan is secured by (i) the FMG Share Charge over a total of 68.5% of the entire issued shares of the Company held by the Major Shareholders; (ii) the Personal Guarantees given by Mr. Ng Kok Hong and Ms. Tan Sook Kiang; (iii) the share charges over the entire issued share capital of MDL; and (iv) the Fixed and Floating Charge over the assets of MDL. The FMG Share Charge, the Personal Guarantees and the Fixed and Floating Charge will continue to be in force and, subject to the terms and conditions as further described in the Company's announcement dated 14 July 2011.

(b) First Apex Investments Limited ("First Apex"), a party nominated by the Investor to provide HK$20 million out of HK$50 million standby working capital facility pursuant to the terms of the Exclusivity Agreements, entered into the Loan Agreements (the "FA Loan") and Option Agreements (the "FA Option") with MDL. Pursuant to a termination deed with First Apex terminating the FA Option and a new option deed with First Apex pursuant to which the Company will now grant to First Apex an option to subscribe for 129,032,258 New Shares at a total exercise price of HK$20 million or approximately HK$0.155 per New Share, upon fulfillment of certain conditions precedent as described in the Announcement.

The FA Loan does not bear any interest.

The interest charged for the year is calculated by applying an effective interest rate of 1.25% per annum to the liability component.

The FA Loan is secured by (i) the FMG Share Charge over a total of 68.5% of the entire issued shares of the Company held by the Major Shareholders; (ii) the Personal Guarantee given by Mr. Ng Kok Hong; (iii) the share charges over the entire issued share capital of MDL; and (iv) the Fixed and Floating Charge over the assets of MDL. The FMG Share Charge, the Personal Guarantee and the Fixed and Floating Charge will continue to be in force and, subject to the terms and conditions as further described in the Company's announcement dated 14 February 2012.

(c) The liability components of the TB Loan and FA Loan at the end of the reporting period is analysed as follows:

| | **Convertible Loans — Group** | | |
|---|---|---|---|
| | **Time Boomer** | **First Apex** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Liability components at 1 January 2012 | 12,561 | 18,169 | 30,730 |
| Interest charged | 1,458 | 1,723 | 3,181 |
| Interest paid | (1,043) | — | (1,043) |
| Liability component at 31 December 2011 and 1 January 2012 | 12,976 | 19,892 | 32,868 |
| Interest charged | 1,064 | 108 | 1,172 |
| Interest paid | (1,040) | — | (1,040) |
| Liability components at 31 December 2013 | 13,000 | 20,000 | 33,000 |

The Directors estimate the fair value of the liability component of the convertible loans at 31 December 2013 to be approximately HK$33,934,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

## 29. SHARE CAPITAL

| | Company | |
|---|---|---|
| | **Number of ordinary shares** | |
| | *HK$0.10 each* | *HK$'000* |
| Authorised: | | |
| At 31 December 2012 and 2013 | 3,000,000,000 | 300,000 |
| Issued and fully paid: | | |
| At 31 December 2012 and 2013 | 1,945,996,565 | 194,600 |

**Capital Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No major changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2013 and 2012.

The capital structure of the Group consists of debt, which includes bank borrowings, finance lease payables, financial guarantee liabilities and convertible loans as disclosed in notes 25, 26, 27 and 28, and equity attributable to owners of the Company, comprising share capital and reserves.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as debt to total assets. Debt is calculated as total borrowings (including current and non-current bank and other borrowings and financial guarantee liabilities but excluding trade and bills payables, accruals and other payables and tax payables as shown in the consolidated statement of financial position).

The gearing ratios at 31 December 2013 and 2012 were as follows:

| | Group | |
|---|---|---|
| | **2013** | **2012** |
| | *HK$'000* | *HK$'000* |
| Total borrowings | 570,419 | 560,655 |
| Total assets | 942 | 6,260 |
| Gearing ratio | 60,554% | 8,956% |

The gearing ratios above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the Amended Proposed Restructuring as further explained in note 2 to the financial statements.

## 30. RESERVES

### (a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

### (b) Company

| | Share premium<br>*HK$'000* | Accumulated losses<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| At 1 January 2012 | 287,281 | (1,543,515) | (1,256,234) |
| Loss for the year | — | (59,668) | (59,668) |
| At 31 December 2012 and 1 January 2013 | 287,281 | (1,603,183) | (1,315,902) |
| Loss for the year | — | (56,178) | (56,178) |
| At 31 December 2013 | 287,281 | (1,659,361) | (1,372,080) |

### (c) Nature and purpose of reserves

*(i) Share premium account*

Pursuant to the Companies Law (1998 Revision) of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the equity holders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

*(ii) Merger reserve*

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefor.

*(iii) Capital reserve*

The capital reserve comprises (a) the fair value of the number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 4 to the consolidated financial statements and (b) the equity component of the convertible loan issued by the Group which is the difference between the gross proceeds of the issue of the convertible loans and the fair value assigned to the liability component, representing the conversion option for the holder to convert the note into equity.

*(iv) Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the financial statements.

## 31. OPERATING LEASE COMMITMENTS

Leases for office premises are negotiated for terms ranging from 1 to 2 years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Land and buildings | |
|---|---|---|
| | **2013** | **2012** |
| | *HK$'000* | *HK$'000* |
| Within one year | 163 | 277 |
| In the second to fifth years, inclusive | 199 | 26 |
| | 362 | 303 |

## 32. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, there are certain updates on the Group's Amended Proposed Restructuring in progress, and further details of which are stated in note 2 to these financial statements.

## 33. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The Directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the following list contains only the subsidiaries at the end of the reporting period which principally affect the results or financial position of the Group.

| Name of the subsidiary | Place of incorporation/ registration/ operation | Issued and paid-up share capital/ registered capital | Percentage of equity interest attributable to the Croup 2013 | 2012 | Principal activities |
|---|---|---|---|---|---|
| ***Direct subsidiary:*** | | | | | |
| E-Tech Resources Limited | British Virgin Islands | 10,000 shares of US$1 each | 100% | 100% | Investment holding |
| ***Indirect subsidiaries:*** | | | | | |
| é-Touch Mobile Private Limited | India | 10,000 shares of Indian Rupees 10 each | 95% | 95% | Inactive |
| First Asia Mobile, Inc. | Republic of the Philippines | 12,500,000 shares of P$1 each | 100% | 100% | Inactive |
| First Mobile Group Sdn. Bhd. | Malaysia | 500,000 ordinary shares of RM1 each | 100% | 100% | Inactive |
| First Telecom International Limited | Hong Kong | 50,000,000 ordinary shares of HK$1 each<br>3,019,944 non-voting deferred shares of HK$1 each | 100% | 100% | Inactive |

| Name of the subsidiary | Place of incorporation/ registration/ operation | Issued and paid-up share capital/ registered capital | Percentage of equity interest attributable to the Croup 2013 | 2012 | Principal activities |
|---|---|---|---|---|---|
| Lets Do Mobile Philippines Inc. | Republic of the Philippines | 85,000,000 shares of P$1 each | 100% | 100% | Inactive |
| Matrix Star Limited | Hong Kong | 1 ordinary shares of HK$1 each | 100% | — | Inactive |
| Mobile Distribution Limited | Hong Kong | 1 ordinary shares of HK$1 each | 100% | 100% | Inactive |
| Mobile performances SARL | France | 850 shares of 10 EUR each | 100% | 100% | Inactive |
| Multi Brand Telecom Services Trade Joint Stock Company | Vietnam | Vietnam Dong 2,000,000,000 | 90% | 90% | Inactive |
| Precision SARL | France | 850 shares of 10 EUR each | 100% | 100% | Inactive |
| PT. Comworks Indonesia | Indonesia | 330,000 shares of USD1 each | 100% | 100% | Scale-down of operation |

## 34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on [● 2014].

## INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF**
**FIRST MOBILE GROUP HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

We were engaged to audit the consolidated financial statements of First Mobile Group Holdings Limited (the ''Company'') and its subsidiaries (collectively referred to as the ''Group'') set out on pages II-[●] to II-[●], which comprise the consolidated and Company statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company (the ''Directors'') are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the ''HKICPA'') and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

## BASIS FOR DISCLAIMER OF OPINION

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that the Company has been pursuing a proposed restructuring. The consolidated financial statements have been prepared on a going concern basis on the assumption that the proposed restructuring of the Group will be successfully completed, and that, following the restructuring, the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the restructuring. We consider that the disclosures are adequate. However, in view of the extent of the uncertainty relating to the completion of the proposed restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

## DISCLAIMER OF OPINION

Because of the significance of the material uncertainty relating to the going concern basis as described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ANDA CPA Limited**
*Certified Public Accountants*
**Chen Chi Hing**
Practising Certificate Number P05068
Hong Kong, 21 March 2013

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2012*

| | *Notes* | **2012** *HK$'000* | **2011** *HK$'000* |
|---|---|---|---|
| **Revenue** | *8* | 23,186 | 58,602 |
| Cost of sales | | (23,004) | (54,387) |
| **Gross profit** | | 182 | 4,215 |
| Other income | *9* | 142 | 23,962 |
| Selling and distribution expenses | | (739) | (10,080) |
| General and administrative expenses | | (14,397) | (25,223) |
| Other operating expenses | | (18,810) | (8,014) |
| Provision for financial guarantee liabilities | *28* | (31,139) | (27,797) |
| Gain on deconsolidation of a liquidating subsidiary | *10* | 24,508 | 29,107 |
| **Loss from operations** | | (40,253) | (13,830) |
| Finance costs | *11* | (162,989) | (164,182) |
| **Loss before tax** | | (203,242) | (178,012) |
| Income tax | *12* | 11 | 6,255 |
| **Loss for the year** | *13* | (203,231) | (171,757) |
| **Attributable to:** | | | |
| Owners of the Company | | (203,228) | (171,719) |
| Non-controlling interests | | (3) | (38) |
| | | (203,231) | (171,757) |
| **Loss per share** | | | |
| — Basic and diluted (HK cents per share) | *17* | (10.44) | (8.82) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2012*

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Loss for the year** | (203,231) | (171,757) |
| **Other comprehensive (loss)/income:** | | |
| Exchange differences reclassified to profit or loss upon deconsolidation of a liquidating subsidiary | 1,514 | (1,821) |
| Exchange differences on translation of foreign operations | (3,708) | 4,640 |
| | (2,194) | 2,819 |
| **Total comprehensive loss for the year** | (205,425) | (168,938) |
| **Attributable to:** | | |
| Owners of the Company | (205,422) | (168,901) |
| Non-controlling interests | (3) | (37) |
| | (205,425) | (168,938) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2012*

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Property, plant and equipment | 18 | 777 | 1,132 |
| **Current assets** | | | |
| Inventories | 20 | 74 | 1,843 |
| Trade receivables | 21 | 868 | 3,151 |
| Prepayments, deposits and other receivables | 22 | 3,863 | 9,682 |
| Pledged bank deposits | 23 | — | 213 |
| Cash and bank balances | 23 | 678 | 903 |
| | | 5,483 | 15,792 |
| **Current liabilities** | | | |
| Trade and bills payables | 24 | 546,246 | 543,590 |
| Accruals and other payables | 25 | 623,718 | 473,265 |
| Bank borrowings | 26 | 468,745 | 480,040 |
| Finance lease payables | 27 | 106 | 231 |
| Current tax liabilities | | 1,913 | 2,069 |
| Financial guarantee liabilities | 28 | 58,936 | 27,797 |
| Convertible loans | 29 | 32,868 | 12,561 |
| | | 1,732,532 | 1,539,553 |
| **Net current liabilities** | | (1,727,049) | (1,523,761) |
| **Total assets less current liabilities** | | (1,726,272) | (1,522,629) |
| **Non-current liability** | | | |
| Finance lease payables | 27 | — | 49 |
| **NET LIABILITIES** | | (1,726,272) | (1,522,678) |
| **Capital and reserves** | | | |
| Share capital | 30 | 194,600 | 194,600 |
| Reserves | | (1,919,340) | (1,715,749) |
| Equity attributable to owners of the Company | | (1,724,740) | (1,521,149) |
| Non-controlling interests | | (1,532) | (1,529) |
| **TOTAL EQUITY** | | (1,726,272) | (1,522,678) |

## STATEMENT OF FINANCIAL POSITION

*As at 31 December 2012*

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| **Current assets** | | | |
| Other receivable | | 258 | 257 |
| Cash and bank balances | | 23 | 25 |
| | | 281 | 282 |
| **Current liabilities** | | | |
| Accruals and other payables | | 8,063 | 6,308 |
| Amount due to a subsidiary | *19* | 3,362 | 1,586 |
| Financial guarantee liabilities | *28* | 1,110,158 | 1,054,022 |
| | | 1,121,583 | 1,061,916 |
| **NET LIABILITIES** | | (1,121,302) | (1,061,634) |
| **Capital and reserves** | | | |
| Share capital | *30* | 194,600 | 194,600 |
| Reserves | *31* | (1,315,902) | (1,256,234) |
| **TOTAL EQUITY** | | (1,121,302) | (1,061,634) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2012*

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium account** | **Merger reserve** | **Foreign currency translation reserve** | **Capital reserve** | **Accumulated losses** | **Total** | **Non-controlling interests** | **Total equity** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2011 | 194,600 | 127,539 | 3,982 | 22,057 | 7,597 | (1,708,801) | (1,353,026) | (1,492) | (1,354,518) |
| Total comprehensive income/(loss) for the year | — | — | — | 2,818 | — | (171,719) | (168,901) | (37) | (168,938) |
| Equity component of convertible loan | — | — | — | — | 778 | — | 778 | — | 778 |
| Transfer upon lapse of share options | — | — | — | — | (7,597) | 7,597 | — | — | — |
| At 31 December 2011 and 1 January 2012 | 194,600 | 127,539 | 3,982 | 24,875 | 778 | (1,872,923) | (1,521,149) | (1,529) | (1,522,678) |
| Total comprehensive loss for the year | — | — | — | (2,194) | — | (203,228) | (205,422) | (3) | (205,425) |
| Equity component of convertible loan | — | — | — | — | 1,831 | — | 1,831 | — | 1,831 |
| At 31 December 2012 | 194,600 | 127,539 | 3,982 | 22,681 | 2,609 | (2,076,151) | (1,724,740) | (1,532) | (1,726,272) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2012*

| | *Notes* | **2012** *HK\$'000* | **2011** *HK\$'000* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Loss before tax: | | (203,242) | (178,012) |
| Adjustments for: | | | |
| Interest income | | (1) | (12) |
| Finance costs | | 162,989 | 164,182 |
| Depreciation of property, plant and equipment | | 666 | 1,116 |
| Gains on disposals of property, plant and equipment | | (32) | (555) |
| Gain on disposal of non-current asset held for sale | | — | (10,255) |
| Property, plant and equipment written off | | — | 725 |
| Reversal of impairment on inventories | | (981) | (877) |
| Impairment on trade receivables | | 447 | 4,377 |
| Impairment on prepayments, deposits and other receivables | | 13,843 | 5,670 |
| Provision for financial guarantee liabilities | | 31,139 | 27,797 |
| Gain on deconsolidation of a liquidating subsidiary | *10* | (24,508) | (29,107) |
| Operating loss before working capital changes | | (19,680) | (14,951) |
| Decrease in inventories | | 2,648 | 4,585 |
| Decrease in trade receivables | | 1,649 | 4,561 |
| Increase in prepayments, deposits and other receivables | | (8,286) | (2,019) |
| Increase/(decrease) in trade and bills payables | | 8,183 | (13,393) |
| Decrease in accruals and other payables | | (9,243) | (6,263) |
| Cash used in operations | | (24,729) | (27,480) |
| Hong Kong profits tax paid | | (25) | — |
| Hong Kong profits tax refunded | | — | 163 |
| Overseas tax paid | | (120) | (110) |
| Overseas tax refunded | | — | 2,224 |
| Interest received | | 1 | 12 |
| Interest paid | | (1,043) | (496) |
| **Net cash used in operating activities** | | (25,916) | (25,687) |

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Purchases of property, plant and equipment | | (430) | (680) |
| Proceeds from disposals of property, plant and equipment | | 129 | 1,702 |
| Net cash inflows from deconsolidation of a liquidating subsidiary | *10* | 2,579 | 26,551 |
| Decrease in pledged bank deposits | | 221 | 27 |
| **Net cash generated from investing activities** | | 2,499 | 27,600 |
| **Cash flows from financing activities** | | | |
| Repayment of bank borrowings | | — | (863) |
| Repayment of finance lease payable | | (174) | (450) |
| Proceed from issue of convertible loan | | 20,000 | 13,000 |
| **Net cash generated from financing activities** | | 19,826 | 11,687 |
| **Net (decrease)/increase in cash and cash equivalents** | | (3,591) | 13,600 |
| Effect of changes in foreign exchange rates | | (2,504) | 4,469 |
| Cash and cash equivalents at beginning of year | | (44,794) | (62,863) |
| **Cash and cash equivalents at end of year** | | (50,889) | (44,794) |
| **Analysis of cash and cash equivalents** | | | |
| Cash and bank balances | | 678 | 903 |
| Bank overdrafts, secured | | (51,567) | (45,697) |
| | | (50,889) | (44,794) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2012*

## 1. GENERAL INFORMATION

First Mobile Group Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, KY1-1106, Grand Cayman, Cayman. The address of its principal place of business is Workshop 6, Level 1, Wah Yiu Industrial Centre, 30–32 Au Pui Wan Street, Fotan, Shatin, New Territories, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and its shares have been suspended from trading since 27 November 2009.

The Company is an investment holding company. The Group's principal activities have not changed during the year and is engaged in the trading and distribution of mobile phones and related accessories.

## 2. BASIS OF PREPARATION

**Suspension of Trading in Shares of the Company**

At the request of the Company, trading in shares of the Company had been suspended since 27 November 2009. Pursuant to a letter from the Stock Exchange on 3 June 2010, among other things, the Company was required to submit a viable resumption proposal (the "Resumption Proposal") to the Stock Exchange, which should address the Company's ability to meet certain conditions for resumption of trading in shares of the Company.

On 2 November 2010, the Stock Exchange issued another letter to the Company informing that the Company had been placed in the first delisting stage under Practice Note 17 (the "PN 17") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company is required to submit a Resumption Proposal to the Stock Exchange by 1 May 2011 to demonstrate that the Company has:

(a) sufficient level of operations or assets of sufficient value required under Rule 13.24 of the Listing Rules;

(b) adequate internal controls to meet obligations under the Listing Rules; and

(c) sufficient working capital for at least twelve months from resumption date.

The Company submitted a resumption proposal to the Stock Exchange on 1 April 2011 with a view to seek the Stock Exchange's approval for the resumption of trading in the shares of the Company. However, on 26 May 2011, the Stock Exchange informed the Company that this resumption proposal had not satisfactorily demonstrated sufficiency of operations or asset under Rule 13.24 of the Listing Rules and the Company had been placed in the second stage of delisting procedures commenced on 26 May 2011 pursuant to PN17.

On 8 November 2011, the Company submitted a revised resumption proposal to the Stock Exchange to seek their approval for the resumption of trading in the shares of the Company. On 16 March 2012, the Company provided further information to the Stock Exchange in response to the Stock Exchange's queries and in support of the revised resumption proposal.

At the end of the second delisting stage, the Company did not provide a viable resumption proposal to the Stock Exchange to demonstrate its sufficiency of operations or assets for listing. Therefore, the Stock Exchange placed the Company in the third delisting stage on 20 June 2012.

Subsequently, on 4 December 2012, the Company has submitted another resumption proposal to the Stock Exchange, which involves, inter alia, the Company's proposed acquisition of the entire equity interest in Chongqing Fuling Julong Electric Power Co., Ltd ("Julong") (the "Proposed Acquisition"). Further details of the Proposed Acquisition are described in the Company's announcement dated 21 December 2012.

**Proposed Restructuring of the Group (the "Proposed Restructuring")**

As described in the Company's announcement on 5 July 2010, the Company, the potential investor, the major shareholders and the authorised agent of the creditors, Deloitte Touche Tohmatsu ("Deloitte"), entered into the exclusivity agreement (the "Exclusivity Agreements") on 25 June 2010 for the purpose of the Proposed Restructuring. The Proposed Restructuring will be carried out by way of either the debt acquisition or the scheme of arrangement depending on the indication of preference by the creditors during the creditors' election period.

On 18 August 2010, the Company announced that, upon the expiry date of the creditors' election period, it was determined on 12 August 2010 that the Proposed Restructuring will be carried out by way of the scheme of arrangement in accordance with the Exclusivity Agreements as determined by the indication of preference received from the relevant creditors during the creditors' election period. Furthermore, creditors whose indebtedness represents more than 75% in value of the total indebtedness had executed the standstill agreement (the "Standstill Agreements") with the Group during the creditors' election period. Approval was sought, and obtained, from creditors for an extension of the standstill period under the Standstill Agreements to 31 October 2015.

On 30 April 2015, the Company entered into a second supplemental deed to the TB Option Agreement with Time Boomer, a supplemental deed to the New FA Option Agreement with First Apex and a further supplemental agreement to the Original Subscription Agreement with Jinwu Limited respectively to, among other things, to extend the long stop date to 31 March 2016.

On 30 April 2015, MDL also entered into a second supplemental deed to the FA Loan Agreement with First Apex and a second supplemental deed to the TB Loan Agreement with Time Boomer respectively to, among other things, extend the repayment date of each of the loans granted under the FA Loan Agreement and TB Loan Agreement to 31 March 2016.

The revised Proposed Restructuring involves, among other things, the proposed capital reorganisation, proposed creditor schemes and group reorganisation, and proposed subscription for new shares, proposed application for the granting of the whitewash waiver and the Proposed Acquisition. The completion of the revised Proposed Restructuring is conditional upon fulfilment of certain key conditions precedent which include, among other things, the passing of the resolutions by the shareholders of the Company at the extraordinary general meeting; the granting of the whitewash waiver by the Securities and Futures Commission of Hong Kong; the capital reorganisation becoming effective; and the submission of the Resumption Proposal to the Stock Exchange and the satisfaction of the conditions set out in the letter by the Stock Exchange to the Company granting in-principle approval to the Resumption Proposal.

The details of the conditions precedent and the updates on the revised Proposed Restructuring are further described in the announcements of the Company on 16 September 2010, 30 September 2010, 24 December 2010, 14 February 2011, 6 May 2011, 14 July 2011, 14 February 2012 and 21 December 2012. (hereinafter referred to as the "Announcements"). The revised Proposed Restructuring, if successfully implemented, consists of, among other things, the principal elements in notes and paragraphs below. Unless otherwise specified, capitalised terms used herein shall have the same meanings as in those Announcements.

*(a) Capital Reorganisation*

The Company will undergo the Capital Reorganisation comprising the Capital Reduction, Share Premium Cancellation and Share Consolidation. Before the Capital Reorganisation, the authorised share capital of the Company is HK$300,000,000 divided into 3,000,000,000 Shares of HK$0.10 each, and the issued share capital of the Company is HK$194,599,656.50 divided into 1,945,996,565 Shares of HK$0.10 each. Immediately after completion of the Capital Reorganisation, the authorised share capital of the Company will be HK$500,000,000 divided into 100,000,000,000 Adjusted Shares of HK$0.005 each and the issued share capital of the Company will be reduced to HK$972,998.28 divided into 194,599,656 Adjusted Shares of HK$0.005 each. The Adjusted Shares after Capital Reorganisation will be identical and rank pari passu in all respects with each other.

*(b) Creditor Schemes*

Pursuant to the proposed Creditor Schemes, upon effective, all or any claims against the Company will be compromised and discharged through (i) a cash payment of HK$162 million (which will be funded by the Company out of the proceeds of the Subscription); (ii) the funds received through the realisation or winding up of the Scheme Subsidiaries after payment of their respective liabilities; and (iii) assignments and/or transfers of balances between Scheme Subsidiaries and the Company together with the Retained Subsidiaries up to the Effective Date to Newco or the Administrators (or their nominees) for the purpose of the Creditor Schemes.

At the Scheme Meeting held on 21 December 2010, the Creditor Schemes proposed to be made between the Company and the Creditors were unanimously approved by the Creditors attending and voting at such meeting in person or by proxy.

On 8 February 2011, the Hong Kong Scheme was sanctioned by the High Court. The Hong Kong Scheme will become effective and legally binding on the Company and the Creditors upon (i) fulfillment of conditions as stipulated under the Hong Kong Scheme, including amongst others, fulfillment of the specified conditions precedent to the Subscription Agreements; and (ii) filing of the abovementioned order of the High Court with the Registrar of Companies in Hong Kong.

On 28 April 2011, the scheme of arrangement proposed to be made between the Company and the Creditors pursuant to section 86 of the Companies Law of the Cayman Islands (the "Cayman Scheme") was sanctioned by the Grand Court. The Hong Kong Scheme and the Cayman Scheme will become effective and legally binding on the Company and the Creditors upon fulfillment of the specified conditions precedent to the Subscription Agreements.

*(c) Group Reorganisation*

The proposed Creditor Schemes and Group Reorganisation will split the Group into (i) the Retained Subsidiaries retained under the control of the Company through its wholly-owned subsidiary, Marzo Holdings Limited, a SPV newly incorporated; and (ii) the Scheme Subsidiaries to be held outside the Restructured Group by a Newco which is wholly-owned by the Administrators for the purpose of holding the Scheme Subsidiaries.

The Group Reorganisation, being part of the Creditor Schemes which were approved by the Creditors at the scheme meeting held on 21 December 2010, if carried out at the date of the abovementioned scheme meeting, shall constitute a discloseable transaction for the Company under Rule 14.06 of the Listing Rules and subject to the Listing Rules requirement for notification and publication of an announcement. The relevant announcement was made on 24 December 2010.

*(d) Subscription for New Shares*

Pursuant to the Subscription Agreements dated 27 August 2010 (as amended by the side letters dated 15 September 2010, 23 December 2010, 31 March 2011, 7 July 2011, 2 November 2011, 30 March 2012, and the supplemental subscription agreement dated 28 September 2010), the Company has conditionally agreed to allot and issue to the Investor, and the Investor has conditionally agreed to subscribe for 925,714,285 Subscription Shares, at a Subscription Price of approximately HK$0.175 per Subscription Share, for a total cash consideration, before expenses, of HK$162 million.

*(e) Acquisition of Julong*

On 24 November 2012, the Company entered into the Term Sheet with CWCPI and the management shareholders of Julong ("Julong Management Shareholders") pursuant to which the Company proposed to acquire the entire equity interest in Julong at a consideration of approximately HK$680 million (subject to adjustments pursuant to the Term Sheet) to be satisfied through the issuance of the Consideration Shares. As previously announced by the Company on 16 September 2010 (prior to the entering into of the Term Sheet), the Subscription would result in the Investor becoming interested in approximately 95% of the voting rights of the Company. Pursuant to the Term Sheet and the Subscription Agreements (as amended and revised on 4 December 2012 to facilitate the transaction contemplated under the Term Sheet), upon completion of the Proposed Acquisition and the Subscription, the owners of the entire equity interest in Julong (the "Vendors") and the Investor will be interested in approximately 68% and 22% of the voting rights of the Company respectively. Based on the foregoing, the Investor will be interested in less than 30% of the voting rights of the Company upon completion of the Proposed Acquisition and the Subscription. The Investor will not apply to the Executive for any whitewash waiver. Further details of the Proposed Acquisition are described in the Company's announcement dated 21 December 2012 and 18 January 2013.

Subsequent to the Term Sheet, CWCPI has transferred its entire equity interest in Julong to 重慶涪陵能源實業集團有限公司 ("Energy Industry"). On 21 January 2013, the Company entered into the acquisition agreement with Energy Industry and the Julong Management Shareholders pursuant to which the Company proposed to acquire the Sale Equity Interests (representing the entire equity interest in Julong) at a consideration of HK$680 million to be satisfied through the issuance of the Consideration Shares.

The Proposed Acquisition constitutes a very substantial acquisition and a reverse takeover for the Company under Chapter 14 of the Listing Rules and a connected transaction for the Company pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules and is therefore subject to the approval of the Independent Shareholders at the EGM and the Stock Exchange's approval of the Company's [REDACTED].

The information relating to the acquisition agreement as required under the Takeovers Code and the Listing Rules will be set out in a joint announcement to be issued by the Company and Energy Industry.

**Going Concern Basis**

The Group incurred a loss attributable to owners of the Company of approximately HK$203,228,000 (2011: HK$171,719,000) for the year ended 31 December 2012 and as at that date, the Group had net current liabilities of approximately HK$1,727,049,000 (2011: HK$1,523,761,000) and net liabilities of approximately HK$1,726,272,000.00 (2011: HK$1,522,678,000) respectively.

The condition above indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. To address the issues above, the Company had explored and negotiated with its creditors and potential investor for the aforesaid revised Proposed Restructuring of the Group.

The consolidated financial statements have been prepared on a going concern basis, as the Company has submitted the Resumption Proposal, the successful implementation of which will effect the principal elements of the revised Proposed Restructuring and allow the trading in the shares of the Company being resumed. The Directors are of the view that the major procedures of the revised Proposed Restructuring will eventually be agreed upon by the Company's Creditors, the Investor, the Lenders, the Vendors and Company's shareholders, and will be successfully implemented.

Should the Group be unable to achieve a successful restructuring as mentioned above, or alternatively under other available options of restructuring, and therefore be unable to continue its business as a going concern, adjustments might have to be made to the carrying amounts of the Group's assets to state them at their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities to current assets and liabilities, respectively.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

## 4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are further disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

### Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Foreign Currency Translation**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

*(b) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in the income statement.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

*(c) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on disposal.

**Property, Plant and Equipment**

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

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

| | |
|---|---|
| Leasehold improvements | 12.5%–50% |
| Motor vehicles | 20%–25% |
| Furniture, fixtures and equipment | 8%–25% |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

**Leases**

*(a) Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

*(b) Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

**Inventories**

Inventories primarily comprise mobile phones and related accessories for resale and are stated at the lower of cost and net realisable value. Cost is determined using first-in-first-out basis and comprise invoiced value of purchases, and where appropriate, freight, insurance and delivery charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**Recognition and Derecognition of Financial Instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

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

**Trade and Other Receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

**Financial Liabilities and Equity Instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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

**Financial Guarantee Contract Liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

(a) the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

(b) the amount initially recognised less cumulative amortisation recognised in the income statement on a straight-line basis over the terms of the guarantee contracts.

**Convertible Loans**

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consist of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as capital reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

**Trade and Other Payables**

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**Equity Instruments**

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

**Revenue Recognition**

Revenue comprises the fair value of the consideration for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts allowed and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Revenue from the sale of mobile phones and related accessories is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the mobile phones and related accessories are delivered to customers and title has passed to the customers;

(b) Rental income under operating leases is recognised on a straight line basis over the lease terms; and

(c) Interest income is recognised on a time-proportion basis using the effective interest method.

**Employee Benefits**

*(a) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

*(b) Pension obligations*

Pursuant to the relevant regulations of the governments in Malaysia and Indonesia, the subsidiaries of the Group in these countries participate in respective government retirement benefit schemes (the "Schemes") whereby these subsidiaries are required to contribute to the Schemes to fund the retirements benefits of the eligible employees. Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums for each employees with reference to the salary scale, as stipulated under the requirements in respective countries. The governments of respective countries are responsible for the entire pension obligations payable to retired employees. The Schemes are defined contribution schemes. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to the income statement as incurred.

The Group's subsidiaries in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on 5% of the employees' relevant income, subject to a ceiling of monthly relevant income of HK$20,000 (HK$25,000, with effect from 1 June 2012) and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

**Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

**Taxation**

Income tax represents the sum of the current tax and deferred tax.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Related Parties**

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

**Segment Reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**Impairment of Assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Provisions and Contingent Liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

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

**Events after the Reporting Period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

## 5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

**Critical Judgements in Applying Accounting Policies**

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

**Going Concern Basis**

These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful conclusion of the Group's revised Proposed Restructuring as explained in note 2 to the consolidated financial statements.

**Key Sources of Estimation Uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*(a) Impairment of assets*

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

*(b) Property, plant and equipment and depreciation*

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

*(c) Income tax*

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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.

*(d) Impairment loss for bad and doubtful debts*

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

*(e) Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to serve industry cycles. The Group will reassess the estimates by the end of each reporting period.

## 6. FINANCIAL RISK MANAGEMENT

The major financial instruments of the Group include trade and other receivables, bank and cash balances, trade payables, bills payables, borrowings and financial guarantee liabilities. The activities of the Group expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Risk management is carried out by the Directors under policies approved by the Board of Directors. The Directors identify, evaluate and hedge financial risks in close co-operation with the Group's operating units.

### (A) Market Risk

*Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar ("USD") and Euro ("EUR"). Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

Pursuant to Hong Kong's Linked Exchange Rate System under which HK$ is pegged to USD, management considers there are no significant foreign exchange risks arising from the Group's operation in Hong Kong with respect to transactions denominated in USD.

At 31 December 2012, if HK$ had weakened or strengthened by 5% (2011: 5%) against EUR, with all other variables held constant, loss before tax for the year would have been approximately HK$3,233,000 (2011: HK$3,232,000) lower or higher, mainly as a result of foreign exchange gains or losses on translation of EUR-denominated trade payables and bank borrowings in relation to the operation in Hong Kong.

*Interest rate risk*

The Group's interest rate risk arises from bank and cash balances, and bank borrowings. Bank and cash balances, and bank borrowings with variable rates expose the Group to cash flow interest rate risk.

The Group has followed a policy which involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favorable pricing opportunities arise.

At the end of the reporting period, if interest rates had been increased or decreased by 50 (2011: 50) basis points and all other variables were held constant, the loss before tax of the Group would increase or decrease by approximately HK$1,304,000 (2011: HK$1,336,000) mainly as a result of higher or lower interest expenses on floating rate borrowings.

### (B) Credit Risk

The Group is exposed to credit risk mainly in relation to its trade and other receivables, cash deposits with banks and maximum exposure of credit risk is equal to the carrying amounts of these financial assets. Cash and bank transactions counter parties are limited to financial institutions with good credit rating.

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 51% (2011: 12%) and approximately 78% (2011: 44%) of the Group's trade receivables were due from the Group's largest trade debtor and the five largest trade debtors, respectively. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group reviews the recoverable amount of the trade and other receivables on a regular basis and provision for doubtful debts is made in accordance with the Group's policies. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

**(C) Liquidity Risk**

The Group encounters difficulty in meeting its current obligations when they fall due. Most of the Group's debts would be repayable on demand or within one year as at 31 December 2012 and 2011 based on the carrying value of borrowings and payables reflected in the financial statements.

The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the revised Proposed Restructuring, as further explained in note 2 to the consolidated financial statements.

**(D) Fair Value**

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 7. SEGMENT INFORMATION

The Group's revenue and loss for the years ended 31 December 2012 and 2011 were mainly derived from its only operating segment of trading and distribution of mobile phones and related accessories.

Segment profits or losses do not include interest income, finance costs, income tax and unallocated income and expenses. Segment assets consist primarily of property, plant and equipment, inventories, trade receivables, other receivables, prepayments and operating cash, and mainly exclude tax assets and other unallocated assets. Segment liabilities comprise operating liabilities and exclude items such as bank borrowings, finance lease payables, tax payables, financial guarantee liabilities and convertible loans. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Information about reportable segment profit or loss, assets and liabilities:

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Year ended 31 December:** | | |
| Revenue from external customers | 23,186 | 58,602 |
| Segment loss | (40,254) | (13,842) |
| Interest income | 1 | 12 |
| Interest expense | 162,989 | 164,182 |
| Depreciation | 666 | 1,116 |
| Income tax | (11) | (6,255) |
| Other material non-cash items: | | |
| Reversal of impairment on inventories | (981) | (877) |
| Impairment on trade receivables | 447 | 4,377 |
| Impairment on prepayments, deposits and other receivables | 13,843 | 5,670 |
| Gain on disposal of non-current asset held for sale | — | (10,255) |
| Gain on disposal of property, plant and equipment | (32) | (555) |
| Additions to segment non-current assets | 430 | 680 |
| **At 31 December:** | | |
| Segment assets | 6,260 | 16,924 |
| Segment liabilities | 1,169,964 | 1,016,855 |

Reconciliations of reportable segment profit or loss, assets and liabilities:

| | **2012** | **2011** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Profit or loss:** | | |
| Total profit or loss of reportable segments | (40,254) | (13,842) |
| Unallocated profit or loss: | | |
| Finance costs | (162,989) | (164,182) |
| Income tax | 11 | 6,255 |
| Interest income | 1 | 12 |
| Consolidated loss for the year | (203,231) | (171,757) |
| **Assets:** | | |
| Total assets of reportable segments/total consolidated assets | 6,260 | 16,924 |
| **Liabilities:** | | |
| Total liabilities of reportable segments | 1,169,964 | 1,016,855 |
| Unallocated liabilities | | |
| Bank borrowings | 468,745 | 480,040 |
| Finance lease payables | 106 | 280 |
| Current tax liabilities | 1,913 | 2,069 |
| Financial guarantee liabilities | 58,936 | 27,797 |
| Convertible loans | 32,868 | 12,561 |
| Consolidated total liabilities | 1,732,532 | 1,539,602 |

Geographical information:

| | **Revenue** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | 14,314 | 1,754 | 368 | 191 |
| Malaysia | 1,606 | 879 | — | 84 |
| Indonesia | 7,266 | 55,216 | 409 | 857 |
| Vietnam | — | 117 | — | — |
| India | — | 636 | — | — |
| | 23,186 | 58,602 | 777 | 1,132 |

Revenue for the year from two customers of the Group represents approximately HK$5,547,000 and HK$3,307,000 of the Group's total revenue respectively. Revenue for last year from another two customers of the Group represented approximately HK$12,034,000 and HK$10,746,000 of the Group's total revenue respectively.

In presenting the geographical information, revenue is based on the location of the customers.

## 8. REVENUE

Revenue comprises the fair value of the consideration for the sale of goods in the ordinary course of the Group's activities and gross rental income received and receivables during the year. Revenue is shown, net of value-added tax, returns, rebates and discounts allowed and after eliminating sales within the Group. An analysis of the Group's revenue is as follows:

| | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|
| Turnover from sales of mobile phones and related accessories, net | 23,186 | 58,555 |
| Other rental income | — | 47 |
| Total revenue | 23,186 | 58,602 |

## 9. OTHER INCOME

| | 2012<br>*HK$'000* | 2011<br>*HK$'000* |
|---|---|---|
| Compensation from insurance claim | — | 870 |
| Interest income | 1 | 12 |
| Exchange gains, net | — | 10,200 |
| Gain on disposal of property, plant and equipment | 32 | 555 |
| Gain on disposal of non-current asset held for sale | — | 10,255 |
| Sundry income | 109 | 2,070 |
| | 142 | 23,962 |

## 10. GAIN ON DECONSOLIDATION OF A LIQUIDATING SUBSIDIARY

As detailed in the Company's announcement dated 17 February 2012, a winding-up order was issued by the High Court of Malaya, Kuala Lumpur on 14 February 2012 ordering among other things that Mobile Distribution (M) Sdn. Bhd. ("MDM"), an indirect wholly-owned subsidiary of the Company, be wound up and that the official receiver of Malaysia be appointed as liquidator of MDM. The Directors considered that the control over MDM has been lost since then. The results, assets and liabilities, and cash flows of MDM were deconsolidated from the Group's consolidated financial statements with effect from 14 February 2012.

| | MDM<br>2012<br>*HK$'000* | EM*<br>2011<br>*HK$'000* |
|---|---|---|
| Net liabilities of the subsidiary deconsolidated: | | |
| Prepayment, deposits and other receivables | — | 158 |
| Current tax assets | — | 640 |
| Cash and bank balances | 2 | 90 |
| Trade and bills payables | (5,527) | — |
| Accruals and other payables | (112) | (377) |
| Amounts due to the Group | (23,137) | (56,355) |
| Bank overdrafts | (2,581) | (26,641) |
| Bank borrowings | (17,804) | (1,156) |
| Net liabilities of the deconsolidated subsidiary | (49,159) | (83,641) |
| Impairment of amount due from the deconsolidated subsidiary | 23,137 | 56,355 |
| Release of the related foreign currency translation reserves | 1,514 | (1,821) |
| Gain on deconsolidation of a liquidating subsidiary | (24,508) | (29,107) |

Net cash inflows from deconsolidation of the liquidating subsidiary were as follows:

| | MDM 2012 *HK$'000* | EM* 2011 *HK$'000* |
|---|---|---|
| Cash and cash equivalent deconsolidated: | | |
| Cash and bank balances | (2) | (90) |
| Bank overdrafts | 2,581 | 26,641 |
| | 2,579 | 26,551 |

* On 6 December 2011, Exquisite Model Sdn. Bhd. ("EM"), an indirect wholly-owned subsidiary of the Company, was wound up and that the official receiver of Malaysia be appointed as liquidator of EM. The Directors considered that the control over EM was lost since then. The results, assets and liabilities, and cash flows of EM were deconsolidated from the Group's consolidated financial statements with effect from 6 December 2011.

## 11. FINANCE COSTS

| | 2012 *HK$'000* | 2011 *HK$'000* |
|---|---|---|
| Interest expenses on borrowings and payables wholly repayable within five years | | |
| — bank borrowings | 55,159 | 58,602 |
| — finance leases | 49 | 55 |
| — convertible loans | 3,181 | 835 |
| — trade payables | 104,600 | 104,690 |
| | 162,989 | 164,182 |

## 12. INCOME TAX

| | 2012 *HK$'000* | 2011 *HK$'000* |
|---|---|---|
| Current tax — Hong Kong profits tax: | | |
| Provision for the year | — | 37 |
| Over provision in prior year | (11) | — |
| Deferred tax | — | (6,292) |
| | (11) | (6,255) |

No provision for Hong Kong profits tax and overseas tax has been made for the year, as the Group has no estimated assessable profits arising in Hong Kong and overseas. Hong Kong profits tax was calculated at 16.5% of the estimated assessable profits for last year.

The reconciliation between income tax and loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss before tax: | (203,242) | (178,012) |
| Calculated at a domestic tax rate of 16.5% (2011: 16.5%) | (33,535) | (29,372) |
| Effect of different tax rates in other countries | 527 | 113 |
| Income not subject to tax | (4,038) | (8,262) |
| Expenses not deductible for tax purpose | 25,136 | 26,762 |
| Over provision in prior year | (11) | — |
| Reversal of temporary difference | — | (6,292) |
| Tax losses not recognised | 11,910 | 10,796 |
| | (11) | (6,255) |

At the end of the reporting period, subject to agreement with tax authorities, the Group has unused tax losses of approximately HK$2,311,231,000 (2011: HK$2,324,910,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams of the Group.

## 13. LOSS FOR THE YEAR

The Group's loss for the year was arrived at after charging/(crediting) the amounts as set out below.

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cost of inventories sold | 23,004 | 54,387 |
| Auditors' remuneration: | 745 | 744 |
| Depreciation of property, plant and equipment | 666 | 1,116 |
| Operating leases: | | |
| — land and buildings | 749 | 1,292 |
| — office equipment | 16 | 56 |
| Property, plant and equipment written off* | — | 725 |
| Impairment on trade receivables** | 447 | 4,377 |
| Impairment on prepayments, deposits and other receivables* | 13,843 | 5,670 |
| Staff costs (including Directors' remuneration): | | |
| — salaries, bonuses and allowances | 6,092 | 9,182 |
| — retirement benefits scheme contributions | 109 | 368 |
| | 6,201 | 9,550 |
| Exchange losses/(gains)* | 4,962 | (10,200) |
| Gains on disposals of property, plant and equipment* | (32) | (555) |
| Gain on disposal of non-current asset held for sale* | — | (10,255) |
| Reversal of impairment on inventories# (included in cost of inventories sold) | (981) | (877) |

* These items were included in other income or other operating expenses.

** These items were included in general and administrative expenses.

# The impairments on inventories were reversed as their carrying amounts were subsequently recovered with the higher net realisable values.

## 14. LOSS FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss for the year attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of a loss of approximately HK$59,668,000 (2011: HK$95,351,000).

## 15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (A) Directors' Emoluments

The remuneration of each Director for the year ended 31 December 2012 is set out below:

| | Salary | Retirement benefit costs | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive Directors:* | | | |
| Ng Kok Hong | 1,020 | 14 | 1,034 |
| Ng Kok Tai | 51 | 6 | 57 |
| Ng Kok Yang | — | — | — |
| | 1,071 | 20 | 1,091 |

The remuneration of each Director for the year ended 31 December 2011 is set out below:

| | Salary | Retirement benefit costs | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| *Executive Directors:* | | | |
| Ng Kok Hong | 236 | 7 | 243 |
| Ng Kok Tai | 987 | 119 | 1,106 |
| Ng Kok Yang | — | 3 | 3 |
| | 1,223 | 129 | 1,352 |

During the year ended 31 December 2012, Mr. Ng Kok Hong, Mr. Ng Kok Tai and Mr. Ng Kok Yang, being executive Directors of the Company, have agreed to waive their emoluments of approximately HK$3,010,000 (2011: HK$3,593,000), HK$1,899,000 (2011: HK$963,000) and HK$2,470,000 (HK$2,470,000). Save as disclosed above, there was no other arrangement under which a Director waived or agreed to waive any emoluments during the year.

### (B) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group are as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Directors | 1,034 | 1,106 |
| Employees | 2,146 | 2,743 |
| | 3,180 | 3,849 |

The Group's five highest paid individuals for both years included one director and four employees. Details of the emoluments of the Directors are reflected in the analysis presented above. The details of the aggregate emoluments of the four employees, all falling within the band of HK$1,000,000 or below, for the year are as follows:

| | 2012 | 2011 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries, allowances and benefit-in-kind | 2,104 | 2,616 |
| Retirement benefit costs | 42 | 127 |
| | 2,146 | 2,743 |

Save as disclosed above, for the two years ended 31 December 2012 and 2011, no other emoluments had been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 16. DIVIDEND

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012 (2011: nil).

## 17. LOSS PER SHARE

### (A) Basic Loss per Share

The calculation of basic loss per share attributable to owners of the Company was based on the loss for the year attributable to owners of the Company of approximately HK$203,228,000 (2011: HK$171,719,000) and the weighted average number of 1,945,996,565 (2011: 1,945,996,565) ordinary shares in issue during the year.

### (B) Diluted Loss per Share

No diluted loss per share is presented as the exercise of the Group's outstanding convertible loans would be anti-dilutive for both years. There were no dilutive potential ordinary shares for the Company's outstanding share options for the year ended 31 December 2011.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | |
|---|---|---|---|---|
| | **Leasehold improvements** | **Motor vehicles** | **Furniture, fixtures and equipment** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost:** | | | | |
| At 1 January 2011 | 1,651 | 5,412 | 24,290 | 31,353 |
| Additions | 243 | — | 437 | 680 |
| Disposals | — | (2,348) | (11) | (2,359) |
| Written off during the year | (1,226) | (1,873) | (10,700) | (13,799) |
| Exchange differences | (10) | 7 | 63 | 60 |
| At 31 December 2011 and 1 January 2012 | 658 | 1,198 | 14,079 | 15,935 |
| Additions | 26 | — | 404 | 430 |
| Disposals | — | (205) | (18) | (223) |
| Written off during the year | (151) | — | — | (151) |
| Exchange differences | (32) | (16) | (68) | (116) |
| At 31 December 2012 | 501 | 977 | 14,397 | 15,875 |
| **Accumulated depreciation:** | | | | |
| At 1 January 2011 | 1,584 | 3,194 | 23,125 | 27,903 |
| Charge for the year | 147 | 460 | 509 | 1,116 |
| Disposals | — | (1,206) | (6) | (1,212) |
| Eliminated on written off | (1,231) | (1,662) | (10,181) | (13,074) |
| Exchange differences | 3 | 7 | 60 | 70 |
| At 31 December 2011 and 1 January 2012 | 503 | 793 | 13,507 | 14,803 |
| Charge for the year | 132 | 181 | 346 | 659 |
| Disposals | — | (122) | (4) | (126) |
| Eliminated on written off | (151) | — | — | (151) |
| Exchange differences | (28) | (11) | (48) | (87) |
| At 31 December 2012 | 456 | 841 | 13,801 | 15,098 |
| **Carrying amount:** | | | | |
| At 31 December 2012 | 45 | 136 | 596 | 777 |
| At 31 December 2011 | 155 | 405 | 572 | 1,132 |

The net carry amounts of the Group's assets under finance leases included in the total amounts of motor vehicles at the end of the reporting period amounted to approximately HK$136,000 (2011: HK$405,000).

## 19. INVESTMENTS IN SUBSIDIARIES

| | | Company | |
|---|---|---|---|
| | | **2012** | **2011** |
| | *Notes* | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | *(a)* | 233,433 | 233,433 |
| Less: Impairments | *(c)* | (233,433) | (233,433) |
| | | — | — |
| Amount due from a subsidiary | *(b)* | 339,266 | 339,266 |
| Less: Impairments | *(c)* | (339,266) | (339,266) |
| | | — | — |
| Amount due to a subsidiary | *(b)* | 3,362 | 1,586 |

*Notes:*

(a) Particulars of principal subsidiaries are set out in note 35 to the consolidated financial statements.

(b) The balances with subsidiaries were unsecured, interest free and had no fixed terms of repayment.

(c) At 31 December 2012 and 2011, the Directors performed an impairment assessment on the Group's investments in subsidiaries and the amount due from a subsidiary, and they considered that their carrying amounts are in excess of the recoverable amounts as a result of the persistent operating losses of its subsidiaries. Accordingly, the provisions for impairment of approximately HK$233,433,000 (2011: HK$233,433,000) against the investments in subsidiaries and approximately HK$339,266,000 (2011: HK$339,266,000) were made against the amount due from a subsidiary at the end of the reporting period.

## 20. INVENTORIES

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| Merchandises | 3,675 | 12,767 |
| Less: Impairments | (3,601) | (10,924) |
| | 74 | 1,843 |

## 21. TRADE RECEIVABLES

The normal credit period granted to the customers of the Group was up to 30 days (2011: 30 days), except for the sales made to certain creditworthy customers to which a longer credit period may be granted on a case by case basis. At the end of the reporting period, the aging analysis of the trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| 1–30 days | 173 | 2,444 |
| 31–60 days | 21 | 371 |
| 61–90 days | — | 275 |
| 91–120 days | 21 | 70 |
| Over 120 days | 1,239,000 | 1,238,645 |
| Less: Impairments | (1,238,347) | (1,238,654) |
| | 868 | 3,151 |

At the end of the reporting period, the aging analysis of net trade receivables, which was past due but not impaired, is as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| 31–60 days | — | 371 |
| 61–90 days | — | 275 |
| 91–120 days | — | 61 |
| Over 120 days | 847 | — |
| | 847 | 707 |

The creation or release of provision for impaired trade receivable have been included in "General and administrative expenses" of the consolidated income statement. Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote. Impaired amounts were directly written off against trade receivables when there was no expectation of recovering additional cash.

At the end of the reporting period, trade receivables of the Group amounting to approximately HK$1,238,347,000 (2011: HK$1,238,654,000) were impaired. The individually impaired trade receivables mainly related to customers that had prolonged their repayment due to unexpected financial difficulties.

Movements on the impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| At 1 January | 1,238,654 | 1,239,653 |
| Impairments for the year | 447 | 4,377 |
| Deconsolidation of a liquidating subsidiary | (129) | — |
| Exchange differences | (625) | (5,376) |
| At 31 December | 1,238,347 | 1,238,654 |

The gross amounts of the Group's trade receivables were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| HK$ | 1,223,143 | 1,223,528 |
| RM | 2,755 | 2,788 |
| USD | 2,646 | 573 |
| IDR | 1,439 | 5,504 |
| Singapore Dollar | 2,714 | 1,357 |
| New Taiwan Dollar | 573 | 2,601 |
| Vietnam Dong ("VND") | 2,901 | 2,978 |
| Philippine Peso ("P$") | 3,044 | 2,476 |
| | 1,239,215 | 1,241,805 |

## 22. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| Prepayments | 258 | 1,436 |
| Deposits and other receivables | 24,571 | 20,018 |
| | 24,829 | 21,454 |
| Less: Impairments | (20,966) | (11,772) |
| | 3,863 | 9,682 |

Included in the impairments recognised in respect of prepayments, deposits and other receivables were individually impaired deposits and other receivables with the aggregate amounts of approximately HK$20,966,000 (2011: HK$11,772,000) with the equivalent gross amounts at the end of reporting period. The individually impaired amounts relate to counterparties that were in default of repayment. The Group did not hold any collateral or other credit enhancements over these balances.

Save as disclosed, none of the above assets was either past due or impaired, and the financial assets included in the above balances related to receivables for which there was no recent history of default.

## 23. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| Pledged bank deposits | — | 213 |
| Cash and bank balances | 678 | 903 |
| | 678 | 1,116 |

At 31 December 2011, the pledged bank deposits were secured as collateral for the Group's banking facilities.

Cash at banks earned interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits were deposited with creditworthy banks with no recent history of default.

Pledged bank deposits, cash and bank balances were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| RM | 357 | 583 |
| HK$ | 192 | 344 |
| IDR | 124 | 184 |
| Others | 5 | 5 |
| | 678 | 1,116 |

## 24. TRADE AND BILLS PAYABLES

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| Trade payables | 435,603 | 434,302 |
| Bills payables | 110,643 | 109,288 |
| | 546,246 | 543,590 |

At the end of the reporting period, the ageing analysis of the trade payables is as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| 1–30 days | 9 | 252 |
| 31–60 days | 16 | — |
| 61–90 days | 178 | — |
| 91–120 days | — | — |
| Over 120 days | 435,400 | 434,050 |
| | 435,603 | 434,302 |

Included in the trade payables at the end of the reporting period, approximately HK$406,589,000 (2011: HK$405,432,000) of which were secured by certain corporate guarantees granted by the Company to the former largest supplier of the Group and certain trade insurance companies. Included in the guaranteed trade payables, approximately HK$344,500,000 (2011: HK$344,500,000) and approximately HK$62,089,000 (2011: HK$60,933,000) of which were interest-bearing at approximately 2.5% per month and at approximately 1.95% per annum respectively.

At the end of the reporting period, the Group's bills payables were secured by certain corporate guarantees granted by the Company. The bills payables of the Group were interest-bearing at approximately 8.29% (2011: 8.28%) per annum.

The carrying amounts of the Group's trade and bills payables were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| USD | 405,374 | 403,240 |
| EUR | 61,808 | 60,933 |
| RM | 54,190 | 55,360 |
| HK$ | 13,159 | 12,785 |
| INR | 1,522 | 1,575 |
| VND | 7,956 | 7,783 |
| Others | 2,237 | 1,914 |
| | 546,246 | 543,590 |

## 25. ACCRUALS AND OTHER PAYABLES

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| Interest payables | 487,193 | 342,004 |
| Accrual | 54,861 | 56,755 |
| Other payables | 81,664 | 74,506 |
| | 623,718 | 473,265 |

Included in the interest payables at the end of the reporting period, approximately HK$113,102,568 (2011: HK$89,149,000) of which were secured by certain corporate guarantees granted by the Company to the former largest supplier of the Group and certain banks.

## 26. BANK BORROWINGS

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| Bank loans, secured | 417,178 | 434,343 |
| Bank overdrafts, secured | 51,567 | 45,697 |
| | 468,745 | 480,040 |

(a) The carrying amounts of the bank borrowings were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| USD | 195,560 | 196,251 |
| HK$ | 204,844 | 203,209 |
| RM | 65,638 | 77,877 |
| EUR | 2,703 | 2,703 |
| | 468,745 | 480,040 |

(b) The effective interest rates of the bank borrowings at the end of the reporting period were as follows:

| | Bank loans | | Bank overdrafts | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| USD | 5.7% | 5.7% | — | 6.0% |
| HK$ | 4.3% | 4.3% | 5.9% | 5.9% |
| RM | 7.6% | 8.2% | 9.1% | 9.1% |
| EUR | 4.4% | 4.4% | — | — |

(c) The Group's bank borrowings were secured by certain corporate guarantees granted by the Company.

## 27. FINANCE LEASE PAYABLES

At the end of the reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

| | Group | | | |
|---|---|---|---|---|
| | Minimum lease payments 2012 *HK$'000* | Minimum lease payments 2011 *HK$'000* | Present value of minimum lease payments 2012 *HK$'000* | Present value of minimum lease payments 2011 *HK$'000* |
| Amounts payable: | | | | |
| Within one year | 130 | 232 | 106 | 231 |
| In the second to fifth years, inclusive | — | 49 | — | 49 |
| Total minimum finance lease payments | 130 | 281 | 106 | 280 |
| Future finance charges | (24) | (1) | | |
| Total net finance lease payables | 106 | 280 | | |
| Portion classified as current liabilities | (106) | (231) | | |
| Non-current portion | — | 49 | | |

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average remaining lease term is 1–2 years. At the end of the reporting period, the average effective borrowing rate was 3.9% (2011: 3.9%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's finance lease payables are secured by the lessor's title to the leased assets.

## 28. FINANCIAL GUARANTEE LIABILITIES

**Group**

The Company and its indirect wholly-owned subsidiary, First Mobile Group Sdn. Bhd. ("FMGSB"), have given corporate guarantees to certain banks to secure for the general banking facilities of EM and MDM totaling approximately HK$58,936,000. In view that EM and MDM are currently in liquidation, and on ground that the potential claims of these corporate guarantees granted by the Company and FMGSB may be exercised by the relevant banks, a provision for financial guarantee liabilities of approximately HK$58,936,000 have been made against the potential uncovered exposures to be borne by the Company and FMGSB under such guarantees.

**Company**

At 31 December 2012, the Company has given corporate guarantees to certain banks, trade credit insurance companies and the former largest supplier of the Group to secure for the general banking facilities and trade credits granted to certain of its subsidiaries, and approximately HK$1,110,158,000 (2011: HK$1,054,022,000) of which were utilised by the subsidiaries as at that date. The Group has breached certain bank covenant requirements and defaulted in repayment of certain trade payables and bank borrowings. At the end of the reporting period, it is probable that the Company will be liable to the potential claims under any of these guarantees. Accordingly, a provision for financial guarantee liabilities of approximately HK$1,110,158,000 (2011: HK$1,054,022,000) for the Company has been made against the probable uncovered exposures to be borne by the Company under those guarantees at the end of the reporting period.

## 29. CONVERTIBLE LOANS

(a) Time Boomer Limited, a party nominated by the Investor to provide HK$13 million out of HK$50 million standby working capital facility pursuant to the terms of the Exclusivity Agreements, entered into the Loan Agreements (the "Time Boomer Loan" or the "Time Boomer Convertible Loan") with Mobile Distribution Limited ("MDL"), a wholly-owned subsidiary of the Company. The Time Boomer Loan is convertible into 74,285,714 Adjusted Shares of the Company at HK$0.175 per share upon fulfillment of certain conditions precedent as described in the Company's announcement dated 14 July 2011 (the "14 July 2011 Announcement").

The Time Boomer Loan shall be initially repayable in full by 31 December 2012 (see Note below) if the Time Boomer Loan has not been converted by then. Interest of 8 per cent per annum will be paid monthly up until the Time Boomer Loan is converted or redeemed.

The interest charged for the year is calculated by applying an effective interest rate of 12.01% per annum to the liability component.

The Time Boomer Convertible Loan is secured by (i) the FMG Share Charge over a total of 68.5% of the entire issued shares of the Company held by the Major Shareholders; (ii) the Personal Guarantees given by Mr. Ng Kok Hong and Ms. Tan Sook Kiang; (iii) the share charges over the entire issued share capital of MDL; and (iv) the Fixed and Floating Charge over the assets of MDL. The FMG Share Charge, the Personal Guarantees and the Fixed and Floating Charge will continue to be in force and, subject to the terms and conditions as further described in the 14 July 2011 Announcement.

(b) First Apex Investments Limited, a party nominated by the Investor to provide HK$20 million out of HK$50 million standby working capital facility pursuant to the terms of the Exclusivity Agreements, entered into the Loan Agreements (the "First Apex Loan" or "First Apex Convertible Loan") with MDL, a wholly-owned subsidiary of the Company. The First Apex Loan is convertible into 114,285,714 convertible preference shares of HK$0.005 each of the Company ("CPS") at HK$0.175 per CPS which in turn is convertible into one Adjusted Share of the Company, upon fulfillment of certain conditions precedent as described in the Company's announcement dated 14 February 2012 (the "14 February 2012 Announcement").

The First Apex Loan shall be initially repayable in full on 31 December 2012 (see Note below) if the First Apex Loan has not been converted by then. The First Apex Loan does not bear any interest.

The interest charged for the year is calculated by applying an effective interest rate of 10.35% per annum to the liability component.

The First Apex Convertible Loan is secured by (i) the FMG Share Charge over a total of 68.5% of the entire issued shares of the Company held by the Major Shareholders; (ii) the Personal Guarantee given by Mr. Ng Kok Hong; (iii) the share charges over the entire issued share capital of MDL; and (iv) the Fixed and Floating Charge over the assets of MDL. The FMG Share Charge, the Personal Guarantee and the Fixed and Floating Charge will continue to be in force and, subject to the terms and conditions as further described in the 14 February 2012 Announcement.

(c) The net proceed received from the Time Boomer and First Apex Convertible Loans have been split between the liability element and an equity component, as follows:

| | **Convertible Loans — Group** | | |
|---|---|---|---|
| | **Time Boomer** | **First Apex** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Nominal value of convertible loan issued | 13,000 | — | 13,000 |
| Less: initial equity component | (778) | — | (778) |
| Liability component subtotal | 12,222 | — | 12,222 |
| Interest charged | 835 | — | 835 |
| Interest paid | (496) | — | (496) |
| Liability component at 31 December 2011 and 1 January 2012 | 12,561 | — | 12,561 |
| Nominal value of convertible loan issued | — | 20,000 | 20,000 |
| Less: initial equity component | — | (1,831) | (1,831) |
| Liability components subtotal | 12,561 | 18,169 | 30,730 |
| Interest charged | 1,458 | 1,723 | 3,181 |
| Interest paid | (1,043) | — | (1,043) |
| Liability components at 31 December 2012 | 12,976 | 19,892 | 32,868 |

## 30. SHARE CAPITAL

| | Company | |
|---|---|---|
| | **Number of ordinary shares HK$0.10 each** | *HK$'000* |
| Authorised: | | |
| At 31 December 2011 and 2012 | 3,000,000,000 | 300,000 |
| Issued and fully paid: | | |
| At 31 December 2011 and 2012 | 1,945,996,565 | 194,600 |

**Capital Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No major changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2012 and 2011.

The capital structure of the Group consists of debt, which includes bank borrowings, finance lease payables, financial guarantee liabilities and convertible loans as disclosed in notes 26, 27, 28 and 29 to the consolidated financial statements, and equity attributable to owners of the Company, comprising share capital and reserves.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as debt to total assets. Debt is calculated as total borrowings (including other borrowings, financial guarantee liabilities and convertible loans but excluding trade and bills payables, accruals and other payables and tax payables as shown in the consolidated statement of financial position).

The gearing ratios at 31 December 2012 and 2011 were as follows:

| | Group | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| Total borrowings | 560,655 | 520,678 |
| Total assets | 6,260 | 16,924 |
| Gearing ratio | 8,956% | 3,077% |

The gearing ratios above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the revised Proposed Restructuring as further explained in note 2 to the consolidated financial statements.

## 31. RESERVES

### (A) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of comprehensive income and consolidated statement of changes in equity.

### (B) Company

| | **Share premium** *HK$'000* | **Capital reserve** *HK$'000* | **Accumulated losses** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| At 1 January 2011 | 287,281 | 7,597 | (1,455,761) | (1,160,883) |
| Loss for the year | — | — | (95,351) | (95,351) |
| Transfer upon lapse of share options | — | (7,597) | 7,597 | — |
| At 31 December 2011 and 1 January 2012 | 287,281 | — | (1,543,515) | (1,256,234) |
| Loss for the year | — | — | (59,668) | (59,668) |
| At 31 December 2012 | 287,281 | — | (1,603,183) | (1,315,902) |

### (C) Nature and Purpose of Reserves

*(i) Share premium account*

Pursuant to the Companies Law (1998 Revision) of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the equity holders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

*(ii) Merger reserve*

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefor.

*(iii) Capital reserve*

The capital reserve comprises (a) the fair value of the number of unexercised share options granted to employees of the Company recognised in previous years and (b) the equity component of the convertible loan issued by the Group which is the difference between the gross proceeds of the issue of the convertible loans and the fair value assigned to the liability component, representing the conversion option for the holder to convert the note into equity.

*(iv) Foreign currency translation reserve*

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the consolidated financial statements.

## 32. MAJOR NON-CASH TRANSACTION

During last year, the Group's non-current asset held for sale was compulsorily foreclosed and disposed of by the related bank creditor. The related proceeds of approximately HK$19,533,000 were fully utilised to make partial settlement of the related bank overdrafts, bank borrowings and bills payables.

## 33. OPERATING LEASE COMMITMENTS

Leases for office premises are negotiated for terms ranging from 1 to 2 years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **Land and buildings** | |
|---|---|---|
| | **2012** | **2011** |
| | *HK$'000* | *HK$'000* |
| Within one year | 277 | 689 |
| In the second to fifth years, inclusive | 26 | 131 |
| | 303 | 820 |

## 34. EVENTS AFTER THE REPORTING PERIOD

(a) Subsequent to the end of the reporting period, there are certain updates on the Group's Proposed Restructuring in progress, and further details of which are stated in note 2 to the consolidated financial statements.

(b) A writ of summons dated 13 February 2013 was served on FMGSB on 15 February 2013. The plaintiff, Raja, Darryl & Loh claimed against FMGSB for outstanding bills with interests thereon in aggregate of approximately Malaysian Ringgit 88,000 (equivalent to approximately HK$224,000). In the opinion of the Directors, adequate provision has been made against the aforesaid claim at the end of the reporting period.

## 35. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

The Directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the following list contains only the subsidiaries at the end of the reporting period which principally affect the results or financial position of the Group.

| **Name of the subsidiary** | **Place of incorporation/ registration/ operation** | **Issued and paid-up share capital/ registered capital** | **Percentage of equity interest attributable to the Group** | | **Principal activities** |
|---|---|---|---|---|---|
| | | | **2012** | **2011** | |
| **Direct subsidiary:** | | | | | |
| E-Tech Resources Limited | British Virgin Islands | 10,000 shares of US$1 each | 100% | 100% | Investment holding |

| Name of the subsidiary | Place of incorporation/ registration/ operation | Issued and paid-up share capital/ registered capital | Percentage of equity interest attributable to the Group 2012 | 2011 | Principal activities |
|---|---|---|---|---|---|
| **Indirect subsidiaries:** | | | | | |
| é-Touch Mobile Private Limited | India | 10,000 shares of Indian Rupees 10 each | 95% | 95% | Inactive |
| First Asia Mobile, Inc. | Republic of the Philippines | 12,500,000 shares of P$1 each | 100% | 100% | Inactive |
| First Mobile Group Sdn. Bhd. | Malaysia | 500,000 ordinary shares of RM1 each | 100% | 100% | Inactive |
| First Telecom International Limited | Hong Kong | 50,000,000 ordinary shares of HK$1 each | 100% | 100% | Inactive |
| | | 3,019,944 non-voting deferred shares of HK$1 each | | | |
| Lets Do Mobile Philippines Inc. | Republic of the Philippines | 85,000,000 shares of P$1 each | 100% | 100% | Inactive |
| Matrix Star Limited | Hong Kong | 1 ordinary share of HK$1 each | 100% | 100% | Trading of mobile phones |
| Mobile Distribution Limited | Hong Kong | 1 ordinary share of HK$1 each | 100% | 100% | Trading of mobile phones |
| Mobile performances SARL | France | 850 shares of 10 EUR each | 100% | 100% | Inactive |
| Multi Brand Telecom Services Trade Joint Stock Company | Vietnam | Vietnam Dong 2,000,000,000 | 90% | 90% | Inactive |
| Precision SARL | France | 850 shares of 10 EUR each | 100% | 100% | Inactive |
| PT. Comworks Indonesia | Indonesia | 330,000 shares of USD1 each | 100% | 100% | Trading and distribution of mobile phones and related accessories |

## 36. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 21 March 2013.

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2015*

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2015** | **2014** |
| | *Notes* | *HK$'000* | *HK$'000* |
| | | (unaudited) | (unaudited) |
| **Revenue** | *4/5* | — | — |
| Cost of sales | | — | — |
| Gross loss | | — | — |
| Other income | | 9,639 | 1,661 |
| Selling and distribution expenses | | — | — |
| General and administrative expenses | | (6,669) | (2,726) |
| Other operating expenses | | (5) | (16) |
| Provision for financial guarantee liabilities | | (2,791) | (180,145) |
| Gain on deconsolidation of a liquidated subsidiary | | — | 227,198 |
| **Profit from operations** | | 174 | 45,972 |
| Finance costs | *6* | (79,405) | (76,303) |
| **Loss before tax** | *7* | (79,231) | (30,331) |
| Income tax | *8* | — | — |
| **Loss for the period** | | (79,231) | (30,331) |
| **Attributable to:** | | | |
| Owners of the Company | | (79,231) | (30,331) |
| Non-controlling interests | | — | — |
| | | (79,231) | (30,331) |
| **Loss per share** | *9* | | |
| Basic and diluted *(HK cents per share)* | | (4.07) | (1.56) |

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2015*

| | For the six months ended 30 June | |
|---|---|---|
| | **2015** | **2014** |
| | *HK$'000* | *HK$'000* |
| | (unaudited) | (unaudited) |
| **Loss for the period** | (79,231) | (30,331) |
| **Other comprehensive income after tax:** | | |
| *Items that may be subsequently reclassified to profit or loss* | | |
| Exchange differences reclassified to profit or loss upon deconsolidation of a liquidated subsidiary | — | 4,855 |
| Exchange differences on translation of foreign operations | 11,700 | (2,017) |
| | 11,700 | 2,838 |
| **Total comprehensive loss for the period** | (67,531) | (27,493) |
| **Attributable to:** | | |
| Owners of the Company | (67,531) | (27,493) |
| Non-controlling interests | — | — |
| | (67,531) | (27,493) |

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2015*

| | *Notes* | **30 June 2015** *HK$'000* (unaudited) | **31 December 2014** *HK$'000* (unaudited) |
|---|---|---|---|
| **Non-current asset** | | | |
| Property, plant and equipment | *11* | 43 | 101 |
| **Current assets** | | | |
| Prepayments, deposits and other receivables | | 344 | 285 |
| Bank and cash balances | | 79 | 82 |
| | | 423 | 367 |
| **Current liabilities** | | | |
| Trade and bills payables | *12* | 419,765 | 426,163 |
| Accruals and other payables | | 1,024,388 | 944,767 |
| Bank borrowings | | 408,622 | 407,392 |
| Current tax liabilities | | 1,377 | 1,455 |
| Financial guarantee liabilities | *13* | 178,540 | 185,386 |
| Convertible loans | *14* | 33,000 | 33,000 |
| | | 2,065,692 | 1,998,163 |
| **Net current liabilities** | | (2,065,269) | (1,997,796) |
| **Total assets less current liabilities** | | (2,065,226) | (1,997,695) |
| **NET LIABILITIES** | | (2,065,226) | (1,997,695) |
| **Capital and reserves** | | | |
| Share capital | | 194,600 | 194,600 |
| Reserves | | (2,258,294) | (2,190,763) |
| Equity attributable to owners of the Company | | (2,063,694) | (1,996,163) |
| Non-controlling interests | | (1,532) | (1,532) |
| **TOTAL EQUITY** | | (2,065,226) | (1,997,695) |

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2015*

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium account | Merger reserve | Foreign currency translation reserve | Capital reserve | Accumulated losses | Total | Non-Controlling interests | Total equity |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2015 (audited) | 194,600 | 127,539 | 3,982 | 57,613 | 2,609 | (2,382,506) | (1,996,163) | (1,532) | (1,997,695) |
| Total comprehensive income/(loss) for the period | — | — | — | 11,700 | — | (79,231) | (67,531) | — | (67,531) |
| At 30 June 2015 (unaudited) | 194,600 | 127,539 | 3,982 | 69,313 | 2,609 | (2,461,737) | (2,063,694) | (1,532) | (2,065,226) |
| At 1 January 2014 (audited) | 194,600 | 127,539 | 3,982 | 33,904 | 2,609 | (2,265,029) | (1,902,395) | (1,532) | (1,903,927) |
| Total comprehensive loss for the period | — | — | — | 2,838 | — | (30,331) | (27,493) | — | (27,493) |
| At 30 June 2014 (unaudited) | 194,600 | 127,539 | 3,982 | 36,742 | 2,609 | (2,295,360) | (1,929,888) | (1,532) | (1,931,420) |

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 June 2015*

| | For the six months ended 30 June | |
|---|---|---|
| | **2015** | **2014** |
| | *HK$'000* | *HK$'000* |
| | (unaudited) | (unaudited) |
| **Net cash (used in)/generated from operating activities** | (2,812) | 58,859 |
| **Net cash used in investing activities** | — | (24) |
| **Net cash used in financing activities** | — | — |
| **Net (decrease)/increase in cash and cash equivalents** | (2,812) | 58,835 |
| Effect of foreign exchange rate changes | 1,986 | (6,024) |
| **Cash and cash equivalents at beginning of period** | (8,366) | (60,494) |
| **Cash and cash equivalents at end of period** | (9,192) | (7,683) |
| **Analysis of cash and cash equivalents** | | |
| Bank and cash balances | 79 | 100 |
| Bank overdrafts | (9,271) | (7,783) |
| | (9,192) | (7,683) |

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 June 2015*

### 1. GENERAL INFORMATION

First Mobile Group Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 472, 2nd Floor, Harbour Place, 103 South Church Street, George Town, KY1-1106, Grand Cayman, Cayman. The address of its principal place of business is Workshop 6, Level 1, Wah Yiu Industrial Centre, 30–32 Au Pui Wan Street, Fotan, Shatin, New Territories, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and its shares have been suspended from trading since 27 November 2009.

The Company is an investment holding company. The Group is principally engaged in trading and distribution of mobile phones and related accessories and these activities have been gradually scaled down to inactive.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Group incurred a loss attributable to owners of the Company of approximately HK$79,231,000 for the six months ended 30 June 2015 (2014: HK$30,331,000) and as at 30 June 2015 the Group had net current liabilities of approximately HK$2,065,269 (31 December 2014: HK$1,997,796,000) and net liabilities of approximately HK$2,065,226 (31 December 2014: HK$1,997,695,000) respectively.

The conditions above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. To address the issues above, the Company had explored and negotiated with its creditors and potential investor for a proposed restructuring of the Group (the "Proposed Restructuring") which is included in the resumption proposal of the Company being submitted to the Stock Exchange on 4 December 2012 (the "Resumption Proposal"). As set out in the Company's announcements dated 2 December 2013, 9 January and 26 February 2014, respectively, in the course of preparing for the [REDACTED] for the Julong Group, certain regulatory issues were identified and given the substantial effort already spent in seeking to resolve those regulatory issues regarding the proposed acquisition of Julong and the lack of progress as at the final deadline for submission of a [REDACTED] for the Resumption Proposal to the Listing Committee, the Directors consider that it is not in the interests of the Company and the Shareholders as a whole to continue with the acquisition of Julong, for the purpose of seeking the resumption of trading in Shares.

To continue with the Resumption Proposal, the Company has identified a new target company (the "Target Company") and entered into the acquisition agreement on 31 March 2014 with the Vendors (the "Acquisition Agreement"), pursuant to which the Company will acquire the Sale Equity Interest. Upon completion of the reorganisation of the Target Company and its subsidiaries (collectively the "Target Group"), the Target Group will hold interest in certain real estate projects in Yangzhou, Jiangsu Province and Quanzhou, Fujian Province in the People's Republic of China.

Pursuant to the Acquisition Agreement, the Company will carry out the amended proposed restructuring (the "Amended Proposed Restructuring"), details of which were announced in the Company's announcement dated 22 August 2014 (the "Announcement") and are summarised below (capitalised terms used in this note have the same meaning as in their respective announcements):

— Pursuant to the supplemental agreement in relation to the subscription agreement dated 27 August 2010 (as supplemented by side letters dated 15 September 2010, 23 December 2010, 31 March 2011, 7 July 2011, 2 November 2011, 30 March 2012, 4 December 2012 and 6 February 2013 respectively and supplemented by a supplemental agreement dated 28 September 2010), the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for 954,694,713 Subscription Shares, at a Subscription Price of approximately HK$0.155 per Subscription Share, for a total cash consideration, before expenses, of approximately HK$148 million.

— At the Scheme Meeting held on 21 December 2010, the Creditor Schemes proposed to be entered into between the Company and the Creditors were unanimously approved by the Creditors attending and voting at the meeting in person or by proxy.

— On 8 February 2011, the Hong Kong Scheme was sanctioned by the High Court and on 28 April 2011, the Cayman Scheme was sanctioned by the Grand Court. The Hong Kong Scheme and the Cayman Scheme will become effective and legally binding on the Company and the Creditors upon fulfillment of the specified conditions precedent to the Subscription Agreements.

— The asset to be acquired under the Acquisition Agreement is the Sale Equity Interest, being the entire equity interest in China General (HK) Company Limited ("China General"). As at the date of the Announcement, the entire issued share capital of China General is owned as to 45.0% by Mr. Shie and 55.0% by Mr. Tsoi respectively. Upon the completion of Acquisition, the Target Group will become wholly-owned subsidiaries of the Company.

— The Acquisition constitutes a very substantial acquisition and a reverse takeover for the Company under Chapter 14 of the Listing Rules and a connected transaction for the Company pursuant to Rule 14A.13(1)(b)(i) of the Listing Rules and is therefore subject to the approval of the Stock Exchange and Independent Shareholders of the Company. Pursuant to Rule 14.54 of the Listing Rules, the Stock Exchange will treat a [REDACTED] issuer proposing a reverse takeover as if it were a [REDACTED]. Accordingly, the Company will be treated as if it were a [REDACTED].

As disclosed in the Company's announcement dated on 12 September 2014, the Company received a letter dated 11 September 2014 from the Listing (Review) Committee (the "LRC Letter"), which stated that the Listing (Review) Committee decided to grant a final extension to 31 October 2014 for the Company to submit a [REDACTED] relating to the Target Group (the "Proposal"), and not any other proposal. The LRC Letter also stated that no further extensions of time will be granted to the Company, and the Listing (Review) Committee further decided to cancel the listing of the Shares on the Stock Exchange should the Company fail to do the above by 31 October 2014 or the Proposal fail to proceed for any reasons. On 30 October 2014, the Company submitted the said Proposal to the Stock Exchange.

The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") have been prepared on a going concern basis, as the Company has submitted the Revised Resumption Proposal, the successful implementation of which will affect the principal elements of the Amended Proposed Restructuring and allow the trading in the shares of the Company being resumed. The Directors are of the view that the major procedures of the Amended Proposed Restructuring will eventually be agreed upon by the Company's Creditors, the Investor, the Vendors, the Company's shareholders and any other parties concerned, and will be successfully implemented.

The Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Interim Financial Statements do not include all the information and disclosures required in the full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2014.

The preparation of the Interim Financial Statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

## 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and mandatorily effective for its accounting periods beginning on or after 1 January 2015. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

## 4. REVENUE

No transactions were concluded to generate any trading income by the Group during the period.

## 5. SEGMENT INFORMATION

As the Group's operation in trading and distribution of mobile phones and related accessories had been scaled down to inactive, the Directors considered that there were no reportable segment for the six months ended 30 June 2015 and 2014.

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | **2014** |
| | *HK$'000* | *HK$'000* |
| | (unaudited) | (unaudited) |
| Interest expenses on: | | |
| — bank borrowings | 22,247 | 23,483 |
| — finance lease | — | — |
| — convertible loans | 4,970 | 516 |
| — trade payables | 52,188 | 52,304 |
| | 79,405 | 76,303 |

## 7. LOSS BEFORE TAX

The Group's loss before tax for the period is arrived at after charging (crediting) the amounts as set out below:

| | Six months ended 30 June | |
|---|---|---|
| | **2015** | **2014** |
| | *HK$'000* | *HK$'000* |
| | (unaudited) | (unaudited) |
| Impairment recognised in respect of inventories | — | 25 |
| Staff costs (including Directors' remuneration): | | |
| — salaries, bonuses and allowances | 909 | 1,421 |
| — retirement benefits scheme contributions | 24 | 38 |
| | 933 | 1,459 |
| Depreciation | 57 | 92 |
| Net exchange gains | (9,639) | (1,661) |

## 8. INCOME TAX

No provision for profits tax has been made as the Group did not generate any assessable profit for each of the six months ended 30 June 2015 and 2014.

## 9. LOSS PER SHARE

**Basic loss per share**

The calculation of basic loss per share is based on the loss for the period attributable to owners of the Company of approximately HK$79,231,000 (2014: HK$30,331,000) and the weighted average number of 1,945,996,565 (2013: 1,945,996,565) ordinary shares in issue during the period.

**Diluted loss per share**

No adjustment has been made to the basic loss per share in respect of a dilution as the exercise of the Group's outstanding convertible loans would be anti-dilutive for both periods.

## 10. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: None).

## 11. PROPERTY, PLANT AND EQUIPMENT

| | **2015 Property, plant and equipment** *HK$'000* | **2014 Property, plant and equipment** *HK$'000* |
|---|---|---|
| Carrying amounts at 1 January (audited) | 101 | 278 |
| Exchange differences | (1) | 3 |
| Additions | — | — |
| Depreciation | (57) | (92) |
| Disposals | — | — |
| Carrying amounts at 30 June (unaudited) | 43 | 189 |

## 12. TRADE AND BILLS PAYABLES

| | **30 June 2015** *HK$'000* (unaudited) | **31 December 2014** *HK$'000* (audited) |
|---|---|---|
| Trade payables | 419,765 | 426,163 |
| Bills payables | — | — |
| | 419,765 | 426,163 |

At the end of the reporting period, the ageing analysis of the trade payables is as follows:

| | 30 June 2015 *HK$'000* (unaudited) | 31 December 2014 *HK$'000* (audited) |
|---|---|---|
| 1–30 days | — | — |
| 31–60 days | — | — |
| 61–90 days | — | — |
| 91–120 days | — | — |
| Over 120 days | 419,765 | 426,163 |
| | 419,765 | 426,163 |

## 13. FINANCIAL GUARANTEE LIABILITIES

**Group**

The Company has given corporate guarantees to certain banks to secure for the general banking facilities of First Mobile Group Sdn. Bhd. ("FMGSB"), Exquisite Model Sdn. Bhd. ("EM") and Mobile Distribution (M) Sdn. Bhd. ("MDM") totaling approximately HK$178,540,000. In view that FMGSB, EM and MDM are currently in liquidation, and on ground that the potential claims of these corporate guarantees granted by the Company may be exercised by the relevant banks, a provision for financial guarantee liabilities of approximately HK$2,791,000 have been made against the potential uncovered exposures to be borne by the Company under such guarantees.

## 14. CONVERTIBLE LOANS

(a) Time Boomer Limited ("Time Boomer"), a party nominated by the Investor to provide HK$13 million out of HK$50 million standby working capital facility pursuant to the terms of the Exclusivity Agreements, entered into the Loan Agreements (the "TB Loan") and Option Agreements (the "TB Option") with Mobile Distribution Limited ("MDL"), a wholly-owned subsidiary of the Company. Pursuant to a supplemental deed with Time Boomer to amend the terms of the TB Option such that Time Boomer shall now be entitled to subscribe for 83,870,968 Adjusted Shares at a total exercise price of HK$13 million, or HK$0.155 per Adjusted Share, upon fulfillment of certain conditions precedent as described in the Announcement.

Interest of 8 per cent per annum will be paid monthly up until the Time Boomer Loan is converted or redeemed.

The interest charged for the year is calculated by applying an effective interest rate of 8.3% (2014: 8.3%) per annum to the liability component.

The TB Loan is secured by (i) the FMG Share Charge over a total of 68.5% of the entire issued shares of the Company held by the Major Shareholders; (ii) the Personal Guarantees given by Mr. Ng Kok Hong and Ms. Tan Sook Kiang; (iii) the share charges over the entire issued share capital of MDL; and (iv) the Fixed and Floating Charge over the assets of MDL. The FMG Share Charge, the Personal Guarantees and the Fixed and Floating Charge will continue to be in force and, subject to the terms and conditions as further described in the Company's announcement dated 14 July 2011.

(b) First Apex Investments Limited ("First Apex"), a party nominated by the Investor to provide HK$20 million out of HK$50 million standby working capital facility pursuant to the terms of the Exclusivity Agreements, entered into the Loan Agreements (the "FA Loan") and Option Agreements (the "FA Option") with MDL. Pursuant to a termination deed with First Apex terminating the FA Option and a new option deed with First Apex pursuant to which the Company will now grant to First Apex an option to subscribe for 129,032,258 Adjusted Shares at a total exercise price of HK$20 million or approximately HK$0.155 per Adjusted Share, upon fulfillment of certain conditions precedent as described in the Announcement.

The FA Loan does not bear any interest.

The interest charged for the year is calculated by applying an effective interest rate of nil% (2014: nil %) per annum to the liability component.

The First Apex Convertible Loan is secured by (i) the FMG Share Charge over a total of 68.5% of the entire issued shares of the Company held by the Major Shareholders; (ii) the Personal Guarantee given by Mr. Ng Kok Hong; (iii) the share charges over the entire issued share capital of MDL; and (iv) the Fixed and Floating Charge over the assets of MDL. The FMG Share Charge, the Personal Guarantee and the Fixed and Floating Charge will continue to be in force and, subject to the terms and conditions as further described in the 14 February 2012 Announcement.

(c) The liability components of the TB Loan and FA Loan at the end of the reporting period is analysed as follows:

| | **Convertible Loans — Group** | | |
|---|---|---|---|
| | **Time Boomer** | **First Apex** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Liability component at 1 January 2015 | 13,000 | 20,000 | 33,000 |
| Interest charged | 4,970 | — | 4,970 |
| Interest paid | — | — | — |
| Interest included in accruals and other payables | (4,970) | — | (4,970) |
| Liability component at 30 June 2015 | 13,000 | 20,000 | 33,000 |

## 15. EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to the end of the reporting period, there are certain updates on the Group's Amended Proposed Restructuring in progress, and further details of which are stated in note 2 to these financial statements.

## 16. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These Interim Financial Statements were approved and authorised for issue by the board of Directors on [●] September 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS OF HISTORICAL RESULTS OF THE GROUP

Set out below are a discussion and analysis of the Group's results of operations for the three years ended 2012, 2013 and 2014. The information set out below is principally extracted from the annual audited reports of the Company to provide further information relating to the financial condition and results of operations of the Group during the periods stated.

## FOR THE YEAR ENDED 31 DECEMBER 2014

### Financial Review

The Group recorded an other income of approximately HK$24,000 for FY2014, representing a decrease of approximately HK$4.2 million compared to FY2013 mainly due to the reversal of impairment on other receivables in FY2013.

The Group's general and administrative expenses increased by approximately HK$1.4 million compared to FY2013 mainly due to the increase in professional fees for restructuring exercise during the year.

The Group's other operating expenses for FY2013 was mainly due to the provisions made in respect of two legal proceedings against a wholly-owned subsidiary of the Company in Malaysia and the impairment on other receivables.

Finance cost decreased by approximately HK$14.9 million compared to FY2013 mainly due to the decrease in finance cost of bank borrowings arising from the deconsolidation of a wholly-owned subsidiary with effect from 5 February 2014.

The Group's provision for financial guarantee liabilities for FY2014 was mainly due to the provision for potential claims (comprising principal and interest) under the corporate guarantee granted to a wholly-owned subsidiary which was deconsolidated from the Group's consolidated financial statements with effect from 5 February 2014.

The loss attributable to owners of the Company was approximately HK$117.5 million for FY2014, representing loss per share of HK6.04 cents as compared to a loss of approximately HK$188.9 million for FY2013, representing loss per share of HK9.71 cents.

### Segment Information

The Group has no revenue generated for FY2014.

### Liquidity and Financial Resources

As at 31 December 2014, bank and cash balances of the Group were approximately HK$82,000 (2013: HK$0.45 million).

The Group's gearing ratio (measured as total borrowings over total assets) as at 31 December 2014 was 133,713% (2013: 60,554%).

As at 31 December 2014, certain of the Group's bank borrowings were secured by the corporate guarantees granted by the Company (as at 31 December 2013: secured by the corporate guarantees granted by the Company).

**Assets and Liabilities**

As at 31 December 2014, the Group had total assets of approximately HK$468,000 (2013: HK$942,000), total liabilities of HK$1,998 million (2013: HK$1,905 million). The net liabilities of the Group as at 31 December 2014 were HK$1,998 million (2013: HK$1,904 million).

**Significant Investments and Acquisition**

The Group did not have any significant investment nor did it make any material acquisition or disposal of subsidiaries and associates throughout the year ended 31 December 2014.

**Charges on Group Assets**

The Group had no other charge as at 31 December 2014 and 2013 except for the charge by Time Boomer and First Apex. Details are set out in note 24 to the consolidated financial statement.

**Reserves**

As at 31 December 2014, the Company did not have any reserves available for distribution. Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the consolidated financial statement and in the consolidated statement of changes in equity for the year then ended, respectively.

**Capital Structure**

There was no change in the Company's share capital during the year.

**Capital Commitments**

The Group and the Company did not have any significant capital commitments as at 31 December 2014 and 2013.

**Contingent Liabilities**

The Group and the Company did not have any significant contingent liabilities as at 31 December 2014 and 2013.

**Employees**

As at 31 December 2014, the Group had 8 (2013: 9) employees. The total of employee remuneration, including that of the Directors, for the year ended 31 December 2014 amounted to approximately HK$3.3 million (2013: HK$3.2 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

**FOR THE YEAR ENDED 31 DECEMBER 2013**

**Financial Review**

The decrease in turnover is due to the scale-down of operations of the Group.

The Group recorded an other income of approximately HK$4.3 million for FY2013, representing an increase of approximately HK$4.1 million compared to FY2012 mainly due to the reversal of impairment on other receivables.

The Group's general and administrative expenses increased by approximately HK$4.6 million compared to FY2012 mainly due to the increase in professional fees for restructuring exercise during the year.

The Group's other operating expenses decreased by 59.82% from approximately HK$18.8 million in FY2012 to approximately HK$7.6 million in FY2013 mainly due to the decrease in impairment on trade and other receivables.

Finance costs increased by approximately HK$3.6 million compared to FY2012 mainly due to the increase in finance cost of bank borrowings.

The Group's provision for financial guarantee liabilities for FY2012 was mainly due to the provision for potential claims (comprising principal and interest) under the corporate guarantee granted to a wholly-owned subsidiary which was deconsolidated from the Group's consolidated financial statements with effect from 14 February 2012.

The loss attributable to owners of the Company was approximately HK$188.9 million for FY2013, representing loss per share of HK9.71 cents as compared to a loss of approximately HK$203.2 million for FY2012, representing loss per share of HK10.44 cents.

**Segment Information**

The Group has no revenue generated for FY2013.

**Liquidity and Financial Resources**

As at 31 December 2013, bank and cash balances of the Group were approximately HK$0.45 million (as at 31 December 2012: HK$0.68 million).

The Group's gearing ratio (measured as total borrowings over total assets) as at 31 December 2013 was 60,554% (as at 31 December 2012: 8,956%).

As at 31 December 2013, certain of the Group's bank borrowings were secured by the corporate guarantees granted by the Company (as at 31 December 2012: secured by the corporate guarantees granted by the Company).

**Assets and Liabilities**

As at 31 December 2013, the Group had total assets of approximately HK$942,000 (2012: HK$6,260,000), total liabilities of approximately HK$1,905 million (2012: HK$1,733 million). The net liabilities of the Group as at 31 December 2013 were HK$1,904 million (2012: HK$1,726 million).

**Significant Investments and Acquisition**

The Group did not have any significant investment nor did it make any material acquisition or disposal of subsidiaries and associates throughout the year ended 31 December 2013.

**Charges on Group Assets**

The Group had no other charge as at 31 December 2013 and 2012 except for the charge by Time Boomer and First Apex. Details are set out in note 28 to the consolidated financial statements.

**Reserves**

As at 31 December 2013, the Company did not have any reserves available for distribution. Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the consolidated financial statements and in the consolidated statement of changes in equity for the year then ended, respectively.

**Capital Structure**

There was no change in the Company's share capital during the year.

**Capital Commitments**

The Group and the Company did not have any significant capital commitments at 31 December 2013 and 2012.

**Contingent Liabilities**

The Group and the Company did not have any significant contingent liabilities as at 31 December 2013 and 2012.

**Employees**

As at 31 December 2013, the Group had 9 (2012: 11) employees. The total of employee remuneration, including that of the Directors, for the year ended 31 December 2013 amounted to approximately HK$3.2 million (2012: HK$6.2 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

**FOR THE YEAR ENDED 31 DECEMBER 2012**

**Business Review**

During the financial year under review, the Group continued to focus mainly on the trading and distribution of its house brand mobile phones.

The Group has been operating on a very tight working capital cycle following the withdrawal of credit facilities by the Group's banks and trade creditors since 2009. Accordingly, the management has taken appropriate measures to reduce overheads and financial commitments where possible to ensure that its limited working capital is deployed in the most effective manner to enhance the Group's financial position.

**Financial Review**

*Overview*

The Group recorded a turnover of approximately HK$23 million for the financial year ended 31 December 2012 ("FY2012"), representing a decrease of 60.4% over the previous financial year ended 31 December 2011 ("FY2011")'s turnover of approximately HK$59 million. The decrease in turnover is mainly attributable to the generally weak market conditions for house brand mobile phones in Indonesia. In relation to this, the Group recorded a gross profit margin of approximately 0.8% in FY2012 as compared to a gross profit margin of approximately 7.2% in FY2011.The Company recorded an other income of approximately HK$0.1 million for FY2012, representing a decrease of 99.4% compared to FY2011. The decrease was mainly attributable to a gain of approximately HK$10 million on disposal of non-current asset held for sale and the net exchange gain of approximately HK$10 million in FY2011.

The Group's selling and distribution expenses decreased by 92.7% from HK$10.1 million to HK$0.7 million mainly due to the decrease in turnover, and the expenditures relating to the Group's brand building and marketing campaigns in Indonesia incurred in FY2011.

The Group's general and administrative expenses decreased by approximately HK$11 million compared to FY2011 mainly due to the various cost-cutting measures implemented by the Group.

Finance costs decreased by approximately HK$1 million compared to FY2011 mainly due to the net impact of i) the decreased bank borrowings resulting from the deconsolidation of a subsidiary company during FY2012 and ii) the convertible loan newly raised.

The loss attributable to owners of the Company was approximately HK$203 million for FY2012, representing loss per share of HK10.44 cents as compared to a loss of approximately HK$172 million for FY2011, representing loss per share of HK8.82 cents.

*Liquidity and Financial Resources*

As at 31 December 2012, bank and cash balances of the Group were approximately HK$0.68 million (2011: HK$1.12 million), of which nil (2011: HK$0.21 million) were pledged for general banking facilities.

The Group's gearing ratio (measured as total borrowings over total assets) as at 31 December 2012 was 8,956% (2011: 3,077%).

As at 31 December 2012 and 2011, certain of the Group's bank borrowings were secured by the corporate guarantees granted by the Company.

*Capital Structure*

There was no change in the Company's share capital during the year.

*Capital Commitments*

The Group and the Company did not have any significant capital commitments at 31 December 2012 and 2011.

*Contingent Liabilities*

The Group and the Company did not have any significant contingent liabilities as at 31 December 2012 and 2011.

*Employees*

As at 31 December 2012, the Group had 11 (2011: 88) employees. The total of employee remuneration, including that of the Directors, for the year ended 31 December 2012 amounted to approximately HK$6.20 million (2011: HK$9.55 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

*Events after the Reporting Period*

Details of the events after the reporting period of the Group are set out in note 34 to the consolidated financial statements.

*Strategies for 2013*

The Group will remain focused on its core business of trading and distribution of mobile phones and related accessories.

Additionally, the Group will continue to explore viable and profitable business opportunities to enhance shareholders' value and strengthen its financial foundations.

Dealing in the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 27 November 2009. The Company has submitted a revised resumption proposal to the Stock Exchange on 4 December 2012.

## FOR THE SIX MONTHS ENDED 30 JUNE 2015

### Financial Review

The Group recorded an other income of approximately HK$9.6 million for the first half of financial year 2015 ("FY2015"), representing an increase of approximately HK$8.0 million compared to the previous corresponding period mainly due to exchange gains on financial guarantee liabilities.

The Group's general and administrative expenses increased by approximately HK$4.0 million compared to the corresponding period in 2014 mainly due to the legal and professional fees incurred under the current restructuring/[REDACTED] exercise.

The Group's provision for financial guarantee liabilities decreased by approximately 98.5% from approximately HK$180.1 million for the first half of financial year 2014 ("FY2014") to approximately HK$2.8 million for the corresponding period in FY2015 mainly due to the provision for potential claims (comprising principal and interest) during the first half of FY2014 under the corporate guarantee granted to a wholly-owned subsidiary which was deconsolidated from the Group's consolidated financial statements with effect from 5 February 2014.

Finance costs increased by approximately HK$3.1 million compared to the previous corresponding period mainly due to default interest charged on convertible loan.

The loss attributable to owners of the Company was approximately HK$79.2 million for the first half of FY2015, representing loss per share of HK4.07 cents as compared to a loss of approximately HK$30.3 million for the corresponding period in 2014, representing loss per share of HK1.56 cents.

### Segment Information

The Group has no revenue generated for the first half of FY2015.

**Liquidity and Financial Resources**

As at 30 June 2015, bank and cash balances of the Group were approximately HK$79,000 (as at 31 December 2014: HK$82,000).

The Group's gearing ratio (measured as total borrowings over total assets) as at 30 June 2015 was 133,082% (as at 31 December 2014: 133,713%).

As at 30 June 2015, certain of the Group's bank borrowings were secured by the corporate guarantees granted by the Company (as at 31 December 2014: secured by the corporate guarantees granted by the Company).

**Assets and Liabilities**

As at 30 June 2015, the Group had total assets of approximately HK$466,000 (as at 31 December 2014: HK$468,000), total liabilities of approximately HK$2,066 million (as at 31 December 2014: HK$1,998 million). The net liabilities of the Group as at 30 June 2015 were approximately HK$2,065 million (as at 31 December 2014: HK$1,998 million).

**Significant Investments and Acquisition**

The Group did not have any significant investment nor did it make any material acquisition or disposal of subsidiaries and associates during the first half of FY2015.

**Charges on Group Assets**

The Group had no other charge as at 30 June 2015 except for the charge by Time Boomer and First Apex. Details are set out in note 14 to the unaudited condensed consolidated interim financial statements.

**Reserves**

As at 30 June 2015, the Group did not have any reserves available for distribution. Details of movements in the reserves of the Group during the first half of FY2015 are set out in the unaudited condensed consolidated statement of changes in equity for the six months ended 30 June 2015.

**Capital Structure**

There was no change in the Company's share capital during the first half of FY2015.

**Capital Commitments**

The Group and the Company did not have any significant capital commitments as at 30 June 2015.

**Contingent Liabilities**

The Group did not have any significant contingent liabilities as at 30 June 2015.

### Employees

As at 30 June 2015, the Group had 7 (as at 31 December 2014: 8) employees. The total of employee remuneration, including that of the Directors, for the six months ended 30 June 2015 amounted to approximately HK$0.9 million (six months ended 30 June 2014: HK$1.5 million) of which approximately HK$0.3 million represents the Director's remuneration. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

## MATERIAL CHANGES

As at the Latest Practicable Date, the Directors confirm that there have been no material changes in the financial or trading position or outlook of the Group since 31 December 2014, being the date to which the latest [audited] consolidated financial statement of the Group were made up.

## WORKING CAPITAL STATEMENT

The Directors, after due and carefully enquiry, are of the opinion that following the completion of the Proposed Restructuring, after taking into account the financial resources available to the Enlarged Group, including internally generated funds and the available banking facilities, the Enlarged Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular, in the absence of unforeseeable circumstances.

## INDEBTEDNESS

As at 31 August 2015, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the indebtedness of the Enlarged Group is analysed as follows:

### The Group

| | *HK$'000* |
|---|---:|
| *Unsecured and unguaranteed:* | |
| Accruals and other payables | 803,162 |
| Trade and bills payables | 23,636 |
| Financial guarantee liabilities | 166,864 |
| | 993,662 |
| *Secured and guaranteed:* | |
| Interest payables included in accruals and other payables | 246,529 |
| Trade and bills payables | 397,232 |
| Bank borrowings | 408,904 |
| Convertible loans | 33,000 |
| | 1,085,665 |
| Total borrowings | 2,079,327 |

As at the close of business on 31 August 2015, certain interest payables, trade and bills payables and bank borrowings of the Group were secured by certain corporate guarantees granted by the Company. The convertible loans were secured by (i) the share charges over a total of 68.5% of the entire issued shares of the Company held by major shareholders; (ii) the personal guarantees given by certain directors of the Group; (iii) the share charges over the entire issued share capital of a direct wholly-owned subsidiary of the Company; and (iv) the Fixed and Floating Charge over the assets of a direct wholly-owned subsidiary of the Company.

**The Target Group**

| | *HK$'000* |
|---|---|
| Secured bank borrowings | |
| — current portion | 12,130 |
| — non-current portion | 200,141 |
| | 212,271 |
| Amounts due to related parties | 68,227 |
| Total | 280,498 |

As at the close of business on 31 August 2015, the Target Group had pledged certain inventories of the Target Group with the carrying amount of approximately RMB336.9 million to certain banks for the secured bank borrowings and other general banking facilities.

**The Enlarged Group**

| | *HK$'000* |
|---|---|
| *Unsecured and unguaranteed:* | |
| **Current portion** | |
| Accruals and other payables | 803,162 |
| Trade and bills payables | 23,636 |
| Financial guarantee liabilities | 166,864 |
| Amounts due to related parties | 68,227 |
| | 1,061,889 |
| *Secured and guaranteed:* | |
| **Current portion** | |
| Interest payables included in accruals and other payables | 246,529 |
| Trade and bills payables | 397,232 |
| Bank borrowings | 421,034 |
| Convertible loans | 33,000 |
| | 1,097,795 |
| **Non-current portion** | |
| Bank borrowings | 200,141 |
| **Total balances** | 2,359,825 |

**Contingent liabilities**

As at the close of business on 31 August 2015, the Target Group and the Enlarged Group had the following contingent liabilities:

| | *HK$'000* |
|---|---|
| Corporate guarantee given to banks in respect of mortgage facilities granted to property buyers | 428,511 |

## COMMITMENTS

As at the close of business on 31 August 2015, the Target Group and the Enlarged Group had the following construction commitments:

**Construction commitments**

| | *HK$'000* |
|---|---|
| Construction commitments in respect of properties under development for sale contracted for but not provided | 327,066 |

As at the close of business on 31 August 2015, the Enlarged Group had the following operating lease commitments:

**Operating lease commitments**

*As lessor*

The Target Group and the Enlarged Group leased out some of its investment properties under operating lease arrangement with a rental term of 20 years. The following table sets forth future non-cancellable minimum lease payments expected to be received in respect of leases of which the Target Group and the Enlarged Group acts as lessor as at the close of business on 31 August 2015:

| | *HK$'000* |
|---|---|
| Within one year | 298 |
| In the second to fifth years, inclusive | 1,325 |
| After five years | 5,183 |
| | 6,806 |

*As lessee*

As at the close of business on 31 August 2015, the Enlarged Group had significant commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | *HK\$'000* |
|---|---|
| Within one year | 162 |
| In the second to fifth years, inclusive | 39 |
| | 201 |

**Disclaimer**

Save as disclosed above, as at 31 August 2015, the Enlarged Group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and any liabilities under acceptances (other than normal trade bills) or other similar indebtedness, acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

To the best understanding and knowledge of the Directors, the Directors confirm that there had been no material changes to the indebtedness position since 31 August 2015 up to the Latest Practicable Date.

Amount referred to in this indebtedness statement denominated in currencies other than HK\$ have been translated into HK\$ at the relevant rates of exchange prevailing at the close of business on 31 August 2015.

**FURTHER FINANCIAL INFORMATION OF THE GROUP**

Assuming that completion of the Acquisition would take place in 2014, the Enlarged Group recorded a pro forma net loss for the year ended 31 December 2014, mainly attributable to the provision for financial guarantee liabilities, the expenses incurred in relation to the Resumption and finance cost incurred during the year and partially offset by the gain on deconsolidation of a liquidated subsidiary, all of which are not expected to recur.

Provision for financial guarantee liabilities is mainly due to the provision for potential claims (comprising principal and interest) under the corporate guarantee granted to a wholly-owned subsidiary which was deconsolidated from the Group's consolidated financial statements with effect from 5 February 2014. Expenses incurred in relation to the Resumption mainly attributable to the professional fees paid in respect of the Group Reorganisation and the [REDACTED]. Finance costs comprise mainly of the interest expenses in relation to the convertible loans and bank borrowings of the Group. The gain on deconsolidation of a liquidated subsidiary of the Group is mainly due to the deconsolidation of assets and liabilities of the liquidated subsidiary as detailed in note 10 to the audited consolidated financial statements for the year ended 31 December 2014 under Appendix II (page II-23) of this circular.

## TRANSACTION EXPENSES

The aggregate fees, together with the Stock Exchange [REDACTED] fee, legal and other professional fees, printing and other expenses relating to the Acquisition, the [REDACTED] and the Subscription, are estimated to be approximately HK$40.2 million. Among the estimated total transaction expenses of approximately HK$40.2 million, approximately HK$0.6 million of which is directly attributable to the issue of [REDACTED] that will be accounted for as a deduction from equity upon issuance of the [REDACTED] as it incurred. Transaction expenses of approximately HK$14.6 million and HK$5.1 million had been charged to the profit or loss for the year ended 31 December 2014 and for the six months ended 30 June 2015, respectively, and it is expected that an additional amount of approximately HK$19.9 million will be charged to the profit or loss for the six months ending 31 December 2015. The substantial portion of the estimated total transaction expenses is non-recurring in nature.

## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

## INTRODUCTION

The accompanying unaudited pro forma financial information have been prepared to illustrate the effect of "Proposed Restructuring" which comprises (i) the Proposed Capital Reorganisation, (ii) the Proposed [REDACTED], (iii) the Subscription and the Working Facility Capitalisation, (iv) the Creditors Schemes, (v) the Acquisition of the entire equity interest in China General (HK) Company Limited (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") and (vi) the Disposal, which might have affected the financial information of First Mobile Group Holdings Limited (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group"). The Group immediately after the completion of the Proposed Restructuring is referred to as the "Enlarged Group". In accordance with Hong Kong Financial Reporting Standard 3 "Business Combinations" ("HKFRS 3"), the Target Company is accounted for as the accounting acquirer and the Company as the accounting acquiree of the Acquisition. Details of the Proposed Restructuring are contained in the circular of the Company dated [●] 2015 (the "Circular").

The unaudited pro forma consolidated statement of financial position of the Enlarged Group and the unaudited pro forma consolidated net tangible assets attributable to the owners of the Company as at 30 July 2015 have been prepared based on (1) unaudited condensed consolidated statement of financial position of the Group as at 30 July 2015 as extracted from the interim report of the Company for the six month ended 30 June 2015 and (2) the audited combined statement of financial position of the Target Group as at 30 June 2015, which has been extracted from the accountants' report of the Target Group as set out in Appendix I to the Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Proposed Restructuring had been completed on 30 June 2015.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group have been prepared based on (1) the [audited] consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2014, which have been extracted from the [annual report] of the Company for the year ended 31 December 2014 and (2) the audited combined statement of profit or loss and other comprehensive income and combined statement of cash flows of the Target Group for the year ended 31 December 2014, which have been extracted from the accountants' report of the Target Group as set out in Appendix I to the Circular, and adjusted in accordance with the pro forma adjustments described in the notes thereto, as if the Proposed Restructuring had been completed on 1 January 2014.

The unaudited pro forma financial information has been prepared based on a number of assumptions, estimates, uncertainties and currently available information, and is provided for illustrative purpose only. Accordingly, as a result of the nature of the unaudited pro forma financial information of the Enlarged Group, it may not give a true picture of the actual financial position, results of operation or cash flows of the Enlarged Group that would have been attained had the Proposed Restructuring actually occurred on the dates indicated herein. Furthermore, the unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position, results of operation or cash flows.

## A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 30 JUNE 2015

| | **The Group** | | | | | **Pro forma adjustments** | | | | | **The Retained Group** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Note 1)* | *(Note 2(a))* | *(Note 3)* | *(Note 4)* | *(Note 5(a))* | *(Note 6(a))* | *(Note 7(a))* | *(Note 8(a))* | *(Note 8(b))* | *(Note 10)* | |
| **Non-current assets** | | | | | | | | | | | |
| Property, plant and equipment | 43 | | | | | | | | | | |
| **Current assets** | | | | | | | | | | | |
| Prepayments, deposits and other receivables | 344 | | | | | | | | | | |
| Amounts due from Scheme Subsidiaries | — | | | | | | | | | | |
| Cash and bank balances | 79 | | | | | | | | | | |
| | 423 | | | | | | | | | | |
| **Current liabilities** | | | | | | | | | | | |
| Trade and bills payables | 419,765 | | | | | | | | | | |
| Accruals and other payables | 1,024,388 | | | | | | | | | | |
| Bank borrowings | 408,622 | | | | | | | | | | |
| Amounts due to Scheme Subsidiaries | — | | | | | | | | | | |
| Current tax liabilities | 1,377 | | | | | | | | | | |
| Financial guarantee liabilities | 178,540 | | | | | [REDACTED] | | | | | |
| Convertible loans | 33,000 | | | | | | | | | | |
| | 2,065,692 | | | | | | | | | | |
| **Net current liabilities** | (2,065,269) | | | | | | | | | | |
| **NET LIABILITIES** | (2,065,226) | | | | | | | | | | |
| **Capital and reserves** | | | | | | | | | | | |
| Issued shares | 194,600 | | | | | | | | | | |
| Share premium | 127,539 | | | | | | | | | | |
| Reserves | (2,385,833) | | | | | | | | | | |
| Equity attributable to owners of the Company | (2,063,694) | | | | | | | | | | |
| Non-controlling interests | (1,532) | | | | | | | | | | |
| **TOTAL EQUITY** | (2,065,226) | | | | | | | | | | |

## A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 30 JUNE 2015 (continue)

| | The Retained Group | The Target Group | The Target Group | Sub-total | Pro forma adjustments | | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *RMB'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | *(Note 11)* | *(Note 11)* | | *(Note 12(a))* | *(Note 12(b))* | *(Note 13(a))* | *(Note 15)* | |
| **Non-current assets** | | | | | | | | | |
| Property, plant and equipment | 38 | 950 | 1,205 | 1,243 | | | | | |
| Investment properties | — | 118,300 | 150,011 | 150,011 | | | | | |
| Deferred tax assets | — | 5,802 | 7,357 | 7,357 | | | | | |
| | 38 | 125,052 | 158,573 | 158,611 | | | | | |
| **Current assets** | | | | | | | | | |
| Inventories | — | 687,689 | 872,027 | 872,027 | | | | | |
| Trade and other receivables | — | 13,205 | 16,745 | 16,745 | | | | | |
| Prepayments, deposits and other receivables | — | — | — | — | | | | | |
| Prepaid land appreciation tax | — | 5,299 | 6,719 | 6,719 | | | | | |
| Restricted and pledged bank deposits | — | 32,456 | 41,156 | 41,156 | | | | | |
| Time deposits, bank balances and cash | — | 124,875 | 158,348 | 158,348 | | | | | |
| | — | 863,524 | 1,094,995 | 1,094,995 | | | | | |
| **Current liabilities** | | | | | | | | | |
| Trade payables and bills payables | 8,997 | 3,331 | 4,224 | 13,221 | | | | | |
| Accruals and other payables | 42,295 | 97,360 | 123,460 | 165,755 | | | | | |
| Pre-sales proceeds received on sales of properties | — | 113,044 | 143,346 | 143,346 | | | | | |
| Amount due to related parties | — | 53,764 | 68,176 | 68,176 | | | | | |
| Amounts due to Scheme Subsidiaries | 65,484 | — | — | 65,484 | | | | | |
| Secured bank borrowings | — | 9,000 | 11,412 | 11,412 | | | | | |
| Income tax payable | 1,377 | 11,552 | 14,649 | 16,026 | | | | | |
| | 118,153 | 288,051 | 365,267 | 483,420 | | | [REDACTED] | | |
| **Net current (liabilities)/assets** | (118,153) | 575,473 | 729,728 | 611,575 | | | | | |
| **Total assets less current liabilities** | (118,115) | 700,525 | 888,301 | 770,186 | | | | | |
| **Non-current liabilities** | | | | | | | | | |
| Secured bank borrowings | — | 167,000 | 211,765 | 211,765 | | | | | |
| Deferred tax liabilities | — | 16,618 | 21,073 | 21,073 | | | | | |
| | — | 183,618 | 232,838 | 232,838 | | | | | |
| **NET (LIABILITIES)/ASSETS** | (118,115) | 516,907 | 655,463 | 537,348 | | | | | |
| **Capital and reserves** | | | | | | | | | |
| Share capital/paid-up capital | 8,758 | 389,190 | 493,514 | 502,272 | | | | | |
| Share premium | 226,398 | — | — | 226,398 | | | | | |
| Special reserves | — | — | — | — | | | | | |
| Reserves | (351,739) | 118,676 | 150,488 | (201,251) | | | | | |
| Equity attributable owners of the Company | (116,583) | 507,866 | 644,002 | 527,419 | | | | | |
| Non-controlling interests | (1,532) | 9,041 | 11,461 | 9,929 | | | | | |
| **TOTAL EQUITY** | (118,115) | 516,907 | 655,463 | 537,348 | | | | | |

## B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2014

| | The Group | The Target Group | The Target Group | Sub-total | | | | Pro Forma adjustments | | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *RMB'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Note 1)* | *(Note 11)* | *(Note 11)* | | *(Note 2(b))* | *(Note 7(b))* | *(Note 9(a))* | *(Note 10)* | *(Note 12(a))* | *(Note 13(b))* | *(Note 14)* | |
| **Revenue** | — | 256,532 | 322,900 | 322,900 | | | | | | | | |
| Cost of sales | — | (186,705) | (235,008) | (235,008) | | | | | | | | |
| **Gross profit** | — | 69,827 | 87,892 | 87,892 | | | | | | | | |
| Other income | 24 | 1,404 | 1,767 | 1,791 | | | | | | | | |
| Other gains or losses | — | (428) | (539) | (539) | | | | | | | | |
| Fair value change of investment properties | — | 4,400 | 5,538 | 5,538 | | | | | | | | |
| Selling expenses | (1) | (9,252) | (11,646) | (11,647) | | | | | | | | |
| General and administrative expenses | [(20,445)] | (10,313) | (12,981) | (33,436) | | | | | | | | |
| Other operating expenses | (159) | — | — | (159) | | | | | | | | |
| Provision for financial guarantee liabilities | (172,398) | — | — | (172,398) | | | | | | | | |
| Gain on deconsolidation of a liquidated subsidiary | 227,198 | — | — | 227,198 | | | | | | | | |
| **Profit from operations** | 34,209 | 55,638 | 70,031 | 104,240 | | | | | | | | |
| Gain on debt restructuring of the Group | — | — | — | — | | | | [REDACTED] | | | | |
| Gain on disposal of Retained Subsidiaries | — | — | — | — | | | | | | | | |
| Deemed listing expenses | — | — | — | — | | | | | | | | |
| Finance costs | (151,686) | (1,977) | (2,488) | (154,174) | | | | | | | | |
| **(Loss)/profit before tax** | (117,477) | 53,661 | 67,543 | (49,934) | | | | | | | | |
| Income tax expense | — | (17,848) | (22,465) | (22,465) | | | | | | | | |
| **(Loss)/profit and total comprehensive income/(loss) for the year** | (117,477) | 35,813 | 45,078 | (72,399) | | | | | | | | |
| **(Loss)/profit and total comprehensive income/(loss) for the year attributable to:** | | | | | | | | | | | | |
| Owners of the Company | (117,477) | 35,094 | 44,173 | (73,304) | | | | | | | | |
| Non-controlling interests | — | 719 | 905 | 905 | | | | | | | | |
| | (117,477) | 35,813 | 45,078 | (72,399) | | | | | | | | |

## C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2014

| | The Group | The Target Group | The Target Group | Sub-total | Pro forma adjustments | | | | | | | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *RMB'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Note 1)* | *(Note 11)* | *(Note 11)* | | *(Note 2)* | *(Note 5(b))* | *(Note 6(b))* | *(Note 7b)* | *(Note 9(b))* | *(Note 10)* | *(Note 12(a))* | *(Note 13(b))* | *(Note 14)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | | | | | | | | | |
| (Loss)/profit before tax | (117,477) | 53,661 | 67,543 | (49,934) | | | | | | | | | | |
| Adjustments for: | | | | | | | | | | | | | | |
| Bank interest income | — | (1,151) | (1,449) | (1,449) | | | | | | | | | | |
| Finance costs | 151,686 | 1,977 | 2,488 | 154,174 | | | | | | | | | | |
| Depreciation and amortisation | 179 | 1,042 | 1,312 | 1,491 | | | | | | | | | | |
| Impairment loss/(reversal of impairment loss) on trade and other receivable | 125 | (68) | (86) | 39 | | | | | | | | | | |
| Impairment on inventories | 17 | — | — | 17 | | | | | | | | | | |
| Write-off of plant and equipment | — | 283 | 356 | 356 | | | | | | | | | | |
| Gain on deconsolidation of a liquidated subsidiary | 172,398 | — | — | 172,398 | | | | | | | | | | |
| Reversal of impairment on other receivables | (227,198) | — | — | (227,198) | | | | | | | | | | |
| Fair value changes on investment properties | — | (4,400) | (5,538) | (5,538) | | | | | | | | | | |
| Fair value changes on structured deposits designated as at fair value through profit or loss | — | (30) | (38) | (38) | | | | | | | | | | |
| Net foreign exchange (gains)/losses | — | 243 | 306 | 306 | | | | | | | | | | |
| Deemed listing expenses | — | — | — | — | | | | | | | | | | |
| Gain on disposal of Retained Subsidiaries | — | — | — | — | | | | | | | | | | |
| Gain on debt restructuring of the Group | — | — | — | — | | | | | | [REDACTED] | | | | |
| Operating cash flows before working capital changes | (20,270) | 51,557 | 64,894 | 44,624 | | | | | | | | | | |
| Changes in inventories | — | 82,882 | 104,325 | 104,325 | | | | | | | | | | |
| Changes in trade receivables and other receivables | — | 14,078 | 17,718 | 17,718 | | | | | | | | | | |
| Changes in prepayments, deposits and other receivables | (239) | — | — | (239) | | | | | | | | | | |
| Changes in trade and bills payables | 1,200 | (45,125) | (56,799) | (55,599) | | | | | | | | | | |
| Changes in pre-sales proceeds received on sales of properties | — | (138,296) | (174,075) | (174,075) | | | | | | | | | | |
| Changes in accruals and other payables | 10,016 | (14,903) | (18,759) | (8,743) | | | | | | | | | | |
| Cash generated from/(used in) operations | (9,293) | (49,807) | (62,696) | (71,989) | | | | | | | | | | |
| Interest paid | (257) | — | — | (257) | | | | | | | | | | |
| PRC income taxes and land appreciation taxes paid | — | (8,194) | (10,314) | (10,314) | | | | | | | | | | |
| Overseas tax paid | (14) | — | — | (14) | | | | | | | | | | |
| Net cash used in operating activities | (9,564) | (58,001) | (73,010) | (82,574) | | | | | | | | | | |

| | The Group | The Target Group | The Target Group | Sub-total | | | | | Pro forma adjustments | | | | | The Enlarged Group |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *RMB'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *(Note 1)* | *(Note 11)* | *(Note 11)* | | *(Note 2)* | *(Note 5(b))* | *(Note 6(b))* | *(Note 7b)* | *(Note 9(b))* | *(Note 10)* | *(Note 12(a))* | *(Note 13(b))* | *(Note 14)* | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | | | | | | | | | |
| Decrease in restricted deposits | — | (10,109) | (12,724) | (12,724) | | | | | | | | | | |
| Net cash inflows in deconsolidation of scheme subsidiaries | — | — | — | — | | | | | | | | | | |
| Net cash inflows on deconsolidation of a liquidated subsidiary | 56,183 | — | — | 56,183 | | | | | | | | | | |
| Advance to related parties | — | (16,419) | (20,667) | (20,667) | | | | | | | | | | |
| Repayment from related parties | — | 39,720 | 49,996 | 49,996 | | | | | | | | | | |
| Purchase of property, plant and equipment | — | (512) | (644) | (644) | | | | | | | | | | |
| Withdrawal of pledged bank deposits | — | 15,000 | 18,881 | 18,881 | | | | | | | | | | |
| Redemption of structured deposits | — | 25,030 | 31,506 | 31,506 | | | | | | | | | | |
| Interest received from bank deposits | — | 1,151 | 1,449 | 1,449 | | | | | | | | | | |
| Net cash generated from investing activities | 56,183 | 53,861 | 67,797 | 123,980 | | | | | | | | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | | | | | | | | | |
| Advance from directors | — | 11,954 | 15,047 | 15,047 | | | | | | | | | | |
| Repayment to a related party | — | (2,750) | (3,461) | (3,461) | | | | | | | | | | |
| Repayment of bank borrowings | — | (21,855) | (27,509) | (27,509) | | | | | | | | | | |
| Interest expense and bills discounting charges paid | — | (16,254) | (20,459) | (20,459) | | | | | | [REDACTED] | | | | |
| New bank borrowings raised | — | 139,130 | 175,125 | 175,125 | | | | | | | | | | |
| Deemed distribution to Controlling Equity Holders | — | (10,000) | (12,587) | (12,587) | | | | | | | | | | |
| Net cash generated from financing activities | — | 100,225 | 126,156 | 126,156 | | | | | | | | | | |
| **NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS** | 46,619 | 96,085 | 120,943 | 167,562 | | | | | | | | | | |
| **Effect of changes in foreign exchange rates** | 5,509 | — | — | 5,509 | | | | | | | | | | |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | (60,494) | 29,522 | 37,160 | (23,334) | | | | | | | | | | |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | (8,366) | 125,607 | 158,103 | 149,737 | | | | | | | | | | |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | | | | | | | | | | | | | |
| Bank and cash balances | 82 | 125,607 | 158,103 | 158,185 | | | | | | | | | | |
| Bank overdrafts, secured | (8,448) | — | — | (8,448) | | | | | | | | | | |
| | (8,366) | 125,607 | 158,103 | 149,737 | | | | | | | | | | |

## D. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) For the preparation of unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows, the amounts are extracted from the [audited] consolidated financial statements of the Group for the year ended 31 December 2014, which are set out in Appendix II to the Circular.

(2) [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

(16) Apart from the above, no adjustments have been made to the unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2015 where applicable.

## E. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP AS AT 30 JUNE 2015

| | **Unaudited consolidated net tangible assets of the Group** | **Unaudited consolidated net tangible assets of the Group per share** | **Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group** | **Unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group per share** |
|---|---|---|---|---|
| | *HK$'000* | *HK$* | *HK$'000* | *HK$* |
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* |
| Consolidated net tangible assets attributable to owners of the Company | (2,063,694) | (1.06) | [REDACTED] | [REDACTED] |

*Notes:*

(1) The unaudited consolidated net tangible assets of the Group as at 30 June 2015 is based on the amount of unaudited consolidated net tangible assets attributable to the owners of the Company as at 30 June 2015, which is extracted from the unaudited condensed consolidated financial information of the Group for the year ended 30 June 2015.

(2) The number of shares used for the calculation of the unaudited consolidated net tangible assets of the Group per share is [REDACTED], being the number of shares in issue as at 30 June 2015.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group as at 30 June 2015 is based on the amount of the unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company as at 30 June 2015, which is extracted from the unaudited pro forma consolidated statement of financial position of the Enlarged Group of approximately [REDACTED].

(4) The number of shares used for the calculation of the unaudited pro forma adjusted consolidated net tangible assets of the Enlarged Group per share is [REDACTED] after completion of the Proposed Restructuring as at 30 June 2015 as described in the note 12(b).

(5) Apart from the above, no adjustments have been made to the unaudited pro forma statement of adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2015 where applicable.

## ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

*The following is the text of a report, prepared for the sole purpose of inclusion in the Circular, from the independent reporting accountants, ZHONGHUI ANDA CPA Limited, Certified Public Accountants, Hong Kong.*

[REDACTED]

[REDACTED]

[REDACTED]

*The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this Circular received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of values of the property interests of the Enlarged Group as at 31 July 2015.*

16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

[●] 2015

The Directors
**First Mobile Group Holdings Limited**
Workshop 6, Level One
Wah Yiu Industrial Centre
30–32 Au Pui Wan Street
Fotan, Shatin, N.T.
Hong Kong

Dear Sirs,

## INSTRUCTIONS, PURPOSE AND DATE OF VALUATION

In accordance with your instructions for us to value the properties in which China General (HK) Company Limited (referred to as "China General") and its subsidiaries (together referred to as the "China General Group") have interests in the People's Republic of China (the "PRC") (as more particularly described in the attached valuation certificate) and which are intended to be acquired by First Mobile Group Holdings Limited (the "Company"), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of such properties as at 31 July 2015.

## BASIS OF VALUATION

Unless otherwise stated, our valuation of each of the properties represents its market value which in accordance with The HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

## VALUATION BASIS AND ASSUMPTIONS

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the properties, unless otherwise stated, we have assumed that transferable land use rights in respect of the properties for their respective specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. In valuing the properties, unless otherwise stated, we have assumed that the owners have the enforceable title to the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired terms as granted.

The PRC business tax (approximately 5%), PRC land appreciation tax (approximately 30%–60% of the appreciation amount) and withholding tax for foreign company (approximately 20%) (if any) are the potential tax liabilities which would arise on disposal of the properties in the PRC. According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liability. The precise tax implication will be subject to prevailing rules and regulation at the time of disposal.

The properties are held by the China General Group for owner-occupation, investment and for development purposes respectively, the likelihood of the relevant tax liabilities being crystallized is remote in near future.

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

In valuing the properties, we have complied with the requirements set out in The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors. We have also complied with all the requirements contained in Paragraph 46 of Schedule 3 of the Companies Ordinance, Chapter 5 and Practice Note 12 of the Listing Rules.

## METHOD OF VALUATION

In valuing the properties, we have mainly adopted the the Investment Approach by considering the capitalised rental incomes derived from the existing tenancies with due provision for any reversionary income potential of the property interests or, wherever appropriate, the Direct Comparison Approach by making reference to comparable sales evidence as available in the relevant market subject to suitable adjustments between the subject properties and the comparable properties.

In valuing the property in Group III which is held by the China General Group under development in the PRC, we have valued on the basis that the property will be developed and completed in accordance with the China General Group's latest development proposal provided to us (if any). We have assumed that all consents, approvals and licences from relevant government authorities for the development proposal have been obtained without onerous conditions or delays. We have also assumed that the design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities. In arriving at our opinion of value, we have adopted the Direct Comparison Approach by making reference to comparable sales evidence as available in the relevant market and have also taken into account the expended construction costs and the costs that will be expended to complete the development to reflect the quality of the completed development. The "market value when completed" represents our opinion of the aggregate selling prices of the development assuming that it was completed as at the date of valuation.

Property No. 2 in Group II, which is property held by the China General Group for investment in the PRC, also comprises civil defence car parking spaces. We have ascribed no commercial value to the civil defence portions of the property on market value basis as the China General Group has no title ownership of such civil defence spaces. For the Group's management reference, however, we are requested to separately assess the worth of the civil defence car parking spaces held by the China General Group for investment in existing state on a non-market value basis. Such worth, known as investment value, according to the International Valuation Standards, which the HKIS Valuation Standards follow, is defined as "the value of an asset to the owner or a prospective owner for individual investment or operational objectives". Investment value is an entity-specific basis of value which reflects the benefits received by an entity from holding the asset and, therefore, does not necessarily involve a hypothetical exchange. Investment value of the property to the China General Group has been separately stated in the note of the valuation certificate. It must be emphasized that the investment value is not market value.

## SOURCE OF INFORMATION

We have been provided by the China General Group with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the China General Group and the Company's PRC legal adviser, Dacheng Law Offices (大成律師事務所) regarding the titles to the properties and the interests of the China General Group in the properties. In respect of the properties in the PRC, we have accepted advice given by the China General Group and the Company's PRC legal adviser on such matters as planning approvals or statutory notices, easements, tenure, identification of land and buildings, completion date of buildings, number of car parking spaces, civil defence car parking spaces, particulars of occupancy, pre-sale details, site areas, gross floor areas (individually or collectively "GFA"), interest attributable to the China General Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the China General Group which is material to the valuations. We were also advised by the China General Group that no material facts have been omitted from the information provided.

We would point out that the copies of documents of the properties in the PRC provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise you to make reference to the original Chinese editions of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

## TITLE INVESTIGATION

We have been provided with extracts of documents relating to the titles of the properties in the PRC, but no searches have been made in respect of the properties. We have not searched the original documents to verify ownership or to ascertain any amendment which may not appear on the copies handed to us. We are also unable to ascertain the title of the properties in the PRC and we have therefore relied on the advice given by the China General Group and the Company's PRC legal adviser regarding the China General Group's interests in the PRC properties.

## SITE INSPECTION

Andy Chen, Valuer of DTZ Xiamen Office, and Jack Wang, Senior Valuer of DTZ Shanghai Office, inspected the exterior and, wherever possible, the interior of the properties in July 2014. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Moreover, we have not carried out any soil investigations to determine the suitability of the soil conditions and the services etc. for any development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Unless otherwise stated, we have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the area shown on the documents handed to us are correct.

## CURRENCY

Unless otherwise stated, all sums stated in our valuation certificates are in Renminbi ("RMB") which is the official currency in the PRC.

We enclose herewith a summary of valuations and our valuation certificates for your attention.

Yours faithfully,
For and on behalf of
**DTZ Debenham Tie Leung Limited**
**Andrew K.F. Chan**
*Registered Professional Surveyor (General Practice)*
*Registered China Real Estate Appraiser*
*MSc, MHKIS*
*Senior Director, Valuation and Advisory Services*

*Note:* Mr. Andrew K.F. Chan is a Registered Professional Surveyor who has over 27 years' of experience in the valuation of properties in the PRC.

## SUMMARY OF VALUATIONS

| | Property | Market value in existing state as at 31 July 2015<br>*RMB* | Interest attributable to the China General Group<br>*%* | Market value in existing state attributable to the China General Group as at 31 July 2015<br>*RMB* |
|---|---|---|---|---|
| **Group I — Property held by the China General Group for sale in the PRC** | | | | |
| 1. | The unsold portions of the residential and retail units, and clubhouse, Binjiang International, Luoyang Town, Hui'an County, Quanzhou, Fujian Province, the PRC | [215,800,000] | 98.387 | [212,319,146] |
| **Group II — Property held by the China General Group for investment in the PRC** | | | | |
| 2. | The kindergarten and underground car parking spaces, Binjiang International, Luoyang Town, Hui'an County, Quanzhou, Fujian Province, the PRC | [84,300,000] | 98.387 | [82,940,241] |
| **Group III — Property held by the China General Group under development in the PRC** | | | | |
| 3. | The proposed development of land plot no. 755 to be known as Cullinan Bay, on the east of Linjiang Road, north of Dingxing Road, Yangzhou, Jiangsu Province, the PRC | [640,000,000] | 98.387 | [629,676,800] |
| | Total: | [940,100,000] | | [924,936,187] |

## VALUATION CERTIFICATE

### Group I — Property held by the China General Group for sale in the PRC

| | Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 July 2015 |
|---|---|---|---|---|
| 1. | The unsold portions of the residential and retail units, and clubhouse, Binjiang International, Luoyang Town, Hui'an County, Quanzhou, Fujian Province, the PRC<br><br>(中華人民共和國福建省泉州市惠安縣螺陽鎮濱江國際住宅及商鋪之未售部分及會所) | The property comprises unsold residential units, retail units and a clubhouse of Binjiang International, which has been developed in 4 phases since 2008.<br><br>The property is situated in the southeast of 惠安縣溪濱公園 (Hui'an Xibin Park). The property abuts 惠泉南路 (Huiquan South Road) to the east, a river to the south, a residential building to the west and 惠崇公路 (Huichong Highway) to the north.<br><br>The property has a total gross floor area of 25,635.91 sq.m. with details as follows:<br><br>**Portion** — **Approximate Gross Floor Area** *(sq.m.)*<br>Residential — 17,724.81<br>Retail — 6,789.63<br>Clubhouse — 1,121.47<br>**Total** — **25,635.91**<br><br>The land use rights of the property have been granted for terms due to expire from 8 December 2062 to 27 February 2077 for commercial and residential uses. | As at the valuation date, the residential and retail portions were vacant.<br><br>The clubhouse was occupied by the China General Group. | RMB[215,800,000]<br><br>(98.387% interest attributable to the China General Group: RMB[212,319,146]) |

*Notes:*

(1) According to the information provided by the China General Group, as at 31 July 2015, portions of the property with a total gross floor area of approximately 4,858.70 sq.m. had been presold at a total consideration of RMB30,177,096. We have included such portions in our valuation and taken into account such amount.

(2) According to 7 State-owned Land Use Rights Certificates issued by 惠安縣人民政府 (the People's Government of Hui'an County), the land use rights of the property with a total site area of approximately 81,368.4 sq.m. have been vested in 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited).

| Certificate No. | Use | Site Area *(sq.m.)* | Issue Date | Expiry Date |
|---|---|---|---|---|
| HGY (2006) CZ No. 120008 | Commercial and Residential | 3,933.0 | April 2006 | 28 August 2074 |
| HGY (2006) CZ No. 120009 | Commercial and Residential | 12,945.0 | April 2006 | 25 June 2064 |
| HGY (2006) CZ No. 120010 | Commercial and Residential | 13,083.1 | March 2006 | 8 December 2062 |
| HGY (2006) CZ No. 120011 | Commercial and Residential | 18,289.1 | March 2006 | 8 December 2062 |
| HGY (2006) CZ No. 120012 | Commercial and Residential | 17,623.5 | March 2006 | 8 December 2062 |
| HGY (2006) CZ No. 120013 | Commercial and Residential | 14,221.7 | March 2006 | 8 December 2062 |
| HGY (2007) CZ No. 120029 | Commercial and Residential | 1,273.0 | July 2007 | 27 February 2077 |
| **Total** | | 81,368.4 | | |

(3) According to Building Ownership Certificate HFQZHYZ No. 01272 issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau) dated 2 August 2010, the building ownership of the clubhouse with a gross floor area of 1,121.47 sq.m. has been vested in 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited).

(4) According to 2 meeting summary 關於惠安濱江國際星城規劃設計方案會審紀要 dated 26 October 2005 and 關於惠安濱江國際星城三、四期項目規劃設計方案會審紀要 dated 30 December 2005 both issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau), the proposed Hui'an Binjiang International Project has been approved for development on a construction site area of 83,399 sq.m. and total planned gross floor area of 395,174 sq.m., including above ground gross floor area of 324,822 sq.m.

(5) According to the PRC legal opinion, there was a temporary road with approximate site area of 2,030.6 sq.m., in addition to the 7 land plots with a total site area of 81,368.4 sq.m., being included in the overall design and development of Binjiang International Project based on the meeting summary 中共惠安縣委辦公會議紀要 issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau) on 1 June 2005. 惠安縣國土資源局 (Hui'an County Land Resources Bureau) issued the 國有土地使用合規證明 (Compliance Letter for the State-owned Land Use Rights) on 25 September 2014 and confirmed the compliance of the above.

(6) According to Planning Permit for Construction Use of Land HGJ (2005) No. 20 dated 3 November 2005 issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau), Binjiang International has been approved for construction on the site with a total construction site area of 83,399 sq.m.

(7) According to 2 Planning Permits for Construction Works issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau), the construction works of the Binjiang International Project with a total gross floor area of 352,153 sq.m. are in compliance with the construction works requirements and have been approved with details as follows:

| **Certificate No.** | **Issue Date** | **Project Name** | | **Construction Scale** *(sq.m.)* |
|---|---|---|---|---|
| HGJ No. 2006025 | 10 April 2006 | Binjiang International Phases 1 and 2 | | 149,953 |
| HGJ No. 2006052 | 22 May 2006 | Binjiang International Phases 3 and 4 | Above ground GFA: | 170,961 |
| | | | Underground GFA: | 28,788 |
| | | | Semi-underground storage area: | 2,451 |
| **Total** | | | | 352,153 |

(8) According to 7 Construction Works Completion Examination Certificates issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau), the construction works of parts of the development have been completed as follows:

| **Certificate No.** | **Issue Date** | **Location** | **Construction Scale** *(sq.m.)* |
|---|---|---|---|
| 2008049 | 17 July 2008 | Blocks 1, 2 and basement | Block 1 above ground GFA: 20,540.58 sq.m.<br><br>Block 2 above ground GFA: 20,013.85 sq.m.<br>Basement GFA: 10,807.65 sq.m. |
| 2009080 | 2 July 2009 | Block 3 | Total GFA: 23,648.35 sq.m.<br>Underground GFA (inclusive): 4,045.5 sq.m. |
| 2009079 | 2 July 2009 | Blocks 5, 6, 8 and 9 | Total GFA: 53,725.59 sq.m.<br>Underground GFA (inclusive): 10,329.12 sq.m. |
| 2008048 | 17 July 2008 | Block 7 and basement | Above ground GFA: 24,818.34 sq.m.<br>Underground GFA: 3,955.46 sq.m.<br>Semi-underground GFA: 2,079.53 sq.m. |
| 2008068 | 14 October 2008 | Block 10 and basement | Above ground GFA: 27,751.31 sq.m.<br>Semi-underground GFA (store room): 1,447.5 sq.m.<br>Refuse storage (semi-underground GFA): 148.24 sq.m.<br>Underground GFA: 3,244.14 sq.m. |
| 2010006 | 20 January 2010 | Blocks 11 and 12 | Block 11 GFA: 11,586 sq.m.<br><br>Block 12 GFA: 23,635.92 sq.m.<br>Semi-underground GFA: 203.58 sq.m.<br>Underground GFA: 5,623.09 sq.m. |
| 2010064 | 13 July 2010 | Blocks 13 and 15 | Block 13 above ground GFA: 28,638.8 sq.m.<br>Semi-underground GFA: 530.5 sq.m.<br><br>Block 15 above ground GFA: 21,945 sq.m.<br>Semi-underground GFA: 1,052.9 sq.m.<br><br>Blocks 13 and 15 underground GFA: 9,154.6 sq.m. |

| Certificate No. | Issue Date | Location | Construction Scale (sq.m.) |
|---|---|---|---|
| FJYSBA-0595-HA-2014–00025 | 30 September 2014 | Blocks 16, 17, 18 and basement of blocks 17 and 18 | Block 16 above ground GFA: 22,573.43 sq.m.<br>Block 17 above ground GFA: 16,368.71 sq.m.<br>Block 18 above ground GFA: 15,253.28 sq.m.<br>Block 17 semi-underground GFA: 522.12 sq.m.<br>Block 18 semi-underground GFA: 467.74 sq.m.<br>Blocks 17 and 18 underground GFA: 6,237.36 sq.m. |
| FJYSBA-0595-HA-2015–00017 | 22 May 2015 | Block 19 | Total GFA: 12,818.95 sq.m. |

(9) According to 12 surveying reports, the residential, retail, underground and civil defence gross floor areas are summarised as follows:

| | | GFA | | | |
|---|---|---|---|---|---|
| Issue Date | Block | Residential (sq.m.) | Retail (sq.m.) | Underground (sq.m.) | Civil defence area (sq.m.) |
| 17 June 2008 | 1 | 19,370.02 | Shopfront: 1,090.36 | 5,749.29 | — |
| | 2 | 18,859.82 | Shopfront: 1,080.23 | 5,058.36 | — |
| | 7 | 24,818.34 | — | — | 3,955.46 |
| | 1 and 2 | — | Shopfront: 154.00 | — | — |
| 24 July 2008 | 10 | 27,751.31 | — | 3,244.14 | — |
| 16 February 2009 | 3 | 18,583.40 | Shopfront: 1,019.45 | 4,045.55 | — |
| 2 September 2010 | 5, 6, 8 and 9 | 43,363.80 | — | 10,329.12 | — |
| 14 October 2009 | 11 | 11,401.75 | Shopfront: 184.30 | — | — |
| | 12 | 19,900.23 | Shopfront: 1,790.94<br>Shopping arcade: 1,862.23 | — | — |
| | 11 and 12 | — | — | — | 5,623.09 |
| 13 April 2010 | 13 | 26,432.05 | Shopfront: 1,676.21 | — | — |
| | 15 | 20,373.71 | Shopfront: 518.34 | — | — |
| | 13 and 15 | — | — | 1,204.95 | 7,949.63 |
| 14 March 2013 | 16 | 21,250.00 | Shopfront: 1,323.43 | — | — |
| 14 March 2013 | 17 | Level 1: 596.80<br>14,728.65<br>No. 202: 305.50<br>No. 203: 270.86 | Shopfront: 443.05 | — | — |
| 27 June 2013 | 18 | Level 1: 512.58<br>Levels 2–19: 14,346.81 | Shopfront: 393.16 | — | — |
| 14 March 2013 | 17 and 18 | — | — | Non civil defence car parking space: 1,804.99 | Civil defence car parking space: 3,685.42 |
| 25 October 2012 | 19 | 10,480.60 | Shopfront: 901.13<br>Shopping arcade 1: 207.98<br>Shopping arcade 2: 542.35<br>Shopping arcade 3: 747.08 | — | — |
| 25 October 2012 | 20 | 15,434.94 | Shopfront: 1,046.29<br>Shopping arcade 1: 444.53<br>Shopping arcade 2: 416.72<br>Shopping arcade 3: 491.98 | — | — |
| | 19 and 20 | — | — | 5,203.09 | — |
| **Total** | | **308,781.17** | **16,333.76** | **36,639.49** | **21,213.60** |

(10) Details of the Construction Project Completion Environment Protection Examination Application Registration Form are as follows:

| Registration No. | Block | Construction Scale *(sq.m.)* |
|---|---|---|
| (2014) No. 012 | Blocks 19 and 20 | Block 19 GFA: 12,835.77 sq.m.<br>Block 20 GFA: 17,536.5 sq.m. |

(11) According to 9 Pre-sale Permits issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau), 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) was permitted for pre-sale of portions of the property with details as follows:

| Permit No. | Issue Date | Block | Pre-sale GFA *(sq.m.)* |
|---|---|---|---|
| (2006) No. 12 | 12 October 2006 | Blocks 1, 2 and 7 | 66,170.29 |
| (2007) No. 40 | 29 December 2007 | Blocks 3, 11 and 12 | 56,702.68 |
| (2010) No. 29 | 27 December 2010 | Blocks 5, 6, 8 and 9 | 43,363.80 |
| (2006) No. 19 | 23 November 2006 | Block 10 | 30,020.79 |
| (2008) No. 21 | 13 August 2008 | Blocks 13 and 15 | 58,909.99 |
| (2011) No. 13 | 23 June 2011 | Block 16 | 22,553.35 |
| (2011) No. 22 | 23 September 2011 | Block 17 | 16,315.38 |
| (2012) No. 6 | 12 March 2012 | Block 18 | 15,252.48 |
| (2012) No. 24 | 20 November 2012 | Blocks 19 and 20 | 30,510.51 |
| **Total** | | | 339,799.27 |

(12) According to Business Licence No. 350500400036076, 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) was established with a registered capital of RMB62,000,000 as a limited company for a valid operation period from 22 February 2006 to 22 February 2056.

(13) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of land use rights;

(ii) 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) is the sole legal land user of the property and has obtained the relevant certificates and approval from the government in respect of the construction of the property; and

(iii) 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property by other legal means.

(14) In accordance with the information provided by the China General Group, the status of title and grant of major approvals and licences are as follows:

| | |
|---|---|
| State-owned Land Use Rights Certificate | Yes |
| Building Ownership Certificate | Yes (Part) |
| Meeting Summary | Yes |
| Planning Permit for Construction Use of Land | Yes |
| Planning Permits for Construction Works | Yes |
| Construction Works Completion Examination Certificate | Yes (Part) |
| Surveying Report | Yes |
| Construction Project Completion Environment Protection Examination Application Registration Form | Yes |
| Pre-sale Permit | Yes |
| Business Licence | Yes |

## VALUATION CERTIFICATE

### Group II — Property held by the China General Group for investment in the PRC

| | Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 July 2015 |
|---|---|---|---|---|
| 2. | The kindergarten and underground car parking spaces, Binjiang International, Luoyang Town, Hui'an County, Quanzhou, Fujian Province, the PRC<br><br>(中華人民共和國福建省泉州市惠安縣螺陽鎮濱江國際之幼兒園及地下車位) | The property comprises the kindergarten and 873 underground car parking spaces of Binjiang International, which has been developed in 4 phases since 2008.<br><br>The property is situated in the southeast of 惠安縣溪濱公園 (Hui'an Xibin Park). The property abuts 惠泉南路 (Huiquan South Road) to the east, a river to the south, a residential building to the west and 惠崇公路 (Huichong Highway) to the north.<br><br>The property has a total gross floor area of 39,472.81 sq.m. with details as follows:<br><br>**Portion** — **Approximate Gross Floor Area** *(sq.m.)*<br>Kindergarten — 2,833.32<br>873 Car parking space — 36,639.49<br>**Total** — **39,472.81**<br><br>The land use rights of the property have been granted for terms due to expire from 8 December 2062 to 27 February 2077 for commercial and residential uses. | As at the valuation date, the kindergarten was leased for a term of 20 years from 1 September 2010 to 31 August 2030 at various rents for different periods. The prevailing rent for 1 September 2013 to 31 August 2016 is RMB246,400 per annum.<br><br>As at the valuation date, portions of the car parking spaces were leased on monthly basis, while the remaining portions were vacant. | RMB[84,300,000]<br><br>(98.387% interest attributable to the China General Group: RMB[82,940,241]) |

*Notes:*

(1) According to 7 State-owned Land Use Rights Certificates issued by 惠安縣人民政府 (the People's Government of Hui'an County), the land use rights of the property with a total site area of approximately 81,368.4 sq.m. have been vested in 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited).

| **Certificate No.** | **Use** | **Site Area** *(sq.m.)* | **Issue Date** | **Expiry Date** |
|---|---|---|---|---|
| HGY (2006) CZ No. 120008 | Commercial and Residential | 3,933.0 | April 2006 | 28 August 2074 |
| HGY (2006) CZ No. 120009 | Commercial and Residential | 12,945.0 | April 2006 | 25 June 2064 |
| HGY (2006) CZ No. 120010 | Commercial and Residential | 13,083.1 | March 2006 | 8 December 2062 |
| HGY (2006) CZ No. 120011 | Commercial and Residential | 18,289.1 | March 2006 | 8 December 2062 |
| HGY (2006) CZ No. 120012 | Commercial and Residential | 17,623.5 | March 2006 | 8 December 2062 |
| HGY (2006) CZ No. 120013 | Commercial and Residential | 14,221.7 | March 2006 | 8 December 2062 |
| HGY (2007) CZ No. 120029 | Commercial and Residential | 1,273.0 | July 2007 | 27 February 2077 |
| **Total** | | 81,368.4 | | |

(2) According to Building Ownership Certificate HFQZHYZ No. 01271 issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau) dated 2 August 2010, the building ownership of the kindergarten with a gross floor area of 2,833.32 sq.m. has been vested in 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited).

(3) According to 2 meeting summary 關於惠安濱江國際星城規劃設計方案會審紀要 dated 26 October 2005 and 關於惠安濱江國際星城三、四期項目規劃設計方案會審紀要 dated 30 December 2005 both issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau), the proposed Hui'an Binjiang International Project has been approved for development on a construction site area of 83,399 sq.m. and total planned gross floor area of 395,174 sq.m., including above ground gross floor area of 324,822 sq.m.

(4) According to the PRC legal opinion, there was a temporary road with approximate site area of 2,030.6 sq.m., in addition to the 7 land plots with a total site area of 81,368.4 sq.m., being included in the overall design and development of Binjiang International Project based on the meeting summary 中共惠安縣委辦公會議紀要 issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau) on 1 June 2005. 惠安縣國土資源局 (Hui'an County Land Resources Bureau) issued the 國有土地使用合規證明 (Compliance Letter for the State-owned Land Use Rights) on 25 September 2014 and confirmed the compliance of the above.

(5) According to Planning Permit for Construction Use of Land HGJ (2005) No. 20 dated 3 November 2005 issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau), Binjiang International has been approved for construction on the site with a total construction site area of 83,399 sq.m.

(6) According to 2 Planning Permits for Construction Works issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau), the construction works of the Binjiang International Project with a total gross floor area of 352,153 sq.m. are in compliance with the construction works requirements and have been approved with details as follows:

| Certificate No. | Issue Date | Project Name | | Construction Scale *(sq.m.)* |
|---|---|---|---|---|
| HGJ No. 2006025 | 10 April 2006 | Binjiang International Phases 1 and 2 | | 149,953 |
| HGJ No. 2006052 | 22 May 2006 | Binjiang International Phases 3 and 4 | Above ground GFA: | 170,961 |
| | | | Underground GFA: | 28,788 |
| | | | Semi-underground storage area: | 2,451 |
| **Total** | | | | 352,153 |

(7) According to 7 Construction Works Completion Examination Certificates (惠安縣建設工程竣工驗收備案證明書) issued by 惠安縣規劃建設局 (Hui'an County Planning Bureau), the construction works of parts of the development have been completed as follows:

| Certificate No. | Issue Date | Location | Construction Scale *(sq.m.)* |
|---|---|---|---|
| 2008049 | 17 July 2008 | Blocks 1, 2 and basement | Block 1 above ground GFA: 20,540.58 sq.m.<br><br>Block 2 above ground GFA: 20,013.85 sq.m.<br>Basement GFA: 10,807.65 sq.m. |
| 2009080 | 2 July 2009 | Block 3 | Total GFA: 23,648.35 sq.m.<br>Underground GFA (inclusive): 4,045.5 sq.m. |
| 2009079 | 2 July 2009 | Blocks 5, 6, 8 and 9 | Total GFA: 53,725.59 sq.m.<br>Underground GFA (inclusive): 10,329.12 sq.m. |
| 2008048 | 17 July 2008 | Block 7 and basement | Above ground GFA: 24,818.34 sq.m.<br>Underground GFA: 3,955.46 sq.m.<br>Semi-underground GFA: 2,079.53 sq.m. |
| 2008068 | 14 October 2008 | Block 10 and basement | Above ground GFA: 27,751.31 sq.m.<br>Semi-underground GFA (store room): 1,447.5 sq.m.<br>Refuse storage (semi-underground GFA): 148.24 sq.m.<br>Underground GFA: 3,244.14 sq.m. |
| 2010006 | 20 January 2010 | Blocks 11 and 12 | Block 11 GFA: 11,586 sq.m.<br><br>Block 12 GFA: 23,635.92 sq.m.<br>Semi-underground GFA: 203.58 sq.m.<br>Underground GFA: 5,623.09 sq.m. |
| 2010064 | 13 July 2010 | Blocks 13 and 15 | Block 13 above ground GFA: 28,638.8 sq.m.<br>Semi-underground GFA: 530.5 sq.m.<br><br>Block 15 above ground GFA: 21,945 sq.m.<br>Semi-underground GFA: 1,052.9 sq.m.<br><br>Blocks 13 and 15 underground GFA: 9,154.6 sq.m. |

| Certificate No. | Issue Date | Location | Construction Scale *(sq.m.)* |
|---|---|---|---|
| FJYSBA-0595-HA-2014–00025 | 30 September 2014 | Blocks 16, 17, 18 and basement of blocks 17 and 18 | Block 16 above ground GFA: 22,573.43 sq.m.<br>Block 17 above ground GFA: 16,368.71 sq.m.<br>Block 18 above ground GFA: 15,253.28 sq.m.<br>Block 17 semi-underground GFA: 522.12 sq.m.<br>Block 18 semi-underground GFA: 467.74 sq.m.<br>Blocks 17 and 18 underground GFA: 6,237.36 sq.m. |
| FJYSBA-0595-HA-2015–00017 | 22 May 2015 | Block 19 | Total GFA: 12,818.95 sq.m. |

(8) According to 12 surveying reports, the residential, retail, underground and civil defence gross floor areas are summarised as follows:

| Issue Date | Block | GFA Residential *(sq.m.)* | Retail *(sq.m.)* | Underground *(sq.m.)* | Civil defence area *(sq.m.)* |
|---|---|---|---|---|---|
| 17 June 2008 | 1 | 19,370.02 | Shopfront: 1,090.36 | 5,749.29 | — |
| | 2 | 18,859.82 | Shopfront: 1,080.23 | 5,058.36 | — |
| | 7 | 24,818.34 | — | — | 3,955.46 |
| | 1 and 2 | — | Shopfront: 154.00 | — | — |
| 24 July 2008 | 10 | 27,751.31 | — | 3,244.14 | — |
| 16 February 2009 | 3 | 18,583.40 | Shopfront: 1,019.45 | 4,045.55 | — |
| 2 September 2010 | 5, 6, 8 and 9 | 43,363.80 | — | 10,329.12 | — |
| 14 October 2009 | 11 | 11,401.75 | Shopfront: 184.30 | — | — |
| | 12 | 19,900.23 | Shopfront: 1,790.94<br>Shopping arcade: 1,862.23 | — | — |
| | 11 and 12 | — | — | — | 5,623.09 |
| 13 April 2010 | 13 | 26,432.05 | Shopfront: 1,676.21 | — | — |
| | 15 | 20,373.71 | Shopfront: 518.34 | — | — |
| | 13 and 15 | — | — | 1,204.95 | 7,949.63 |
| 14 March 2013 | 16 | 21,250.00 | Shopfront: 1,323.43 | — | — |
| 14 March 2013 | 17 | Level 1: 596.80<br>14,728.65<br>No. 202: 305.50<br>No. 203: 270.86 | Shopfront: 443.05 | — | — |
| 27 June 2013 | 18 | Level 1: 512.58<br>Levels 2–19: 14,346.81 | Shopfront: 393.16 | — | — |
| 14 March 2013 | 17 and 18 | — | — | Non civil defence car parking space: 1,804.99 | Civil defence car parking space: 3,685.42 |
| 25 October 2012 | 19 | 10,480.60 | Shopfront: 901.13<br>Shopping arcade 1: 207.98<br>Shopping arcade 2: 542.35<br>Shopping arcade 3: 747.08 | — | — |
| 25 October 2012 | 20 | 15,434.94 | Shopfront: 1,046.29<br>Shopping arcade 1: 444.53<br>Shopping arcade 2: 416.72<br>Shopping arcade 3: 491.98 | — | — |
| | 19 and 20 | — | — | 5,203.09 | — |
| **Total** | | **308,781.17** | **16,333.76** | **36,639.49** | **21,213.60** |

(9) Details of the Construction Project Completion Environment Protection Examination Application Registration Form are as follows:

| **Registration No.** | **Block** | **Construction Scale** *(sq.m.)* |
|---|---|---|
| (2014) No. 012 | Blocks 19 and 20 | Block 19 GFA: 12,835.77 sq.m.<br>Block 20 GFA: 17,536.5 sq.m. |

(10) According to Business Licence No. 350500400036076, 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) was established with a registered capital of RMB62,000,000 as a limited company for a valid operation period from 22 February 2006 to 22 February 2056.

(11) As advised by the China General Group, Binjiang International also comprises additional 457 civil defence car parking spaces with an approximate gross floor area of 21,319.96 sq.m. We have ascribed no commercial value to this portion of property on market value basis as the China General Group has no title ownership of such civil defence spaces. However, we are requested to separately assess the investment value of the property held by the China General Group for investment in its existing state on a non-market value basis for the Group's management reference. Investment value, according to the International Valuation Standards, which the HKIS Valuation Standards follow, is defined as "the value of an asset to the owner or a prospective owner for individual investment or operational objectives". Investment value is an entity-specific basis of value which reflects the benefits received by an entity from holding the asset and, therefore, does not necessarily involve a hypothetical exchange. It must be emphasized that the investment value is not market value.

Having regard to the above, the investment value of the civil defence car parking spaces in existing state as at 31 July 2015 to the China General Group was RMB[34,600,000] (98.387% interest attributable to the China General Group: RMB[34,041,902]).

(12) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, inter alia, the following information:

(i) 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) has obtained the ownership of the kindergarten and underground car parking spaces;

(ii) The tenancy of the kindergarten is legally binding and enforceable;

(iii) The tenancy has not been registered at the relevant local bureau. However, it does not affect the legality of the contract;

(iv) 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) is entitled to occupy, use, transfer, lease, mortgage or dispose of the kindergarten by other legal means;

(v) 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) is entitled to use or lease the underground car parking space; and

(vi) 惠安中總房地產開發有限公司 (Hui An China General Real Estate Development Company Limited) is entitled to use or lease the civil defence area. Upon the emergency order from the provincial level government, the civil defence area shall be resumed at nil premium and collectively managed by 人民防空主管部門.

(13) In accordance with the information provided by the China General Group, the status of title and grant of major approvals and licences are as follows:

| | |
|---|---|
| State-owned Land Use Rights Certificate | Yes |
| Building Ownership Certificate | Yes (Part) |
| Meeting Summary | Yes |
| Planning Permit for Construction Use of Land | Yes |
| Planning Permits for Construction Works | Yes |
| Construction Works Completion Examination Certificate | Yes (Part) |
| Surveying Report | Yes |
| Construction Project Completion Environment Protection Examination Application Registration Form | Yes |
| Business Licence | Yes |

## VALUATION CERTIFICATE

### Group III — Property held by the China General Group under development in the PRC

| | Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 July 2015 |
|---|---|---|---|---|
| 3. | The proposed development of land plot no. 755 to be known as Cullinan Bay, on the east of Linjiang Road, north of Dingxing Road, Yangzhou, Jiangsu Province, the PRC<br><br>(中華人民共和國江蘇省揚州市臨江路東側，鼎興路北側，755號地塊之規劃建設項目擬稱天璽灣) | The property comprises a proposed residential development under construction with a total planned gross floor area of 258,398.485 sq.m. erected on land plot with a total site area of 81,749.27 sq.m.<br><br>The property is situated in Guangling District of Yangzhou. The property abuts 望江路 (Wang Jiang Road) to the east, 鼎興路 (Ding Xing Road) to the south, 臨江路 (Lin Jiang Road) to the west and a retail development to the north.<br><br>The property is planned to be developed in 2 phases (in which there are two stages of Phase 1) to comprise various residential blocks over a podium of retail, ancillary facilities and car parking spaces.<br><br>According to the information provided by the China General Group, the respective constituent planned floor areas of Phases 1 and 2 are as follows: | Stage 1 of Phase 1 of the property was completed in May 2015. Stage 2 of Phase 1 is currently under construction and is scheduled to be completed in December 2016.<br><br>As at the valuation date, Phase 2 of the property was a land bank pending for construction. | RMB[640,000,000]<br><br>(98.387% interest attributable to the China General Group: RMB[629,676,800]) |

**Stage 1 of Phase 1**

| Portion | Approximate Gross Floor Area *(sq.m.)* |
|---|---|
| Residential | 22,372.200 |
| Retail | 3,842.640 |
| Ancillary facilities | 6,521.660 |
| Underground car parking space | 4,606.140 |
| Others | 2,952.300 |
| **Total** | **40,294.940** |

| Property | Description and tenure | Particulars of occupancy | Market value in existing state as at 31 July 2015 |
|---|---|---|---|

**Stage 2 of Phase 1**

| Portion | Approximate Gross Floor Area *(sq.m.)* |
|---|---:|
| Residential | 78,731.555 |
| Ancillary facilities | 2,236.920 |
| Underground car parking space | 22,255.000 |
| Others | 8,990.070 |
| **Total** | **112,213.545** |

**Phase 2**

| Portion | Approximate Gross Floor Area *(sq.m.)* |
|---|---:|
| Residential | 80,151.000 |
| Ancillary facilities | 11,574.000 |
| Underground car parking space (including 8,960 sq.m. of civil defence area) | 14,165.000 |
| **Total** | **105,890.000** |

The land use rights of the property have been granted for terms due to expire on 22 May 2083 for residential use.

*Notes:*

(1) According to 2 state-owned Land Use Rights Certificates issued by 揚州市人民政府 (The People's Government of Yangzhou), the land use rights of the property with a total site area of 81,749.27 sq.m. have been vested in 揚州德輝房地產開發有限公司 (Yangzhou Dehui Real Estate Development Company Limited) with details as follows:

| Certificate No. | Use | Site Area *(sq.m.)* | Issue Date | Expiry Date |
|---|---|---:|---|---|
| YGY (2013) No. 0350 | Residential | 54,137.85 | 16 July 2013 | 22 May 2083 |
| YGY (2013) No. 0351 | Residential | 27,611.42 | 16 July 2013 | 22 May 2083 |
| **Total** | | 81,749.27 | | |

(2) According to Grant Contract of Land Use Rights No. 3210012012CR0045 entered into between 揚州市國土資源局 (Land Resources Bureau of Yangzhou Municipal) and 恒德(石獅)投資有限公司 (Hengde (Shishi) Investment Company Limited) dated 6 August 2012, the land use rights of the property have been contracted to be granted to 恒德(石獅)投資有限公司 (Hengde (Shishi) Investment Company Limited) with details as follows:

| | | | |
|---|---|---|---|
| (i) | Location | : | East of Linjiang Road, south of Nanroucheng Highway, west of Wangjiang Road, north of Dingxing Road |
| (ii) | Site area | : | 81,749 sq.m. |
| (iii) | Uses | : | Residential |
| (iv) | Plot ratio | : | ≤2.3 |
| (v) | Building covenant | : | Completed before 7 August 2015 |
| (vi) | Land premium | : | RMB326,996,000 |

According to Change of Terms on Grant Contract of Land Use Rights dated 22 September 2015, the building covenant in respect of the completion time of the property with a site area of 81,749 sq.m. under the Grant Contract of Land Use Rights No. 3210012012CR0045 have been adjusted from 7 August 2015 to 7 August 2016.

(3) According to Planning Permit for Construction Use of Land No. 321000201300023 dated 20 May 2013 issued by 揚州市規劃局 (Land Planning Bureau of Administration Committee of Yangzhou Municipal), the proposed construction land use of the property complies with the town planning requirements and has been permitted for construction of a site area of 49,137 sq.m.

(4) According to 11 Planning Permits for Construction Works issued by 揚州市規劃局 (Land Planning Bureau of Administration Committee of Yangzhou Municipal), the construction works of the property with a gross floor area of 152,744.69 sq.m. are in compliance with the construction works requirements and have been approved with details as follows:

| **Certificate No.** | **Issue Date** | **Project Name** | **Construction Scale** *(sq.m.)* |
|---|---|---|---|
| 321000201300435 | 6 August 2013 | Retail composite building | 14,717.720 |
| 321000201300436 | 6 August 2013 | Block 1 | 8,550.855 |
| 321000201300437 | 6 August 2013 | Block 2 | 8,550.855 |
| 321000201300438 | 6 August 2013 | Block 3 | 8,558.205 |
| 321000201300817 | 29 November 2013 | Basement car parking space 1 | 22,255.000 |
| 321000201300818 | 29 November 2013 | Block 8 | 15,077.580 |
| 321000201300819 | 29 November 2013 | Block 9 | 20,925.030 |
| 321000201300820 | 29 November 2013 | Block 12 | 8,561.755 |
| 321000201300821 | 29 November 2013 | Block 15 | 21,743.030 |
| 321000201300822 | 29 November 2013 | Block 16 | 23,651.150 |
| 321000201400045 | 16 January 2014 | East Gate | 153.510 |
| **Total** | | | 152,744.690 |

(5) According to 2 Commencement Permits for Construction Works issued by 揚州市廣陵區城鄉建設局 (Urban Rural Development Bureau of Guangling District Yangzhou Municipal), the construction works of the development with a total gross floor area of 152,591.19 sq.m. are in compliance with the requirements for works commencement and have been permitted with details as follows:

| Certificate No. | Issue Date | Project Name | Construction Scale (sq.m.) |
|---|---|---|---|
| 321002020130028 | 11 October 2013 | Blocks 1–3 and retail composite building | 40,377.64 |
| 321002020140020 | 9 May 2014 | Blocks 8, 9, 12, 15 and 16, and basement car parking space 1 | 112,213.55 |
| **Total** | | | 152,591.19 |

(6) According to 揚州市發改委關於下達天璽灣花園商品房開發建設項目二期工程核准決定書的通知 dated 15 August 2013 issued by 揚州市發展和改革委員會 (Yangzhou Municipal Development and Reform Committee), the construction works for Phase 2 of the development with a total gross floor area of 105,890sq.m. have been approved with details as follows:

| Portion | GFA (sq.m.) |
|---|---|
| Residential | 80,151 |
| Gate and electric room | 371 |
| Open floor | 1,403 |
| Underground (including 8,960 sq.m. of civil defence area) | 23,965 |
| **Total** | 105,890 |

(7) According to Building Survey Results Report No. Y2013100807508 dated 24 October 2013, the gross floor areas of blocks 1, 2 and 3 of the property are summarized as follows:

| Block | | GFA | |
|---|---|---|---|
| | Residential (sq.m.) | Underground (sq.m.) | Others (sq.m.) |
| 1 | 7457.40 | 984.54 | 30.36 |
| 2 | 7457.40 | 984.54 | 30.36 |
| 3 | 7457.40 | 983.22 | 38.49 |
| **Total** | 22,372.20 | 2,952.30 | 99.21 |

(8) According to 4 Unit Construction Completion Examination Certificates dated 30 June 2015, Blocks 1, 2, 3 and the retail composite building of the property with a total gross floor area of 40,583 sq.m. has been completed with details summarized as follows:

| Building Name | GFA (sq.m.) | Completion Date |
|---|---|---|
| Block 1 | 8,550 | 28 May 2015 |
| Block 2 | 8,550 | 28 May 2015 |
| Block 3 | 8,558 | 28 May 2015 |
| Retail Composite Building | 14,925 | 28 May 2015 |
| **Total** | 40,583 | |

(9) According to 2 Pre-sale Permits issued by 揚州市住房保障和房產管理局 (Land Residential and Real Estate Management Bureau of Yangzhou Municipal), 揚州德輝房地產開發有限公司 (Yangzhou Dehui Real Estate Development Company Limited) was permitted for pre-sale of Blocks 1, 2, 3 and 9 with a total gross floor area of 44,964.71 sq.m with details summarized as follows:

| **Project Name** | **Pre-sale GFA** *(sq.m.)* | **Issue Date** |
|---|---|---|
| Blocks 1, 2 and 3 | 25,308.20 | 15 May 2014 |
| Block 9 | 19,656.51 | 29 July 2015 |
| **Total** | **44,964.71** | |

(10) According to the information provided by the China General Group, the construction cost of Stage 2 of Phase 1 and Phase 2 of the development incurred as at 31 July 2015 was approximately RMB121,000,000. The estimated total construction cost of Stage 2 of Phase 1 and Phase 2 of the development was approximately RMB759,000,000. In the course of our valuation, we have taken into account such costs.

(11) According to the information provided by the China General Group, as at 31 July 2015, portions of the property with a total gross floor area of approximately 16,644.47 sq.m. of the property have been pre-sold for a consideration of RMB115,060,123. We have included such portions in our valuation and taken into account such amount.

(12) The market value when completed of the proposed development as at 31 July 2015 was approximately RMB[1,708,000,000].

(13) According to Business Licence No. 321000000086162, 揚州德輝房地產開發有限公司 (Yangzhou Dehui Real Estate Development Company Limited) was established on 17 August 2012 with a registered capital of RMB100,000,000 as a limited company for an operating period from 17 August 2012 to 16 August 2032.

(14) We have been provided with a legal opinion on the property prepared by the China General Group's PRC legal adviser, which contains, inter alia, the following information:

(i) The 2 State-owned Land Use Rights Certificates of the property are valid, legal and enforceable under the PRC laws;

(ii) The land use rights of the property are subject to mortgages in favour of 中國建設銀行股份有限公司揚州分行 (China Construction Bank Corporation, Yangzhou Branch) for a period from 29 November 2013 to 28 November 2016.

(iii) 揚州德輝房地產開發有限公司 (Yangzhou Dehui Real Estate Development Company Limited) is the sole legal land user of the property and has obtained the relevant certificates and approval from the government in respect of the construction of Phase 1 of the property; and

(iv) 揚州德輝房地產開發有限公司 (Yangzhou Dehui Real Estate Development Company Limited) is entitled to occupy, use, transfer, lease, mortgage or dispose of the property by other legal means.

(15) In accordance with the information provided by the China General Group, the status of title and grant of major approvals and licences are as follows:

| | |
|---|---|
| State-owned Land Use Rights Certificate | Yes |
| Grant Contract of Land Use Rights | Yes |
| Planning Permit for Construction Use of Land | Yes (Part) |
| Planning Permit for Construction Works | Yes (Part) |
| Commencement Permit for Construction Works | Yes (Part) |
| Building Survey Results Report | Yes (Part) |
| Unit Construction Completion Examination Certificate | Yes (Part) |
| Pre-sale Permit | Yes (Part) |
| Business Licence | Yes |

## REGULATORY OVERVIEW

Set out below is a summary of certain aspects of the PRC legal and regulatory provisions relating to the Target Group's operations and business, including but not limited to, laws and regulations relating to land, real estate development, real estate management, environmental protection, taxation, foreign exchange control and civil air defence construction.

## REGULATIONS GOVERNING PROPERTY DEVELOPMENT ENTERPRISES IN THE PRC

### I. Foreign Investment in PRC Real Estate Market

The Chinese-Foreign Equity Joint Venture Law of the PRC 《中華人民共和國中外合資經營企業法》 ("**Equity Joint Venture Law**") was promulgated by the National People's Congress ("**NPC**") on 1 July 1979, became effective from 8 July 1979, and subsequently amended on 4 April 1990 and 15 March 2001. Pursuant to the Equity Joint Venture Law, the Chinese government protects foreign investors' investments, profits distributed to them and other lawful rights and interest in the equity joint venture under the contracts, agreements and articles of association approved by Chinese government. The equity joint venture agreement, contract and articles of associations entered into by the parties to the equity joint venture, shall be reviewed and approved by foreign economic relations and trade authorities. The capital contribution from foreign investors shall not be less than 25% of the registered capital of the equity joint venture. The parties to the equity joint venture shall share the profit and undertake the risk and loss pro ratio to their capital contribution. After payment of joint venture income tax on the gross profit pursuant to PRC tax law and deducting from the gross profit the reserve fund, bonus and welfare fund for employees and expansion funds prescribed in the articles of associations, the net profit could be distributed to the parties to the equity joint venture pro rata to their capital contribution.

The Company Law of the PRC《中華人民共和國公司法》("**Company Law**") is promulgated by the Standing Committee of NPC ("**SCNPC**") on 29 December 1993 and became effective from 1 July 1994. The Company Law was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. The Company Law has specific provisions as to the incorporation and organizations of limited liability company and joint stock limited company, special requirements for the organizations of the listing company, issuance and transfer of shares of joint stock limited company, the qualification and obligations of the company's directors, supervisors and senior managements, the debentures, the accounts of the company, the companies' merger and split, increase or decrease of the company's capital, winding-up and dissolution of the company, branches of foreign companies and the liabilities for violation of such provisions. The Company Law also stipulates that the provisions therein are applicable to foreign-invested companies, unless the law on foreign investment has stipulated otherwise.

Pursuant to the Regulations on Guiding the Orientation of Foreign Investment《指導外商投資方向規定》promulgated by the State Council on 11 February 2002 and effective from 1 April 2002, the industries are classified into four categories, including encouraged foreign-invested industries, restricted foreign-invested industries, prohibited foreign-invested industries and permitted foreign-invested industries, the first three of which are set forth in the Guidance Catalogue of Industries for the Foreign Investment《外商投資產業指導目錄》("**Guidance Catalogue**"). The industries which are not set forth in the Guidance Catalogue belong to permitted foreign-invested industries. The Guidance Catalogue is the guideline on the application of relevant policies as to review and approval of foreign-invested projects and foreign-invested enterprises.

According to the Provisions on Administration of Approving and Filing Foreign-Invested Projects《外商投資項目核准和備案管理辦法》promulgated by the National Development and Reform Commission ("**NDRC**") on 17 May 2014, implemented on 17 June 2014 and amended on 27 December 2014, (i) the encouraged foreign-invested projects with a total investment amount not less than USD300 million and requested to be controlled by Chinese investors in the Guidance Catalogue, and the restricted foreign-invested projects (excluding real estate projects) with a total investment not less than USD50 million shall be approved by NDRC; (ii) the real estate projects within the scope of restricted foreign-invested projects and other restricted foreign-invested projects with a total investment less than USD50 million shall be approved by the provincial government; (iii) the encouraged foreign-invested projects with a total investment less than USD300 million and requested to be controlled by Chinese investors in the Guidance Catalogue, shall be approved by the local government; and (iv) the other foreign-invested projects that do not fall within the scope of (i), (ii) or (iii) shall be filed with the local investment authority.

Pursuant to the latest version of the Guidance Catalogue promulgated jointly by NDRC and MOFCOM on 10 March 2015 and to be effective from 10 April 2015, construction of golf course and villas belong to a prohibited foreign-invested industry while other real estate projects belong to permitted foreign-invested projects.

On 11 July 2006, the Ministry of Construction, MOFCOM, NDRC, the People's Bank of China ("**PBOC**"), the State Administration for Industry and Commerce ("**SAIC**") and SAFE jointly promulgated and implemented the Opinions on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market《關於規範房地產市場外資准入和管理的意見》("**No. 171 Opinions**"). The No. 171 Opinions stipulate that, (i) the establishment of foreign-invested real estate enterprises shall obtain licenses by following the procedures set forth therein; (ii) the registered capital of the foreign-invested real estate enterprises with a total investment not less than USD 10 million, shall account for not less than 50% of such total investment; and (iii) the registered capital of the foreign-invested real estate enterprises with a total investment less than USD 10 million shall comply with current rules. According to the Interim Regulations on Proportion of Registered Capital to Total Investment of Chinese-Foreign Equity Joint Venture《關於中外合資經營企業註冊資本與投資總額比例的暫行規定》, the registered capital of a foreign-invested real estate enterprise shall not be less than 50% of its total investment if its total investment is more than USD3 million but less than USD10 million, while the registered capital of a foreign-invested real estate enterprise with a total investment within USD3 million, shall not be less than 70% of its total investment. No. 171 Opinions also set forth the specifications on transfer of equity in foreign-invested real estate enterprises and transfer of interest in real estate projects held by foreign-invested real estate enterprises and on processes relating to the acquisition of domestic real estate enterprises by foreign investors.

The Notice on Implementation of Opinions on Standardizing the Admittance and Administration of Foreign Capital in the Real Estate Market《關於貫徹落實〈關於規範房地產市場外資准入和管理的意見〉的通知》promulgated by the General Office of MOFCOM on 14 August 2006, defines foreign-invested real estate enterprise as the foreign-invested enterprise engaged in the construction and operation of ordinary residence, apartments, houses, hotels (including restaurants), holiday villages, exhibit centers, commercial facilities, theme parks or developing lands or land lots for the construction projects aforementioned.

On 1 September 2006, SAFE and the Ministry of Construction jointly promulgated Regulations on the Administration of Foreign Exchanges in Real Estate Market《關於規範房地產市場外匯管理有關問題的通知》, pursuant to which, the foreign-invested real estate enterprise shall not borrow any foreign debt, or the foreign exchange authorities shall not accept the registration of its foreign debts or approve its settlement of foreign exchanges relating to foreign debts, in the event that its registered capital has not been fully paid-up, or it has not obtained the Certificate of Using State-owned Lands (**land use right certificate**), or the capital invested in a development project is less than 35% of the total investment of such project. The foreign exchange authorities shall not accept the registration of the foreign debts in the event that (i) the foreign entity or individual fails to pay the transfer price in a lump sum with its/his own funds where it or he merges a domestic real estate enterprise by acquiring its equity interest or by other means, or where it or he purchases the domestic parties' equity interest in a Chinese-Foreign joint venture, or (ii) there are provisions guaranteeing either party directly or indirectly a fixed return in the contracts, articles of associations, equity transfer agreements or other documents entered into by and between the Chinese and Foreign investors. Funds within foreign currency accounts dedicated to foreign investors and opened by foreign organizations and individuals with domestic banks within the PRC may not be used for real estate development and operations. The notice also provides for the formalities relating to the establishment of branches and representative offices within the PRC by foreign institutions as well as the foreign exchange operating procedures relating to the sale and purchase of commodity property within the PRC by foreign individuals, Hong Kong, Macao and Taiwan residents and overseas Chinese.

As requested in the Notice on Strengthening and Regulating Approval of and Supervision on Direct Foreign Investment in Real Estate Market《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》jointly issued by MOFCOM and SAFE on 23 May 2007, (i) the MOFCOM local administrative authorities shall strengthen the approval of and supervision on foreign-invested real estate enterprises, restrict the foreign investment in upscale real estate, and the acquisition of or investment in domestic real estate enterprises by means of round-trip investment (including the same effective controller) is strictly prohibited. Foreign investors may not circumvent the approval of foreign-invested real estate by way of changing the effective controller of domestic real estate enterprises. Upon any discovery of the establishment of foreign-invested real estate enterprise by illegal means such as deliberate avoidance and misrepresentation, the foreign exchange control authorities will hold the foreign investors liable for the escape and cheat of foreign exchange through unauthorized remittance of capital and gains arising therefrom out of the PRC; (ii) the foreign investor who is engaged in development or operation of real estate in the PRC shall comply with the project-company principle, shall apply for the incorporation of a foreign-invested real estate enterprise, and shall carry out its business within the authorized business scope. Sino-foreign investment parties to the foreign-invested real estate enterprises may not enter into any form of guarantee terms on fixed return or disguised fixed returns for any of the parties; (iii) the foreign-invested real estate enterprise approved by local authorities shall be filed with MOFCOM; and (iv) foreign exchange authorities and the designated foreign exchange bank shall not handle the foreign exchanges settlements and sales for the foreign-invested real estate enterprises which are not registered with MOFCOM or fail in the joint annual inspection on foreign-invested enterprises. Any irregularities in the examination and approval of foreign-invested real estate enterprises by local approval authorities will be investigated and rectified by MOFCOM. Foreign exchange registration procedures for irregularly established foreign-invested real estate enterprises will not be handled by the foreign exchange control authorities.

The Notices on Completing the Filing of Foreign Investment in Real Estate Industry《關於做好外商投資房地產業備案工作的通知》promulgated by MOFCOM on 18 June 2008 and implemented on 1 July 2008, stipulates the procedures as to the filing of foreign-invested real estate enterprises. According to such procedures, MOFCOM administrative authorities at provincial level shall verify the filing documents of foreign-invested real estate enterprise and MOFCOM shall conduct the filing. The MOFCOM will conduct random checks on foreign-invested real estate enterprises in conjunction with the relevant departments of the State Council. For foreign-invested real estate enterprises with non-compliance with the existing regulations, upon verification, their foreign exchange registration and foreign investment statistics will be cancelled by the foreign exchange administration department upon notice served by MOFCOM.

On 22 November 2010, MOFCOM issued and implemented the Notice on Strengthening Management over the Approval and Filing of Foreign-invested Real Estate Enterprises (《關於加強外商投資房地產業審批備案管理的通知》), whereby, it is required that the local commercial authorities should duly strengthen the review of real estate projects involving foreign exchange inflows. On checking archival data, the focus should be placed on the review of the integrity of land files. For the grant of lands without the requirement of public tender, auction and listing-for-sale, proof of evidence issued by the land administrative authorities and in compliance with the provisions of land management of the country should be provided. The local competent authorities will, in collaboration with the relevant local authorities, curb speculative investment by stepping up the supervision over cross-border investment and financing activities as well as the mitigation and prevention of risk exposures in the real estate market. Real estate enterprises established in the PRC with foreign capital may not realize their profits through sale and purchase of the real estate properties built/under construction within the PRC. The local commercial authorities should conduct examination and approval in strict compliance with the provisions relating to the setting up of the investment vehicles with foreign investment. No approval shall be granted for investment companies engaged in real estate development and operation. Working with relevant departments such as the foreign exchange bureau, the local commercial authorities will carry out serious screening and rigorous examination on real estate enterprises which are involved in round-trip investment, with strict control over the setting up of real estate enterprises by way of round-trip investment.

The Notice on Adjusting Policies on Admittance and Administration of Foreign Investment in Real Estate Market (《關於調整房地產市場外資准入和管理有關政策的通知》) was jointly promulgated and implemented by Ministry of Housing and Urban-Rural Development ("**MOHURD**") and other five departments on 19 August 2015, which stipulates, (i) the proportion of registered capital to total investment of the foreign-invested real estate enterprise shall abide by the Interim Regulations on Proportion of Registered Capital to Total Investment of Chinese-Foreign Equity Joint Venture (《關於中外合資經營企業註冊資本與投資總額比例的暫行規定》) promulgated by the State Administration for Industry & Commerce; (ii) revocation of the requirement that the registered capital must be fully injected before the foreign-invested real estate enterprise applies for domestic loan and external loan and settlement for foreign exchange loan; (iii) the branch and representative offices set up by foreign institutes (excluding the real estate enterprises) and the foreign individuals working and studying in the PRC may purchase necessary real estate property for self-use; and (iv) the foreign-invested real estate enterprises may conduct foreign exchange registration directly at banks.

## II. Development of Real Estate

### 1. *Real Estate Development Enterprises*

The Urban Real Estate Administration Law of PRC《中華人民共和國城市房地產管理法》("**Real Estate Administration Law**") was promulgated by SCNPC on 5 July 1994, came into effect from 1 January 1995, and amended on 30 August 2007. Pursuant to the Real Estate Administration Law, the real estate development enterprise (or real estate developer) is an enterprise engaged in the development and operation of real estate for the purpose of making profit. A real estate development enterprise upon its establishment shall (i) have its own name and organizations; (ii) have fixed business place; (iii) have registered capital stipulated by State Council; (iv) have employed enough professional technicians; and (v) satisfied other requirements stipulated by laws and regulations. The real estate development enterprise shall be registered, within one month after obtaining its business license, with the authority designated by the government above county level in the place where it is incorporated.

The Administration of Urban Real Estate Development Ordinance《城市房地產開發經營管理條例》("**Administration Ordinance**") was promulgated by State Council on 20 July 1998, and subsequently amended on 1 November 2002, 19 May 2004 and 8 January 2011. According to the Administration Ordinance, a real estate development enterprise shall also satisfy the following requirements in addition to other requirements stipulated by laws and regulations: (i) its registered capital shall be more than RMB1 million; (ii) it shall employ four or more qualified full-time technicians in real estate and construction project; and (iii) it shall employ two or more full-time certified accountants. Local governments at the level of provinces, autonomous regions and municipalities may formulate the provisions on the registered capital and the requirement of professional and technical personnel for real estate development enterprises at a standard higher than those aforementioned according to the actual situation of the region. The real estate authorities would approve and grant qualifications in different classes to the real estate developers according to their assets, quantity of professional technicians and business performance in real estate development.

In accordance with the Regulation on Administration of Qualification of Real Estate Development Enterprise《房地產開發企業資質管理規定》("**Qualification Regulation**") promulgated by the Ministry of Construction on 29 March 2000, real estate development enterprises shall apply for qualification certificate and shall not be engaged in real estate development business without qualification certificate. Pursuant to the Qualification Regulation, the qualifications of real estate developers can be classified into four classes, namely, Class I Qualification, Class II Qualification, Class III Qualification and Class IV Qualification. The Class I Qualification is subject to preliminary approval of construction authorities of local governments at the level of provinces, autonomous regions and municipalities and final approval of construction authorities of State Council, while qualification in other three classes are regulated and granted according to the measures prescribed by local governments at the level of provinces, autonomous regions and municipalities. The Real Estate Developer with Class I Qualification is entitled to undertake nation-wide real estate project without restriction. The real estate developer with Class II qualification or lower qualifications is entitled to undertake real estate projects the total GFA of which is less than 250,000 sq.m. The specific business scope for the real estate developer with Class II or lower qualification shall be determined by construction authorities at provincial level. The real estate developer is only entitled to be engaged in development and operation of real estate within the approved business scope and shall not be engaged in the business beyond such scope. The real estate enterprise newly established shall be registered with the real estate authority within 30 days after incorporation, and real estate authority shall issue a provisional qualification certificate within 30 days after receipt of the registration application if such enterprise is eligible. The provisional qualification certificate will be valid for one year from issuance and can be extended for not more than another two years subject to the approval of real estate authorities. The real estate developer shall apply to the real estate authority for qualification within one month prior to the expiration of its provisional qualification certificate. The qualification certificate of a real estate developer is subject to annual inspection. The annual qualification inspection for real estate development enterprises with Class I Qualification shall be carried out by the construction administration department of the State Council or its authorized body. The methods on the annual qualification inspection for real estate development enterprises with Class II Qualification or below shall be framed by people's governments at the level of provinces, autonomous regions and municipalities. The failure of the participation in the annual qualification inspection by real estate development enterprises without justifiable reasons shall be deemed as unqualified results of inspection, upon which, qualification certificate shall be cancelled by the original examination and approval authorities.

According to Fujian Implementation Rules of Qualification Regulation《福建省〈房地產開發企業資質管理規定〉實施細則》promulgated by Bureau of Construction of Fujian Province on 28 December 2005, (i) the real estate developer with Class I Qualification is eligible to undertake any real estate project in Fujian Province without restriction; (ii) the real estate developer with Class II Qualification can only develop real estate projects in Fujian Province with total GFA less than 250,000 sq.m.; (iii) the real estate developer with Class III Qualification can only develop real estate projects in Fujian Province with total GFA of 200,000 sq.m. or below; (iv) the real estate developers with Class IV Qualification can only develop real estate projects in Fujian Province with total GFA of 100,000 sq.m. or below. In addition, the real estate developer which has a provisional qualification certificate and a registered capital over RMB8 million, and the quantity of whose professional technicians satisfies the requirement for a Class III developer can undertake the real estate projects as a developer with Class III Qualification. The real estate developer with a provisional qualification certificate, whose registered capital is less than RMB8 million but over RMB2 million, can undertake real estate projects as a developer with Class IV Qualification. The period for annual inspection on the qualification of real estate developers is from March to June of each year.

In accordance with Yangzhou Measures on Administration of Real Estate Development《揚州市區房地產開發經營管理辦法》promulgated by Yangzhou Government on 17 July 2004, (i) the real estate developer with Class I Qualification can undertake nation-wide real estate projects without any limitation; (ii) the real estate developer with Class II Qualification can undertake real estate projects within Jiangsu Province and with total GFA of less than 250,000 sq.m and without any limitation to the floors; (iii) the real estate developer with Class III Qualification can undertake real estate projects not exceeding 16 floors with total GFA of less than 150,000 sq.m within Yangzhou; (iv) the real estate developer with Class IV Qualification can undertake real estate projects not exceeding 7 floors with total GFA of less than 50,000 sq.m. in the towns outside the urban area of Yangzhou. Real estate developers shall submit documents for annual inspection on their qualification to the real estate authority before 20 January of each year, and the real estate authority would publish the result of annual inspection before 30 April of each year.

*2. Land for Real Estate Development*

The Land Administration Law of the PRC《中華人民共和國土地管理法》("**Land Law**") was promulgated by SCNPC on 25 June 1986, became effective from 1 January 1987, and was subsequently amended on 29 December 1988, 29 August 1998 and 28 August 2004. Pursuant to the Land Law, the land in urban areas is state-owned. Except as otherwise stipulated by law, the constructing entities that need to use the state-owned land, shall acquire the land use rights by paying a consideration, such as by paying the premium for the land use right granted. Prior to using the land, the constructing entities acquiring the land use rights subject to the payment of consideration, shall pay the consideration for land use (such as land premium) and other fees in compliance with the standards and measures prescribed by the State Council.

The Interim Ordinance on Grant and Transfer of State-owned Land Use Right of PRC《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》("**Grant and Transfer of Land Use Right Ordinance**") was promulgated by the State Council on 19 May 1990. According to the Grand and Transfer of Land Use Right Ordinance, the State adopts a state-owned land use right transfer and grant system applicable to the State-owned lands in cities and towns on the basis of the principle of the separation of ownership and land use rights, the land use right can be granted by way of agreement, public tender and auction. The grant of land use rights shall be subject to the execution of contracts. After paying the land premium, the land user shall register the land use right as requested under relevant regulations and obtaining the land use right certificate. Land use rights of land users may be transferred, leased, pledged or used for other economic activities within the terms of land use rights. The maximum term of land use rights, ascertained in accordance with the usage of land, is (i) 70 years for the land used for residence; (ii) 40 years for the land used for commerce, tourism and entertainment; (iii) 50 years for industrial use; (iv) 50 years for the land used for education, technology, culture, public health and sports; or (v) 50 years for the land for comprehensive use or other purposes. The State shall not withdraw the land use right prior to the expiration of the aforesaid terms. If the State shall withdraw the land use right in advance for public interest under special circumstances, it shall pay compensation for such withdrawal. Upon the expiration of the land use right, the user of the land may apply for renewal. The renewal is subject to formation of a new contract, payment of land premium and registration.

The Regulation on Grant of State-owned Construction Land Use Right by Public Tender, Auction and Listing-for-sale《招標拍賣掛牌出讓國有建設用地使用權規定》promulgated by the Ministry of Land and Resources ("**MLR**") on 9 May 2002 and implemented on 1 July 2002 and amended on 21 September 2007, provides that the land use right over the lands used for industry, commerce, tourism, entertainment and commodity residence and for same parcels of land with two intentional land users or more shall be granted by the way of public tender, auction or listing-for-sale. It further specifies the procedures for such public tender, auction and listing-for-sale.

The Regulations on Grant of State-owned Land Use Rights by Agreements 《協議出讓國有土地使用權規定》 were issued by the MLR on 11 June 2003 and were in effect on 1 August 2003. According to the regulations, the grant of state-owned land use rights refers to the grant of state-owned land use rights to land users by the State within a certain term of years by way of agreement, and the payment of land premium to the State by land users. The grant of state-owned land use rights shall be conducted by way of agreement, otherwise by way of public tender, auction or listing-for-sale in accordance with laws, rules and regulations. The grant of state-owned land use rights by way of agreement shall be based on open, fair, impartial and good faith principles. The land premium for the grant of state-owned land use rights by way of agreement shall not less than the lowest one as determined by the State.

The Regulations on Disposal of Idle Land《閒置土地處置辦法》(“**Idle Land Regulation**”) was promulgated by the MLR on 26 April 1999, and amended on 22 May 2012. According to Idle Land Regulation, the land being developed and constructed and is state-owned construction land shall be deemed as idle land under the following circumstances (i) the land had not been developed or constructed for one year from the commencement date for construction stipulated in the land grant contract or land allocation warrant; (ii) the area developed or constructed is less than one-third of the total area of the land, or the amount invested is less than 25% of the total amount supposed to be invested in the land, and the suspension of development and construction continues for one year. If the idle land is caused by governmental actions or force majeure, the land and resources administrative authorities at the city or county level shall negotiate with the land user on the measures for disposal of such idle land, which include (i) extending the period for development and construction but the extended period shall not be more than one year, (ii) adjusting the usage of or zoning requirements for the land, (iii) being arranged for temporary use by the government, (iv) being resumed with compensation by agreement, (v) exchanging for other land and other disposal measures. If the idle land is not caused by governmental actions or force majeure, the land and resources authorities at the city or county level, subject to the approval from the government at the same level, is entitled to impose idle land fee equivalent to 20% of the land premium. The idle land fee shall not be added into the cost of developing the land. If the idle land is not developed or constructed for two years, it shall be forfeited without compensation by the land and resources authorities at the city or country level, subject to the approval from the government with authority.

The State Council promulgated the Notice on Economical and Intensive Use of Land《關於促進節約集約用地的通知》on 3 January 2008, to emphasize the strict enforcement of regulations on idle lands. The land being idle for two years shall be forfeited according to laws and regulations in order to be rearranged for other use. The idle land which cannot fulfill the statutory conditions for forfeiture shall be handled timely and fully used by way of adjusting the usage, exchanging other land of same value, arranging temporary usage or incorporating into government reserve. For the land being idle for more than one year but less than two years, an idle land fee amounting to 20% of the land premium shall be imposed on the land user.

### 3. *Planning of Real Estate Development Project*

According to the Urban and Rural Planning Law of the PRC《中華人民共和國城鄉規劃法》promulgated by SCNPC on 28 October 2007 and effective from 1 January 2008, for construction project on land to be granted, the constructing entity or individual shall apply to the competent authority for the construction land planning permit after execution of the land use rights grant contract. In addition, the entity or individual constructing projects in the area planned to be cities or towns, shall apply to the competent authority for construction work planning permit. The approval of granting land use rights to the constructing entity without obtaining construction work planning permit should be revoked by the local governments at county-above level. The land under occupation should be promptly returned. Should such occupation result in any losses to the relevant parties, compensation should be made according to law.

Pursuant to the Administrative Measures on Planning of Grant and Transfer of State-owned Land Use Right《城市國有土地使用權出讓轉讓規劃管理辦法》promulgated by Ministry of Construction on 6 November 1992 and implemented on 1 January 1993, the transferee of the state-owned land use right could apply for the Land Use Certificate on the condition of obtaining the construction land planning permit.

*4. Construction of Real Estate Development Project*

The Construction Law of the PRC《中華人民共和國建築法》("**Construction Law**") was promulgated by SCNPC on 1 November 1997, effective from 1 March 1998 and amended on 22 April 2011. The Construction Law contains provisions as to construction permit, contracting of construction projects, supervision on construction projects, safety management on construction and the quality of construction. According to the Construction Law, the constructing entity or individual shall apply for construction work commencement permit prior to the commencement of the construction.

According to the Tender and Bidding Law of the PRC《中華人民共和國招標投標法》("**Tender and Bidding Law**") promulgated by SCNPC on 30 August 1999 and effective from 1 January 2000, the survey, design, construction, supervision and purchase of substantial equipment and materials relating to a construction project in the PRC falling into the following scope shall be conducted by way of tender and bidding: (i) the project of constructing large-scale infrastructure and public utilities for public interest and security; (ii) the projects fully or partly funded from national funds or through national financing; or (iii) projects using loans or financial assistance from international organizations or foreign governments.

According to the Standards on Scope and Scale of Construction Projects Subject to Tender《工程建設項目招標範圍和規模標準規定》issued by National Development and Planning Committee on 1 May 2000, contracts with respect to construction projects in the stipulated scope and meeting one of the following standards shall be entered into by way of tender: (i) any construction contract with an estimated price of more than RMB2 million; (ii) any purchase contract of substantial equipment or materials with an estimated price of more than RMB1 million; (iii) any service contract of construction survey, design and supervision with an estimated price of more than RMB500,000; and (iv) the total investment amount of the project is over RMB30 million, although the estimated price of individual contract may be lower than the aforesaid standards.

On 30 January 2000, the State Council promulgated and implemented the Ordinance on Quality Management of Construction Project《建設工程質量管理條例》, which stipulates the regulatory obligations and liability of the constructing entity, surveyor, contractor, supervisor with respect to the quality of the construction project, and further provides that the construction authority above county level shall supervise the quality of the construction projects in its administrative region. Within 15 days following the pass of examination and inspection of the construction project, the constructing entity shall file with construction or other relevant authorities the examination and inspection report and the acknowledgement documents issued by planning, public security and environmental protection authority. A maintenance guarantee system has been adopted to ensure the quality of construction projects. At the time of the submission of the inspection and examination reports of the completion of construction projects to constructing entity, construction contractors shall issue letters of quality warranty to constructing entity. Letters of quality warranty should specify the aspects of scope, duration and responsibility of warranty of building works. Upon the condition of regular use, the minimum maintenance guarantee period (i) for infrastructures, foundation and major structure shall be the usable period stipulated in the design documents; (ii) for the roofing waterproofing engineering, rooms and bathrooms and outside walls with waterproofing requirements, shall be 5 years; (iii) for the heat and cooling supply system shall be 2 terms of supply periods ; and (iv) for the electricity wires, gas pipeline, drainage pipeline, equipment installed and decorations shall be 2 years.

According to Administrative Measures on Construction Work Commencement Permit《建築工程施工許可管理辦法》promulgated by the Ministry of Construction on 15 October 1999 and subsequently amended on 4 July 2001 and 25 June 2014, with its latest amendment effective from 25 October 2014, for the construction, repairing or decoration of various kinds of buildings and their ancillary facilities, the installation of their supporting lines, pipelines and equipment as well as the construction of urban municipal infrastructure facilities, the constructing entity shall apply for construction work commencement permit prior to the commencement of the construction work with the construction authorities at or above the county level. Construction projects with an investment amount of less than RMB300,000 or construction area of less than 300 sq.m. can be waived from application for the construction work commencement permit. The constructing entity shall start the construction work within three months from the date of procurement of such permit. Should the constructing entity fails in starting the construction work as scheduled, they shall apply for extension with the construction authority before the expiration of the three-month period and explain the reasons in relation thereto. Application for extension shall be limited to twice and each extension period shall be no more than three months. Upon failure in commencing the construction work as scheduled without application for extension or excess of number of such application or expiration of the extension period, the construction work commencement permit shall automatically become null and void.

According to the Interim Administrative Measures on Inspection and Registration Upon Completion of Building and Municipal Infrastructure《房屋建築和市政基礎設施工程竣工驗收規定》promulgated by Ministry of Housing and Urban-Rural Development ("**MOHURD**") on 2 December, 2013, the constructing entity shall be responsible to organize and conduct the examination and inspection upon completion of the construction project in compliance with the prescribed procedures. Within 15 days following such examination and inspection, the constructing entity shall submit an examination and inspection report to and file the completion with the construction authority above county level in the place where the construction is located.

*5. Sale of Commodity Property*

The Measures on Administration of Sale of Commodity Property《商品房銷售管理辦法》("**Sale Measures**") was promulgated by Ministry of Construction on 4 April 2001 and implemented on 1 June 2001. The Sale Measures stipulates the conditions for sale of commodity property, advertisements, contracts and sales agent of commodity property, and delivery of commodity property. According to the Sale Measures, the sale of commodity property includes post-completion sale and pre-sale. The post-completion sale means the real estate developer sell the property that has passed the completion examination and inspection to the purchaser and in return, the purchaser pays the price for such property. The post-completion sale of commodity property is conditional upon (i) the real estate developer for such property has obtained the business license and the real estate development qualification certificate, (ii) the real estate developer has obtained land use right certificate or other approval documents for land use, (iii) the real estate developer has obtained construction work planning permit and construction work commencement permit; (iv) the real estate project has been completed, examined and inspected as qualified; (v) the demolition resettlement has been practicably carried out; (vi) the supply system of water, electricity, heat, gas, communication has been made ready for use, and other supplementary infrastructures and public facilities has been made ready for use or their construction schedule and delivery date has been confirmed; and (vii) the real property management plan has been practicably implemented. Prior to the post-completion sale of commodity property, the real estate developer shall file with the real estate authority its real estate development manual and other documents proving that the preconditions set forth above have been fulfilled.

The pre-sale of commodity property means the real estate developer pre-sells the commodity property under construction to purchasers, and the purchasers in return would pay a deposit or the price of such property. In accordance with the Measures on Administration of Pre-sale of Urban Commodity Property《城市商品房預售管理辦法》promulgated by Ministry of Construction on 15 November 1994, effective from 1 January 1995 and subsequently amended on 15 August 2001 and 20 July 2004, the conditions precedent to pre-sale of commodity property are as follows: (i) the real estate developer has paid up the land premium and obtained land use right certificates, (ii) the real estate developer has obtained construction work planning permit and construction work commencement permit for the property under pre-sale, (iii) the amount invested represents more than 25% of the total investment amount which is estimated on the basis of the quantity of commodity properties under pre-sale, and the constructing schedule and delivery date has been ascertained. The real estate developer to pre-sell the commodity property shall apply for such permit to real estate authority and obtain the pre-sale permit. Further, the real estate developer is requested to register the commodity property pre-sale contract within the 30 days after its execution with the real estate authority and land administrative authority at the city or county level. The revenues from the pre-sale of commodity property shall be re-invested in the relevant construction work.

Pursuant to the Fujian Interim Measures on Administration of Pre-sale of Commodity Property《福建省商品房預售管理暫行辦法》promulgated by the Housing and Town Construction Bureau of Fujian Province on 14 December 2005, prior to the application for pre-sale permit, the real estate developer shall open a special account for the revenues from pre-sale in the commercial bank in the place where the real estate pre-sold is located. Before the construction fees (excluding quality warranty premium) has been fully paid by the real estate developer, the revenues from pre-sale shall only be used for purchasing the materials and equipment for the construction, paying construction fees, statutory taxes and fees and land premium, or repay the loan secured by the buildings under construction, and shall not be used for any other purpose.

According to Opinion on Supervision over Revenue from Pre-sale of Commodity Property《泉州市商品房預售資金監督管理工作實施意見》 promulgated by Housing and Urban Construction Bureau of Quanzhou City on 18 April 2013, if the real estate developer of the presold real estate has been found involved in violation of regulations on pre-sale revenues, including circumventing the supervision over pre-sale revenues, not using the revenues for approved usage, providing false certificate of construction progress or false contracts, and getting the pre-sale revenues in other fraudulent means, the real estate administrative authority could order the developer to rectify such non-compliance within a prescribed period and suspend its business and registration of sales contracts during the rectification period, or could cancel its license to develop real estate.

According to the Jiangsu Measures on Administration of Pre-sale of Urban Commodity Property《江蘇城市商品房預售管理辦法》promulgated by the Construction Bureau of Jiangsu Province on 28 October 2004, the real estate developer and its sales agents who pre-sell the commodity property shall open a special bank account in the commercial banks. The revenues from the pre-sale shall be deposited into such account and be used for the relevant construction work or repayment of real estate loans. The real estate authority is entitled to supervise on the payment under the pre-sale transactions and to inspect on the cash flow of the special account.

According to the Regulations on Clear Pricing in Sale of Commodity Property《商品房銷售明碼標價規定》promulgated by NDRC on 16 March 2011 and effective from 1 May 2011, the sale of newly built commodity real property by real estate developers and intermediary service institutions shall be based on clearly marked prices pursuant to the regulations thereof. The sale of second-hand commodity real property by intermediary service institutions also shall be based on clearly marked prices with reference to such regulations. The pricing authorities of governments at all levels are the administrative authorities over clear pricing of commodity real property, and shall supervise and inspect on commodity housing operators' compliance with the clearly marked price policy and the publication of fees they charge. According to such regulations, the real estate developer who has obtained the pre-sale permit or is to conduct a post-completion sale, shall price each unit clearly when it discloses the commodity properties for sale. If the commodity property is priced on the basis of GFA or interior GFA, the price for every unit of GFA or interior GFA shall be marked clearly. The real estate developer (being the commodity housing operators) shall disclose simultaneously all the commodity properties for sale within the prescribed period, and shall sell each commodity at the exact price it has reported and marked. Commodity housing operators shall neither add any extra prices on the sale of commodity housing other than marked prices nor charge any unspecified fees.

*6. Charge over Real Estate*

The Security Law of the PRC《中華人民共和國擔保法》("**Security Law**") was promulgated by SCNPC on 30 June 1995 and came into effect from 1 October 1995, and the Property Law of PRC 《中華人民共和國物權法》("**Property Law**") was promulgated by NPC on 16 March 2007 and took effect from 1 October 2007. In accordance with the Security Law and Property Law, a pledge refers to the charge of a property as security for debt, where a debtor or a third person may not transfer the possession of the property. Should the debtor default the repayment of the debt, the creditor is entitled to be compensated in priority at the discounted price of the property or the realized value of the property in auction or sale in accordance with the regulation thereof. Creditor's right secured by the charge shall not exceed the value of its collateral. The surplus of the value of the secured property over the remaining balance of the secured creditor's right may be charged again, provided that the charge shall not be in excess of the remaining balance. A charge can be created over the land use rights, buildings and other constructions attached to the land and buildings under construction. If a charge is created over a building, the land use right over the land on which the building stands shall also be subject to such charge. If the land use right over the land is under a charge, the buildings and constructions on this land shall also subject to such charge. The chargor and chargee shall enter into a security contract in writing. A charge over the real estate shall be registered with the real estate authority in the place where the real estate is situated, and the charge would be created upon such registration.

The Measures on Administration of Charges over Urban Real Estate《城市房地產抵押管理辦法》("**Charge Measures**") promulgated by the Ministry of Construction on 9 May 1997 and amended on 15 August 2001, governs the charge created over urban real estate and provides that charge over other real estate shall be created by reference to it. According to the Charge Measures, for a charge over real estate with a legally obtained housing ownership certificate, the registration authorities shall make a record on the other right column on the housing ownership certificate, which shall then be received and executed by the chargor. The certificate of other rights over housing shall be issued to the chargee. the charge over pre-sold commodity real estate shall be created upon the condition that such real estate development project has satisfied the requirements for transfer and be granted pre-sale permit. If the charge has been created over pre-sold commodity real estate or the building under construction, the registration authority shall make a record on the charge contract. If the pre-sold real estate under charge is completed during the term of such charge, the parties to the charge shall re-register the charge after the chargor obtaining the title certificate to the real estate.

*7. Real Estate Loan*

According to the Notice on Further Strengthening Management of Loans for Real Estate《關於進一步加強房地產信貸業務管理的通知》promulgated by PBOC on 5 June 2003, commercial banks are prohibited from granting loans in any form for real estate projects without land use right certificate, construction land planning permit, construction work planning permit or construction work commencement permit, or granting loans to real estate developers who would use the money borrowed to pay the land premium. The grant of loans by commercial banks for the application from real estate development enterprises may only be made by way of real estate development loans, provided that the grant of such loans by way of working capital of real estate development and in other forms of loans shall be strictly prohibited. Commercial banks could only make housing loans to individual purchasers of residence when the roof of the relevant major structural buildings has been completed. The borrower, who applies for the housing loan for purchasing his first residential unit, shall place at least 20% down payment of the purchase price. For borrower who purchases second or more residential unit, the percentage of down payment shall be appropriately increased.

PBOC promulgated the Notice on Adjusting Housing Credit Policy of Commercial Banks and Excess Reserve Rate《關於調整商業銀行住房信貸政策和超額準備金存款利率的通知》on 16 March 2005 and implemented on 17 March 2005, to request the commercial banks to cancel the preferential interest rate for individual housing loans granted by themselves, and to increase the down payment for an individual residence from 20% to 30% in the cities where the property market is considered to be overheating.

Pursuant to the Guidance on Risk Management on Real Estate Loans Originated by Commercial Banks《商業銀行房地產貸款風險管理指引》issued by China Banking Regulatory Commission ("**CBRC**") on 30 August 2004, for real estate developers applying for real estate loans, the capital ratio of their real estate projects shall not be less than 35%.

On 27 September 2007, PBOC and CBRC jointly promulgated the Notice on Strengthening Management on Commodity Real Estate Credit《關於加強商業性房地產信貸管理的通知》, to strengthen their regulation on the commodity real estate loans, and to require the commercial banks to enforce stringently their process of granting real estate development loans. Commercial banks are prohibited to make loans in any form to the real estate projects with a capital ratio less than 35%, or without land use right certificate, construction land planning permit, construction work planning permit and construction work commencement permit. The commercial banks shall not grant loans to real estate developers that are verified by the real estate or construction authority, to have reserved lands and houses illegally. In addition, the commercial banks shall not accept the commodity property vacant for three or more years as the collateral for a loan. The down payment for the first self-residence residential unit and with a GFA of less than 90 sq.m. shall not be less than 20%. For the first residential unit purchased for self-residence and with a GFA of over 90 sq.m., the down payment shall not be less than 30%. The down payment for the second or more residential unit purchased by individuals who have been granted bank loans for his first residential unit shall not be less than 40%, and the interest rates of such loan shall not be lower than 110% of the benchmark interest rate in the same grade during the same period prescribed by PBOC. Moreover, the down payment ratio and interest rate of loans should go up along with the increase of loans, specifically at an extent of increase to be autonomously determined by commercial banks in accordance with their relevant principles of credit risk management, provided that the monthly repayment of housing loans by borrowers shall not exceed 50% of their monthly income.

In accordance with the Notice on Adjustment of Capital Ratio of Fixed Asset Investment Project《關於調整固定資產投資項目資本金比例的通知》promulgated by the State Council on 25 May 2009, the minimum capital ratio of the subsidized housing projects and commodity housing projects has been adjusted to 20%, while that of other real estate projects has been adjusted to 30%. The government could adjust the minimum capital ratio of fixed asset investment projects according to the economic situation and the necessity of macro-control.

*8. Measures on Stabilizing Real Estate Prices*

For the purpose of restraining the speculation in real estate market, controlling purchases of real estate as investment, encouraging the construction of ordinary commodity residence and economical housing, guiding on reasonable residential consumption, stabilizing the residence prices and promoting the health growth of real estate market, the State Council and its subordinated departments from time to time have promulgated a set of policies to control real estate market in recent years.

The General Office of State Council forwarded Notice on Stabilizing Residence Prices《關於做好穩定住房價格工作意見的通知》enacted jointly by Ministry of Construction and other departments on 9 May 2005, which provides that in the places where the residence prices increase too fast while the supply of lands for ordinary residence at medium or low price and economical housing is insufficient, the construction of residence shall focus on constructing the ordinary residence and economical housing aforementioned, in order to increase the supply of them. For regions with over-heating hike in residential land and housing prices, the proportion of residential land over land supply will be raised as appropriate, with an emphasis on beefing up the land supply for the construction of low-to-mid-priced ordinary commodity housing and affordable housing. There will be a continued suspension of the land supply for the construction of villas, in an effort to exercise strict control over the land supply for high-end housing. The preferential treatment with respect to planning permits, land supply, credits and taxes shall be granted to the low-to-mid priced, small-to-mid sized ordinary residences if they can satisfy the following requirements: (i) the plot ratio is over 1.0; (ii) the unit GFA is less than 120 sq.m.; and (iii) the actual purchase price is lower than 120% of the average price of the comparable residence in the comparable location. In addition, from 1 June 2005, a business tax shall be imposed on the individuals who transfer the residence within two years from purchase and shall be levied on the basis of the revenue from such transfer. If the individual transfers the residence after two years from purchase, the business tax may be exempted. For the transfer of a non-ordinary residence after two years from purchase, a business tax shall be levied on the basis of the difference between the purchase price and the revenue from transfer. A purchaser of pre-sold commodity residence shall not transfer such residence before it has been completed. Purchasers of residences shall buy the properties in their own official name.

On 24 May 2006, the General Office of the State Council forwarded Notice on Adjusting Residence Supply Structure and Stabilizing Residence Prices《關於調整住房供應結構穩定住房價格意見的通知》enacted by the Ministry of Construction, which provides that (i) the focus will be put on developing low-to-mid-priced, small-to-mid-sized ordinary commodity housing that meets the needs of local residents. The land supplied annually for the low-cost or small- and medium-sized ordinary residence and low-rent housing shall represent at least 70% of the total land supplied in the same year; (ii) for the residence construction project approved and commenced on or after 1 June 2006, the aggregated GFA of residential units with less than 90 sq.m. shall account for 70% of the total GFA. The residential construction projects approved before 1 June 2006 without construction work commencement permit, shall be adjusted to comply with the requirements aforementioned; (iii) From 1 June 2006, a business tax shall be imposed on the individuals who transfer the residence within five years from purchase and shall be levied on the basis of the revenue from such transfer. If the individual transfers the residence after five years from purchase, the business tax may be exempted. For the transfer of a non-ordinary residence after five years from purchase, a business tax shall be levied on the basis of the difference between the purchase price and the revenue from transfer; (iv) commercial banks may not grant loans to real estate enterprises failing to meet loan terms, such as project capital amount is less than 35% of the principal amount of the loan. In respect of development enterprises with relatively higher level of idle land and vacant commodity housing, commercial banks should strictly control revolving loans or any form of rolling credit with adherence to the principles of prudent management. Commodity housing remaining vacant for more than three years shall not be accepted as the collateral security for loans by commercial banks; (v) from 1 June 2006, the down payment ratio for the purchase of residential units shall not be less than 30%, but the down payment ratio of 20% shall remain applicable to the purchase of residential units for self-residence with GFA of no more than 90 sq.m. by taking into account of the housing needs of the group with income at low or medium level; (vi) for land pieces with postponed development beyond a year from the date of the commencement of works as scheduled under the contracts, they shall be subject to the levy of high idle land cost. For land pieces with postponed development beyond 2 years from the date of the commencement of works as scheduled under the contracts, the land use rights over these lands shall be taken back at nil consideration. For land pieces which have commenced works as scheduled under the contracts yet whose development and construction area is less than one third or investment amount is less than one fourth and whose development and construction have been suspending for a consecutive year without obtaining approval, they shall be treated as idle land.

The State Council promulgated the Notice on Restraining Excessive Growth of Residence Price in Certain Cities《國務院關於堅決遏制部分城市房價過快上漲的通知》on 17 April 2010 to adopt a stricter deferential housing loans policy. The loan granted to the family to buy the first residential unit with GFA of less than 90 sq.m. for self-residence shall be conditional upon that the down payment is not less than 30% of the purchase price. The loan granted to the family to buy the second residential unit shall be conditional upon that the down payment is not less than 50% and the loan interest rate is not less than 110% of the benchmark rate. For the purchase of the third and subsequent residence, the down payment ratio and interest rate should be substantially raised. The commercial bank can stop granting loans to the individuals who purchase third and subsequent residential unit in the regions where the residence price is too expensive and soaring and the supply of residence is insufficient. The housing loans shall not be granted to non-local resident who fails to provide the receipt of paying local taxes or social insurance for more than one year. The local government could adopt interim measures on restricting the quantity of residential units that could be purchased in a certain period.

According to the Notice on Further Implementing Control Measures on Real Estate Market《關於進一步做好房地產市場調控工作有關問題的通知》promulgated by the General Office of the State Council on 26 January 2011, the loan granted to the family to purchase the second residential unit shall be conditional upon that the down payment is not less than 60% and the loan interest rate is not less than 110% of the benchmark rate. In general, in municipalities directly under the Central Government, municipalities with independent planning status, provincial capital cities and the cities with high and soaring residence price, the purchase restriction policies shall be strictly implemented for a certain period, which in principle include: (i) the local family that has owned one residential unit and the non-local family that can provide the receipt of paying local taxes and social insurances for a required period, is limited to purchasing one residential unit; (ii) the local family that has owned two or above residential units and the non-local family that has owned one or above residential unit or cannot provide the receipt of paying local taxes or social insurances for a required period, shall be suspended from purchasing any residential in such administrative region.

On 26 February 2013, the General Office of the State Council promulgated the Notice on Continuous Implementing Control Measures on Real Estate Market《關於繼續做好房地產市場調控工作的通知》, which stipulates six policies to control the real estate market, including: (i) improving the accountability system for stabilization of residence prices; (ii) strict control over purchasing residence for speculation; (iii) increasing the supply of ordinary residences and land supply for ordinary residences; (iv) accelerating the planning and construction of subsidized residence projects; (v) tightening the market regulation and forecast management; and (vi) accelerating the establishment of the guidance mechanism for the health growth of the real estate market. In addition, it provides that the bank or other financial institutions, subject to credit conditions, shall give priority to granting loans to commodity residence projects in which the small- and medium- sized units account for more than 70% of the total units.

## III. Environmental Protection

Pursuant to the Environmental Protection Law of the PRC《中華人民共和國環境保護法》promulgated by SCNPC on 26 December 1989 and amended on 24 April 2014, with its latest amendment effective from 1 January 2015, the local governments shall be responsible for the environmental quality in their administrative region, and the enterprises, institutions and other entities engaged in manufacturing or operating shall prevent and diminish the environmental pollution and ecological damage, and otherwise shall be liable for such damage they cause.

In accordance with the Environmental Impact Assessment Law of the PRC《中華人民共和國環境影響評價法》which was promulgated by SCNPC on 28 October 2002 and took effect from 1 September 2003, governmental authorities would administer the construction projects according to their impact on the environment. For the projects that have a significant impact on environment, the constructing entity shall write a report on the environmental impact to assess such impact thoroughly. For the projects that have a less significant impact on environment, the constructing entity shall write a report on the environmental impact to analyze or assess certain impact. For the projects having insignificant environmental impact and not required to conduct an assessment thereon, the constructing entity shall fill in an environmental impact registration form. The environment assessment documents shall be submitted to the environmental protection authorities for inspection and approval prior to the commencement of any construction work. The construction project shall not be approved or commenced until its environmental assessment documents has been inspected and approved by the environmental protection authorities.

## IV. Taxation

### *1. Enterprise Income Tax*

The Enterprise Income Tax Law of the PRC《中華人民共和國企業所得稅法》("**EIT Law**") was promulgated by the NPC on 16 March 2007 and took effect from 1 January 2008. The Implementation Rules of the Enterprise Income Tax Law ("**Implementation Rules of EIT**") was promulgated by the State Council on 6 December 2007 and effective from 1 January 2008. Pursuant to the EIT Law and its Implementation Rules, resident enterprises (referring to enterprises which are legally established in the PRC or established in accordance with the laws of foreign countries (regions) but whose de facto management bodies are within the PRC) shall pay enterprise income tax for its revenue deriving both from PRC and abroad with a rate of 25%. The non-resident enterprises (referring to enterprises which are legally established in accordance with the laws of foreign countries (regions) and whose de facto management bodies are out of the PRC, yet with the setting up of institutions and establishments in the PRC or with the generation of revenue from the PRC where there are no institutions and establishments in the PRC) without branches and business place in PRC or the non-residence enterprises with branches and business place in PRC but the taxable revenue having no actual connection with such branches or business place, shall pay enterprise income tax for its revenue deriving from PRC at a reduced rate of 10% as prescribed in the Implementation Rules of EIT.

According to the Arrangements between the Mainland of PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion With Respect to Taxes On Income《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》effective from 1 January 2007, subject to the approval from the relevant tax authority, a tax rate of 5% applies to dividends paid by a PRC company to a Hong Kong company if the dividend recipient directly holds at least 25% of the capital of such PRC company. If a Hong Kong company directly owns less than 25% of the capital of a mainland company, dividend income received by the Hong Kong company from the mainland company shall be subject to a tax rate of 10%.

2. *Business Tax*

According to the Interim Ordinance on Business Tax of the PRC《中華人民共和國營業稅暫行條例》promulgated by the State Council on 13 December 1993, effective from 1 January 1994 and amended on 10 November 2008, the business tax rate applicable to sale of real property is 5%.

3. *Land Appreciation Tax*

The Interim Ordinance on Land Appreciation Tax of the PRC《中華人民共和國土地增值稅暫行條例》("**LAT Ordinance**") was promulgated on 13 December 1993 and come into effect from 1 January 1994. Pursuant to the LAT Ordinance, the transferor of the land use right or real property, whether an entity or individual shall pay land appreciation tax ("**LAT**") for the appreciation value derived from the transfer revenue after deducting the stipulated deductible items. The land appreciation tax is subject to a regime with four level progressive rates, according to which the land appreciation tax rate is (i) 30% for the portion of the appreciation value not exceeding 50% of the amount of deductible items; (ii) 40% for the portion over 50% of but not exceeding the amount of deductible items; (iii) 50% for the portion over100% but not exceeding 200% of the amount of deductible items; and (iv) 60% for the portion over 200% of the amount of deductible items. The transferor could be exempted from land appreciation value if (i) it constructs and sells the ordinary residence and the appreciation value of which is not more than 20% of the amount of the deductible items, or (ii) the real estate is requisitioned or repossessed by the government. The transferor shall file the LAT declaration with the tax authority in the place where the real estate is situated within 7 days after signing the real estate transfer agreement, and shall pay such tax within the period prescribed by the tax authority.

According to the Implementation Rules of Interim Ordinance on Land Appreciation Tax of PRC《中華人民共和國土地增值稅暫行條例實施細則》("**Implementation Rules of LAT Ordinance**") promulgated by the Ministry of Finance on 27 January 1995, the deductible items include (i) consideration paid for acquiring the land use rights; (ii) costs of developing the land and constructing the buildings and facilities; (iii) sales, administrative and financing expenses on developing the land and constructing the buildings and facilities; (iv) assessed value of the old buildings and facilities; (v) tax payable for transferring the real estate; and (iv) another 20% of the sum of (i) and (ii) if the transferor is a real estate developer. Pursuant to the Implementation Rules of LAT

Ordinance, if the real estate developer acquired use rights over land lots and develop such lands in phrases, the deductible items could be ascertained on the basis of the proportion of the developed area to the total area or by other ways confirmed by tax authorities.

The State Administration of Taxation promulgated the Notice on Administration of Settlement of Land Appreciation Tax of Real Estate Developer《關於房地產開發企業土地增值稅清算管理有關問題的通知》("**Settlement Notice**") was promulgated on 28 December 2006 and effective from 1 February 2007. Pursuant to the Settlement Notice, real estate developers shall settle the land appreciation tax payable with the tax authority if their real estate projects satisfy the prescribed conditions. The land appreciation tax shall be settled in each phase if the land is developed in phases. The real estate developers shall settle the land appreciation tax if the real estate project has satisfied one of the following conditions: (i) the project has been completed and has been sold out, (ii) the project as a whole has been sold before it is completed, or (iii) the land use right relating to the project has been transferred. In addition, the tax authority is entitled to require the real estate developer to settle the land appreciation tax, if (i) the area sold is over 85% of the total area saleable in a completed real estate, or such proportion is less than 85% but the rest of area has been leased or kept for the developer's own use; (ii) the property has not been sold out upon the expiration of three years commencing from the grant of sales permit or pre-sales permit; (iii) the real estate developer apply for the revocation of tax registration without pay up the land appreciation tax; or (iv) other situations specified by provincial tax authorities have incurred.

4. *Deed Tax*

Pursuant to the Interim Ordinance on Deed Tax of the PRC《中華人民共和國契稅暫行條例》promulgated by the State Council on 7 July 1997 and effective from 1 October 1997, the transferee of the title to land or real property in the PRC, whether an entity or individual, is obliged to pay deed tax. The deed tax rate ranges from 3% to 5%. The government at provincial level shall prescribe the deed tax rate applicable in its administrative region within the prescribed range and file the rate it prescribed to the Ministry of Finance and the State Administration of Taxation.

On 29 September 2010, the Ministry of Finance, the State Administration of Taxation and MOHURD issued the Notice on the Adjustment of Preferential Policies on Real Estate Transactions Deed Tax and Individual Income Tax 《關於調整房地產交易環節契稅個人所得稅優惠政策的通知》, pursuant to which, for the purchase of ordinary residence by individuals as the only housing for their families, individuals shall be entitled to the exemption of 50% of deed tax levy. For the purchase of ordinary residence of area of 90 sq.m. or below as the only housing for their families, individuals shall be entitled to a reduced rate of 1% deed tax.

*5. Urban Land Use Tax*

Pursuant to the Interim Ordinance on Urban Land Use Tax of the PRC《中華人民共和國城鎮土地使用稅暫行條例》promulgated by the State Council on 27 September 1988, effective from 1 November 1988, and amended on 31 December 2006, 8 January 2011 and 7 December 2013 respectively, the urban land use tax shall be levied on the basis of the area of the land actually used by the taxpayer and the prescribed range as below. The annual urban land use tax per sq.m. ranges (i) from RMB1.5 to RMB30 for the land in the large cities, (ii) from RMB1.2 to RMB24 for the land in medium cities, (iii) from RMB0.9 to RMB18 for the land in small cities, and (iv) from RMB0.6 to RMB12 for the land in counties, towns or industrial and mining districts. The land use tax shall be calculated annually and paid on installments. According to such Interim Ordinance, the urban land use tax is also applicable to foreign-invested enterprises.

*6. Real Property Tax*

The Interim Ordinance on Real Property Tax《中華人民共和國房產稅暫行條例》("**Real Property Tax Ordinance**") was promulgated by the State Council on 15 September 1986, came into effect from 1 October 1986 and amended on 8 January 2011. Pursuant to the Real Property Tax Ordinance, the owner of the real property is obliged to pay real property tax, the rate of which is 1.2% if it is levied on the basis of the residual value of such property, or 12% if it is levied on the basis of the rent of such property.

According to the Notice on Imposition of Real Property Tax on Foreign-invested Enterprise and Foreign Individual《關於對外資企業及外籍個人徵收房產稅有關問題的通知》promulgated by the Ministry of Finance and the State Administration of Taxation on 12 January 2009, foreign-invested enterprises and foreign individuals shall pay the real property tax in compliance with the Real Property Tax Ordinance from 1 January 2009.

*7. Stamp Duty*

Under the Interim Ordinance on Stamp Duty of PRC《中華人民共和國印花稅暫行條例》promulgated by the State Council on 6 August 1988 and effective from 1 October 1988, the stamp duty would be levied at a fixed rate or on item-by-item basis according to the type of taxable instruments. For construction contract and ownership transfer instrument, the stamp duty shall be 0.05% of the amount thereunder. For the certificates of rights, including real property title certificates and land use right certificates, the stamp duty is RMB5 per item.

*8. Municipal Maintenance Tax*

According to the Interim Ordinance on Municipal Maintenance Tax of PRC《中華人民共和國城市維護建設稅暫行條例》promulgated by the State Council on 8 February 1985 and amended on 8 January 2011, the taxpayer, whether an entity or individual, of consumption tax, value-added tax or business tax, shall pay municipal maintenance tax.

The rate of municipal maintenance tax is 7% for taxpayer with a domicile in a city, 5% for the taxpayer with a domicile in a county or town, 1% for the taxpayer without a domicile in a city, county or town.

According to the Notice on Unifying Application of Municipal Maintenance Tan and Education Surcharge to Domestic and Foreign-invested Enterprises and Individuals《關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》("**Unifying Notice**") promulgated by State Council on 18 October 2010 and implemented on 1 December 2010, the Interim Ordinance on Municipal Maintenance Tax shall also be applicable to foreign-invested enterprises.

*9. Education Surcharge*

Pursuant to the Interim Provisions on Imposition of Education Surcharge 《徵收教育費附加的暫行規定》promulgated by the State Council on 28 April 1986, effective from 1 July 1986 and subsequently amended on 7 June 1990, 20 August 2005 and 8 January 2011, the taxpayer, whether an entity or individual, of consumption tax, value-added tax or business tax, is obliged to pay education surcharge levied at the rate of 3% of the tax amount actually paid. The education surcharge shall be paid with the value-added tax, business tax or consumption tax. According to the Unifying Notice, the Interim Provisions on Imposition of Education Surcharge shall also be applicable to foreign-invested enterprises.

## V. Foreign Exchange

Pursuant to the Administrative Ordinance on Foreign Exchange of the PRC《中華人民共和國外匯管理條例》promulgated by the State Council on 29 January 1996, effective from 1 April 1996 and amended on 1 August 2008, and the Provisions on Administration of Settlement, Sale of and Payment in Foreign Exchange 《結匯、售匯及付匯管理規定》promulgated by PBOC on 20 June 1996 and effective from 1 July 1996, the RMB paid under the current accounts may be exchanged into foreign currencies freely, while exchange of RMB into foreign currencies under the capital accounts shall be approved by SAFE or its local administrative authorities in advance.

Pursuant to the Notices of SAFE's General Department on Improving Practices of Administration of Payment and Settlement of Foreign Currency Capital Foreign-invested Enterprises《國家外匯管理局綜合司關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》promulgated by SAFE on 29 August 2008, the foreign-invested enterprises shall use the RMB exchanged from foreign currency capital within the business scope approved by the government authorities, and the RMB exchanged from foreign currency capital may not be used for the domestic equity investment except as otherwise stipulated. Save and except for foreign-invested real estate enterprises, foreign-invested enterprises may not purchase real estate for the purposes other than self-use within the PRC with RMB funds derived from settlement exchange of capital funds.

According to Administrative Measures on Foreign Exchanges in Domestic Direct Investments of Foreign Investors, the foreign entities and individuals involved in domestic direct investments shall be registered with SAFE or its branches. Banks shall settle the domestic direct investments in accordance with the registration information from the foreign exchanges bureaus. The foreign exchanges bureaus supervise and inspect the registration, opening and change of the account, payment and receipt of funds and settlement of foreign exchanges in relation to domestic direct investment by foreign investors.

**VI. Labour**

The Labour Law of the PRC《中華人民共和國勞動法》(''**Labour Law**'') was promulgated by SCNPC on 5 July 1994, effective from 1 January 1995 and amended on 27 August 2009. The Labour Law contains provisions in respect of promoting employment, employment contract, working hours, rest days and leave, wages, occupational safety and health, special protection for female employees and minor employees under 18 years old, vocational training and social insurance and welfare.

The Employment Contract Law of the PRC《中華人民共和國勞動合同法》(''**Employment Contract Law**'') was promulgated by SCNPC on 29 June 2007, effective from 1 January 2008 and amended on 28 December 2012. The Employment Contract Law contains provisions relating to the formation, execution, modification, termination or expiration of employment contract, collective contract, employee dispatch and part-time employment. In accordance with the Employment Contract Law, except as otherwise stipulated therein, the employer shall pay economic compensation to the employee if it cancels or terminates the employment contract illegally.

In accordance with the Employee Paid Annual Leave Ordinance《職工帶薪年休假條例》promulgated by the State Council on 14 December 2007 and effective from 1 January 2008, an employee is entitled to annual leave with a pay after having been working continuously for more than one year. The employer shall ensure the employee's right to take paid annual leave. The daily rate of annual leave pay is a sum equivalent to the average daily wages of the employee. In the event the employees agree to waive the annual leave at the employer's request, such employees shall be compensated in three times of their daily wages for each day they waive to take annual leave.

The Social Insurance Law of the PRC《中華人民共和國社會保險法》(''**Social Insurance Law**'') was promulgated by SDNPC on 28 October 2010 and came into effect on 1 July 2011. According to the Social Insurance Law, a social insurance system, which includes basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, has been adopted in order to ensure the citizens' right to obtain material support from the government and society when they are old, at sick, suffered from work-related injuries, unemployed or at maternity leave. The employer has a legal obligation to pay premium of the social insurances aforementioned in compliance with relevant laws and regulations. If the employer fails to pay such premium as requested, the social insurance administrative authorities are entitled to order such employer to pay or make up the premium within a prescribed period and pay a penalty at the daily rate of 0.05% of the amount payable as from the due date. If the employee fails to pay the premium within such a prescribed period, a fine of one to three times of the amount payable could be imposed.

According to the Administrative Ordinance on Housing Provident Funds (《住房公積金管理條例》) promulgated by the State Council, taking effect on 3 April 1999 and amended on 24 March 2002, all employers are required to register with the local administrative center of housing provident funds ("**ACHPF**"), and shall pay the funds for their employees in full amount before the due date. The employer that fails to do so might be ordered by ACHPF to pay the funds in full amount within a prescribed time limit. If the employer fails to make full payment within such prescribed time limit, ACHPF can apply to the courts for compulsory enforcement.

## VII. Real Property Management

According to the Guidance Catalogue promulgated in 2011, real estate property management belongs to permitted foreign-invested industry.

According to the Real Property Management Ordinance《物業管理條例》promulgated by State Council on 8 June 2003, effective from 1 September 2003 and amended on 26 August 2007. Prior to the engagement of a real property management enterprises by the owners or the owners meeting of the real properties, the constructing entity shall engage a real property management enterprise by bidding or by entering into an agreement subject to approval from real estate administrative authorities. The constructing entity shall enter into a written agreement with the real property management enterprises. The real property management enterprises shall be a legal person with a separate personality. A qualification system has been adopted for the purpose of regulating the real property management enterprises.

In accordance with the Measures on Qualification of Real Property Management Enterprises《物業管理企業資質管理辦法》which was promulgated by the Ministry of Construction on 17 March 2004, effective from 1 May 2004 and amended on 26 November 2007, the qualifications of real property management enterprises are divided into three levels, namely, level I, level II and level III. The real property management enterprises with level I qualification is entitled to undertake all types of real property management projects. The real property management enterprises with level II qualification could be engaged in the property management services of residence projects of less than 300,000 sq.m. and non-residence projects of less than 80,000 sq.m.. The real property management enterprises with level III qualification can undertake property management services of residence projects of less than 200,000 sq.m. and non-residence projects less than 50,000 sq.m.. The real property management enterprises shall apply to the local real estate administrative authority for qualification certificate within 30 days upon incorporation.

## VIII. Lease of Real Estate

The Contract Law of the PRC《中華人民共和國合同法》("**Contract Law**") promulgated by NPC on 15 March 1999 and effective from 1 October 1999, defines a lease as a contract under which the lessor, by a delivery of possession of its property, grant the lessee to use or accrue benefit from such property, and the lessee pays the rent in return. Pursuant to the Contract Law, the lease with a term exceeding 6 months shall be in writing, otherwise it would be deemed as a lease without a fixed term. The term of a lease shall not be more than 20 years, otherwise the portion of the term exceeding 20 years would be invalid. Upon the expiration of the term, the parties can renew the lease provided that the renewed term commencing from the date of such renewal is not more than 20 years.

In accordance with the Measures on Administration of Leases of Commodity Real Estate《商品房屋租賃管理辦法》promulgated by MOHURD on 1 December 2010 and effective from 1 February 2011, the parties to a leasing transaction as to commodity real estate must enter into a lease. In the event that such lease is signed, modified or terminated, the parties shall register it with the real estate administrative authority in the city or county where the real estate is situated.

## IX. Civil Air Defence Constructions

Pursuant to the Regulations on Utilization of Civil Air Defence Construction《關於平時使用人民防空工程的若干規定》promulgated jointly by the Ministry of Finance and the National Civil Air Defence Commission on 20 March 1983, use of civil air defence construction in peacetime is subject to approval. The user of the civil air defence constructions shall maintain, manage, renew or repair the facilities therein to keep them in good condition.

In accordance with the Civil Air Defence Law of PRC《中華人民共和國人民防空法》promulgated by SCNPC on 29 October 1996, effective on 1 January 1997 and amended on 27 August 2009, all new urban buildings for civil use shall be constructed with a basement that can be used as air defense in wartime. The government encourages the use of civil air defence constructions for economic development and citizen's daily life in the peacetime provided that such use would not impair their function as air defense.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2000 under the Cayman Companies Law. The Company's constitutional documents will, if they are adopted at the EGM, consist of its Amended and Restated Memorandum of Association ("**Memorandum**") and the Amended and Restated Articles of Association ("**Articles**").

## 1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

## 2. ARTICLES OF ASSOCIATION

The Articles are to be adopted at the EGM. The following is a summary of certain provisions of the Articles:

### (a) Shares

*(i) Classes of shares*

The share capital of the Company consists of ordinary shares.

*(ii) Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words "restricted voting" or "limited voting" or "non-voting" or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

**(b) Directors**

*(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

*(iii) Compensation or payments for loss of office*

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

*(v) Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

(aa) the giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors, his associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the employees to which such scheme or fund relates; or

(ee) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

*(vi) Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;

(bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;

(cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;

(gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

*(viii) Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

*(ix) Register of Directors and officers*

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

*(x) Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

A resolution in writing signed by all the Directors (or their respective alternate Directors) shall be as valid and effectual as if it had been passed at a meeting of the Board duly convened and held. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the Directors (or their respective alternate Directors) and for this purpose a facsimile signature of a Director (or its alternate Director) shall be treated as valid.

Notwithstanding the foregoing, a resolution in writing shall not be passed in lieu of a meeting of the Board for the purposes of considering any matter or business in which a substantial member of the Company or a Director has a conflict of interest and the Board has determined such conflict of interest to be material.

**(c) Alterations to the constitutional documents**

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

**(e) Alteration of capital**

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

**(f) Special resolution — majority required**

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days' notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the members and for this purpose a facsimile signature of a member shall be treated as valid.

**(g) Voting rights**

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares by or in accordance with the Articles, at any general meeting on a poll, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote, and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

### (h) Annual general meetings

The Company must hold an annual general meeting each year. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

### (i) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarized financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

**(j) Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issued shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of Directors in place of those retiring;

(dd) the appointment of auditors;

(ee) the fixing of the remuneration of the Directors and of the auditors;

(ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and

(gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

**(k) Transfer of shares**

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

**(l) Power of the Company to purchase its own shares**

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

**(m) Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

**(n) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and

(ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

**(o) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or, where allowed, on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

### (p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

### (q) Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

**(r) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(s) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

**(t) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

**(u) Untraceable members**

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

(i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

(ii) upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and

(iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(v) Subscription rights reserve**

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

## 3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 5 May 2000 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a) Company operations**

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

**(b) Share capital**

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Cayman Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

(i) an act which is ultra vires the company or illegal;

(ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

(iii) an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

**(g) Disposal of assets**

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company may obtain an undertaking from the Governor-in-Cabinet:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(ii) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments.

**(k) Stamp duty on transfers**

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

**(m) Inspection of corporate records**

The members of the company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

**(n) Register of members**

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Cayman Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

**(o) Winding up**

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

**(p) Reconstructions**

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

### (q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

### (r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

## 4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VIII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## A. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to the Enlarged Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than those in relation to the Vendors and the Target Group) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Vendors and directors of the Target Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

The Vendors, being the directors of China General, jointly and severally accept full responsibility for the accuracy of the information (other than those in relation to the Group) contained in this circular in relation to the Target Group and themselves and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

## B. FURTHER INFORMATION ABOUT THE ENLARGED GROUP

### 1. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2000. The Company was registered in Hong Kong under Part XI of the Predecessor Hong Kong Companies Ordinance as a non-Hong Kong company on 1 August 2000 and its principal place of business in Hong Kong is at Workshop 6, Level One, Wah Yiu Industrial Centre, 30–32 Au Pui Wan Street, Fotan, Shatin, New Territories, Hong Kong. Mr. Lee Lit Mo Johnny, a proposed executive Director and Mr. Wong Kin Tak, the proposed company secretary will upon Resumption be appointed as the authorised representatives of the Company for the acceptance of service of process and notices on behalf of the Company at the address of the Company's principal place of business in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution which comprises its Existing Memorandum and Articles. Subject to the approval by the Shareholders of the Capital Reorganisation and the adoption of the New Memorandum and Articles and the conditions set out in the section headed "Letter from the Board — 16. Proposed adoption of New Memorandum and Articles" in this circular, the Company's constitution will comprise the New Memorandum and Articles in substitution for the Existing Memorandum and Articles. A summary of various parts of the New Memorandum and Articles and the relevant aspects of the Companies Law is set out in Appendix VI to this circular.

### 2. Changes in share capital of members of the Group

There has been no alteration in the share capital of the Group during the two years immediately preceding the date of this circular.

As the Retained Subsidiaries, being all the existing subsidiaries of the Company, will be divested pursuant to the Proposed Restructuring and disposed of pursuant to the Disposal, respectively, no information is included in this circular regarding the change, if any, in the share capital or registered capital of the Retained Subsidiaries.

## 3. Repurchase of shares

This section includes information relating to the repurchase of securities required by the Listing Rules which is set out as follows:

*(a) Shareholders' approval*

The Company's sole [REDACTED] is on the Stock Exchange. All proposed repurchases of shares by a company with a primary [REDACTED] on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by special approval of a particular transaction.

*(b) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the articles of association of the Company and the applicable laws of the Cayman Islands. The laws of the Cayman Islands provide that shares of the Company may only be repurchased out of profits of the Company, out of the share premium account or out of the proceeds of a fresh issue of the shares made for the purpose or, if so authorised by the articles of association of the Company and subject to the provisions of the Companies Law, out of capital under certain circumstances. Any premium payable on a repurchase over the par value of the shares of the Company to be repurchased must be provided for out of profits of the Company or out of the Company's share premium account or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital under certain circumstances.

*(c) Exercise of the repurchase mandate*

The shares of the Company proposed to be repurchased by the Company must be fully paid up. Under the Listing Rules, the total number of shares which a company is authorised to repurchase on the Stock Exchange is shares representing up to a maximum of 10% of the existing issued share capital as at the date of the resolution granting such general mandate. A Company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

*(d) Funding of repurchases*

In repurchasing the shares of the Company, the Company may only apply funds legally available for such purpose in accordance with the articles of association of the Company and the applicable laws of the Cayman Islands.

## 4. Changes in share capital of members of the Target Group

The following are the changes in the share capital of the members of the Target Group that took place during the two years immediately preceding the date of this circular:

(a) on 22 February 2013, the registered capital of Yangzhou Dehui was increased from RMB50,000,000 to RMB83,000,000 with Hengde contributing RMB33,000,000;

(b) on 12 March 2013, the registered capital of Yangzhou Dehui was increased from RMB83,000,000 to RMB100,000,000 with Hengde contributing RMB17,000,000;

(c) on 9 October 2014, Jianhong Investment (as seller) and Houde Enterprise (as purchaser) entered into an equity transfer agreement, pursuant to which Jianhong Investment transferred the entire equity interest in Hengde to Houde Enterprise at a consideration of RMB10 million;

(d) on 23 October 2013, the total amount of the paid up share capital of China General was increased from HK$10,000,000 to HK$480,187,797.56;

(e) on 23 October 2014, China General and the Vendors entered into a deed of assignment (the "**Deed of Assignment**"), pursuant to which Mr. Shie and Mr. Tsoi assigned their interests, rights and benefits in certain loans due from Hengde in the amount of approximately RMB207,955,000 (equivalent to approximately HK$264,103,000) and RMB170,145,000 (equivalent to approximately HK$216,084,000), respectively, to China General in consideration for the allotment and issue of 5,500,000 shares and 45,000,000 shares of China General, respectively. The aforesaid consideration shares were allotted and issued to Mr. Shie and Mr. Tsoi on 23 October 2014; and

(f) on 24 November 2014, the registered capital of Yangzhou Dehui was increased from RMB100,000,000 to RMB388,000,000. The additional registered capital of RMB288,000,000 was contributed by Hengde through debt-to-equity swap.

Save as disclosed above, there has been no alteration in the share capital of the Target Group during the two years immediately preceding the date of this circular.

## 5. Corporate reorganisation

The Target Group underwent reorganisation to rationalise the Target Group's structure in preparation for the [REDACTED]. For more details regarding the reorganisation of the Target Group, please refer to the section headed "History and background of the Target Group — Reorganisation" in this circular.

## 6. Intellectual property of the Group

As at the Latest Practicable Date, the Group had registered the following intellectual property rights which are material in relation to the business of the Group.

***Trademarks owned by the Group***

*Registered Trademarks*

As at the Latest Practicable Date, the Group had registered the following trademarks which are material in relation to the business of the Group:

| Trademark | Registered Owner | Place of Registration | Class | Registration Number | Expiry Date |
|---|---|---|---|---|---|
| FMG FIRST MOBILE GROUP | First Telecom International Limited | Hong Kong | 35 | 2002B04447 | 28 July 2017 |
| éTouch | Mobile Concept Limited | Indonesia | 9 | IDM000319499 | 14 April 2018 |

***Domain names owned by the Group***

As at the Latest Practicable Date, the Company had registered the following domain names which are material in relation to the business of the Group:

| Domain Name | Registrant | Expiry Date |
|---|---|---|
| firstmobile.com.hk | First Telecom International Limited | 1 October 2016 |
| firstmobilegroup.com.hk | First Telecom International Limited | 19 September 2016 |

## C. FURTHER INFORMATION RELATING TO THE COMPANY AND THE WHITEWASH WAIVER

### 1. The Company

As at the Latest Practicable Date:

(a) the Company did not have any interests in any securities, shares, options, warrants, derivatives or convertible securities of the Concert Group;

(b) save as disclosed in the paragraph headed "Disclosure of interests" in this appendix, none of the Directors had any interests in the securities, shares, options, warrants, derivatives or convertible securities of the Company or of the Concert Group;

(c) none of the subsidiaries of the Company, nor pension funds of the Company or of a subsidiary of the Company nor advisers to the Company as specified in class (2) of the definition of "associate" in the Takeovers Code owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company or of the Concert Group;

(d) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company or of the Concert Group;

(e) there were no shareholdings in the Company which were managed on a discretionary basis by fund managers connected with the Company; and

(f) none of the Directors or the Company had borrowed or lent any shares, warrants, options, convertible securities or derivatives of the Company or the Concert Group.

## 2. Sponsor

The Sponsor has made the [REDACTED] on behalf of the Company to the Listing Committee for the [REDACTED] of and permission to deal in the New Shares in issue upon completion of the Capital Reorganisation and the allotment and issue of the New Shares pursuant to the Acquisition, the [REDACTED] and the Subscription. For the purpose of the [REDACTED], the Sponsor is considered as an independent sponsor pursuant to Rule 3A.07 of the Listing Rules. The Sponsor will receive HK$[4,500,000] as their sponsor's fee.

As at the Latest Practicable Date,

(a) neither the Sponsor, nor any persons controlling, controlled by or under the same control as the Sponsor owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company;

(b) neither the Sponsor, nor any persons controlling, controlled by or under the same control as the Sponsor had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities in the Company which may be an inducement to deal or refrain from dealing) with any persons; and

(c) there was no agreement, arrangement or understanding between the Sponsor or persons controlling, controlled by or under the same control as the Sponsor on the one part and any of the Directors or Shareholders on the other part, which was conditional on or dependent upon the outcome of, or otherwise in connection with the Acquisition or the [REDACTED].

## 3. Other Advisers to the Company

As at the Latest Practicable Date, none of the Independent Financial Adviser, nor any persons controlling, controlled by or under the same control as the Independent Financial Adviser, any bank, financial and professional advisers to the Company in relation to the Acquisition, the [REDACTED], the Subscription, the Whitewash Waiver and the Disposal and any persons controlling, controlled by or under the same control as such banks, financial and professional advisers, owned or controlled any securities, shares, options, warrants, derivatives or convertible securities of the Company.

## 4. Dealings in securities

None of the Directors or the Company had dealt in any securities, shares, options, warrants, derivatives or convertible securities of the Concert Group and of the Company during the period between 30 September 2013, being the date six months prior to 31 March 2014, which is the date of the Acquisition Agreement, and up to and including the Latest Practicable Date.

None of the persons referred to in paragraphs 1(c), (d), (e) and (f) above in this section C had dealt for value in the Shares or any other securities, shares, options, warrants, derivatives or convertible securities of the Company during the period between 30 September 2013, being the date six months prior to 31 March 2014, which is the date of the Acquisition Agreement, and up to and including the Latest Practicable Date.

None of the Concert Group, the directors of the Concert Group nor the Directors had dealt in any Shares or other securities, shares, options, warrants, derivatives or convertible securities of the Company during the period between 30 September 2013, being the date six months prior to 31 March 2014, which is the date of the Acquisition Agreement, and up to and including the Latest Practicable Date.

## D. FURTHER INFORMATION RELATING TO THE CONCERT GROUP AND THE WHITEWASH WAIVER

### 1. Principal members of the Concert Group

Set out below are details and the principal members of the Concert Group and their respective directors:

| | **Address** | **Directors** |
|---|---|---|
| Mr. Shie | Block B7, Springfield Gardens<br>5–9 Shouson Hill Road West<br>Hong Kong | N/A |
| Mr. Tsoi | Flat A, 35/F<br>Tower 3, Grand Promenade<br>38 Tai Hong Street<br>Hong Kong | N/A |
| Fame Build | P.O. Box 957<br>Offshore Incorporations Centre<br>Road Town, Tortola<br>British Virgin Islands | Mr. Shie |
| Talent Connect | P.O. Box 957<br>Offshore Incorporations Centre<br>Road Town, Tortola<br>British Virgin Islands | Mr. Tsoi |

## 2. Negative statement

As at the Latest Practicable Date:

(a) save as disclosed in the paragraph headed "Disclosure of interests" in this appendix, none of the Concert Group nor any person acting in concert with them (including respective directors) owned or controlled any shares or convertible securities, warrants, options or derivatives of the Company;

(b) none of the members of the Concert Group or any person acting in concert with any of them had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which arrangement includes any indemnity or option arrangement, or any agreement or understanding, formal or informal, by whatever nature, relating to shares or other securities of the Company which may be an inducement to deal or refrain from dealing) with any person;

(c) there was no agreement, arrangement or understanding (including any compensation arrangement) between any member of the Concert Group or any person acting in concert with any of them, and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Acquisition, the Acquisition Agreement, the [REDACTED], the Subscription Agreements and the Whitewash Waiver;

(d) none of the members of the Concert Group borrowed or lent, nor had borrowed or lent, any shares, warrants, options, convertible securities or derivatives of the Company and members of the Concert Group during the period between 30 September 2013, being the date six months prior to 31 March 2014, which is the date of the Acquisition Agreement, and up to and including the Latest Practicable Date;

(e) none of the members of the Concert Group nor any person acting in concert with it (including their respective directors) had dealt for value in any shares or convertible securities, warrants, options or derivatives of the Company during the period between 30 September 2013, being the date six months prior to 31 March 2014, which is the date of the Acquisition Agreement, and up to and including the Latest Practicable Date;

(f) no person has made an irrevocable commitment to vote for or against the Acquisition, the Capital Reorganisation, the [REDACTED], the Subscription, the Whitewash Waiver and the Disposal;

(g) Mr. Ng Kok Hong, Mr. Ng Kok Tai and Mr. Ng Kok Yang, each being a Director and/or Shareholder, shall abstain from voting for or against the Capital Reorganisation, the [REDACTED], the Subscription, the Whitewash Waiver and the Disposal; and

(h) there was no agreement, arrangement or understanding entered into by the Concert Group or any person acting in concert with it for the transfer, charge or pledge of the Shares or the New Shares to any other persons.

## E. DISCLOSURE OF INTERESTS

### 1. Interests and/or short positions of Directors in the shares, underlying shares or debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interest or short position of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which is required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under section 352 of the SFO, or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules is as follows:

| Name of Director | Name of corporation | Capacity | Interest in ordinary Shares | Approximate % of interest in the corporation as at the Latest Practicable Date |
|---|---|---|---|---|
| Mr. Ng Kok Hong | the Company | Beneficial owner | [REDACTED] *(Note 1)* | [REDACTED] |
| Mr. Ng Kok Tai | the Company | Interest of controlled corporation | [REDACTED] *(Note 2)* | [REDACTED] |
| Mr. Ng Kok Yang | the Company | Beneficial owner | [REDACTED] | [REDACTED] |

*Note:*

(1) These Shares represent (i) [REDACTED] Shares held by Mr. Ng Kok Hong; and (ii) [REDACTED] Shares held by Md. Tan Sook Kiang, the spouse of Mr. Ng Kok Hong. Mr. Ng Kok Hong is deemed by virtue of the SFO to be interested in [REDACTED] Shares.

(2) These Shares are held by NKT Holdings Sdn. Bhd., a company incorporated in Malaysia, which is owned as to 50% by Mr. Ng Kok Tai and as to 50% by Md. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Mr. Ng Kok Tai is deemed by virtue of the SFO to be interested in these Shares.

Save for those disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, or required to be disclosed by the Takeovers Code.

**2. Interests and/or short positions of substantial shareholders in the shares and underlying shares of the Company**

As at the Latest Practicable Date, the following persons (not being Directors and chief executive of the Company) had an interest (or long position) or short position in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the SFO which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

| Name of substantial Shareholder | Long/short position | Capacity | Number of Shares interested | Approximate % of the Company's issued share capital |
|---|---|---|---|---|
| Md. Tan Sook Kiang | Long | Interest of Spouse | [REDACTED] *(Note 1)* | [REDACTED] |
| NKT Holdings Sdn. Bhd. | Long | Beneficial owner | [REDACTED] | [REDACTED] |
| Md. Siew Ai Lian | Long | Interest of controlled corporation | [REDACTED] *(Note 2)* | [REDACTED] |
| Mr. Shie | Long | Interest of controlled corporation | [REDACTED] *(Note 3)* | [REDACTED] |
| Fame Build | Long | Beneficial owner | [REDACTED] | [REDACTED] |
| Mr. Tsoi | Long | Interest of controlled corporation | [REDACTED] *(Note 4)* | [REDACTED] |

| Name of substantial Shareholder | Long/short position | Capacity | Number of Shares interested | Approximate % of the Company's issued share capital |
|---|---|---|---|---|
| Talent Connect | Long | Beneficial owner | [REDACTED] | [REDACTED] |
| Jinwu | Long | Beneficial owner | [REDACTED] *(Note 5)* | [REDACTED] |
| First Apex | Long | Beneficial owner | [REDACTED] *(Note 6)* | [REDACTED] |
| Daxin International Fund | Long | Interest of controlled corporation | [REDACTED] *(Note 7)* | [REDACTED] |
| Greater China Capital Limited | Long | Investment manager | [REDACTED] *(Note 7)* | [REDACTED] |
| Mr. Benjamin Kumar Sharma | Long | Interest of controlled corporation | [REDACTED] *(Note 8)* | [REDACTED] |

*Notes:*

(1) These Shares represent (i) [REDACTED] Shares held by Md. Tan Sook Kiang; and (ii) [REDACTED] Shares held by Mr. Ng Kok Hong, the spouse of Md. Tan Sook Kiang. Md. Tan Sook Kiang is deemed by virtue of the SFO to be interested in [REDACTED] Shares.

(2) These Shares are held by NKT Holdings Sdn. Bhd., a company incorporated in Malaysia, which is owned as to 50% by Mr. Ng Kok Tai and as to 50% by Md. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Md. Siew Ai Lian is deemed by virtue of the SFO to be interested in these Shares.

(3) These shares represent 50% of the Consideration Shares to be allotted and issued to Mr. Shie upon completion of the Acquisition Agreement, which will be held by Fame Build, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Shie. Mr Shie is deemed by virtue of the SFO to be interested in these shares.

(4) These shares represent 50% of the Consideration Shares to be allotted and issued to Mr. Tsoi upon completion of the Acquisition Agreement, which will be held by Talent Connect, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Tsoi. Mr. Tsoi is deemed by virtue of the SFO to be interested in these shares.

(5) These shares represent the Subscription Shares to be allotted and issued to Jinwu pursuant to the relevant Subscription Agreements.

(6) These shares represent the Subscription Shares to be allotted and issued to First Apex pursuant to the relevant Subscription Agreements.

(7) Pursuant to the relevant Subscription Agreements, [REDACTED] shares will be allotted and issued to Jinwu, which is owned by Daxin Investment Fund and managed by Greator China Capital Limited as investment manager. Daxin Investment Fund and Greator China Capital Limited are deemed by virtue of the SFO to be interested in the said [REDACTED] shares held by Jinwu.

(8) Pursuant to the relevant Subscription Agreements, [REDACTED] shares will be allotted and issued to First Apex, which is wholly and beneficially owned by Mr. Benjamin Kumar Sharma. Mr. Benjamin Kumar Sharma is deemed by virtue of the SFO to be interested in the said [REDACTED] shares held by First Apex.

Save as disclosed above, the Directors and chief executive of the Company are not aware, as at the Latest Practicable Date, of any person (who are not Directors and chief executive of the Company) who had an interest (or long position) or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO 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 was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

## 3. Particulars of service contracts

Each of the existing executive Directors, namely Mr. Ng Kok Hong, Mr. Ng Kok Tai and Mr. Ng Kok Yang has entered into a service agreement with the Company under which they act as executive Directors for an initial term of three years commencing from 1 January 2001 and shall continue thereafter until terminated by either party giving to the other not less than six months' notice in writing.

The existing executive Directors are entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the Group attributable to owners of the Company. The percentage shall be determined by the Board but in any case the aggregate amount payable in each financial year to all the executive Directors of the Company shall not exceed 10% of such profit.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into any service contract or letter of appointment with the Company, or any of its subsidiaries or associated companies (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

As at the Latest Practicable Date, none of the proposed Directors had entered into any service contract or letter of appointment with the Company, or any of its subsidiaries or associated companies. The Company intends to enter into a service contract with each of the proposed executive Directors and a letter of appointment with each of the proposed independent non-executive Directors, each for an initial term of three years, commencing from their respective appointment dates.

### 4. Directors' remunerations

The remunerations (including fees, salaries, allowances and benefits in kind and retirement benefit scheme contributions) paid to the Directors in aggregate for the three financial years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 were approximately HK$1,091,000, HK$1,080,000, HK$1,082,000 and HK$270,000, respectively.

Except as disclosed above, no other payments have been paid or are payable, or have any benefits in kind been granted, during the Track Record Period, by the Company or any of its subsidiaries to the Directors.

Under the current arrangements and on the assumption that the proposed executive Directors and the proposed independent non-executive Directors will be appointed on 1 July 2015, the aggregate remunerations (including fees, salaries, allowances and benefits in kind and retirement benefit scheme contributions) estimated to be payable to the Directors for the year ended 31 December 2015 are approximately [HK$1,817,000].

There was no other arrangement under which a Director waived or agreed to waive any emoluments and no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

### 5. Employee retirement benefits

The Group participates in the Mandatory Provident Fund Scheme (the "**MPF Scheme**") for those employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the employee's relevant income to the MPF Scheme subject to a cap of monthly relevant income of HK$30,000, which contribution is matched by employees.

Pursuant to the relevant regulations of the governments in Malaysia and Indonesia, the subsidiaries of the Group in these countries participate in respective government retirement benefit schemes (the "**Schemes**") whereby these subsidiaries are required to contribute to the Schemes to fund the retirements benefits of the eligible employees. Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums for each employees with reference to the salary scale, as stipulated under the requirements in respective countries. The governments of respective countries are responsible for the entire pension obligations payable to retired employees. The Schemes are defined contribution schemes. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to the income statement as incurred.

The Group has no other obligation for the payment of post-retirement benefits beyond the contributions described above.

### 6. Arrangements affecting the Directors

(a) Save as disclosed in the paragraph headed "Summary of material contracts" in this appendix, as at the Latest Practicable Date, there was no material contract entered into by the Company or by members of the Concert Group in which any of the Directors had a material personal interest.

(b) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Acquisition, the [REDACTED], the Subscription and the Whitewash Waiver and there is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Acquisition, the [REDACTED], the Subscription and the Whitewash Waiver or otherwise connected with the Acquisition, the [REDACTED], the Subscription and the Whitewash Waiver.

### 7. Competing interests

None of the Directors and the proposed Directors and their respective close associates was interested in any business apart from the business of the Enlarged Group, which competes or is likely to compete, either directly or indirectly, with the business of the Enlarged Group.

## F. MARKET PRICES

The Takeovers Code requires information on the closing prices of the Shares as recorded on the Stock Exchange on (i) the last day on which dealings took place in each of the six months immediately preceding the date of the Subscription Agreements and ending on the Latest Practicable Date; (ii) the Last Trading Date; and (iii) the Latest Practicable Date. Trading in the Shares has been suspended since 27 November 2009 and therefore no closing prices of the Shares were recorded during the period under (i) and for (iii) above. The closing price of the Shares on the Last Trading Date was HK$0.168 (adjusted to reflect the effects of the Capital Reorganisation).

## G. DISCLAIMERS

(a) Save as disclosed in the paragraph headed "Disclosure of interests" in this appendix, none of the Directors or chief executive of the Company is aware of any other Director or chief executive of the Company who has any interests or short positions in any shares and underlying shares in, and debentures of, the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code;

(b) None of the Directors nor any of the persons whose names are listed in the paragraph headed "Qualifications and consents of experts" in this appendix is interested in the promotion of the Company or in any assets which have within the two years immediately preceding the issue of this circular 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;

(c) None of the Directors nor any of the persons whose names are listed in the paragraph headed "Qualifications and consents of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group;

(d) None of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);

(e) No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this circular to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the introduction or related transaction as mentioned in this circular; and

(f) So far as is known to the Directors, none of the Directors, their respective associates or Shareholders who are interested in 5% or more of the issued share capital of the Company have any interests in the five largest customers or the five largest suppliers of the Group.

## H. MATERIAL CHANGE OF THE GROUP SINCE 30 JUNE 2015

As at the Latest Practicable Date, the Directors confirm that there have been no material changes in the financial or trading position of the Group and save as the impact of the restructuring of the Company, in particular, the Disposal, there have been no material changes in the outlook of the Group since 30 June 2015, being the date to which the latest published audited financial statements of the Group were made up. Upon completion of the Acquisition and the Disposal, the Group will discontinue the existing business and solely be engaged in property development.

## I. SUMMARY OF MATERIAL CONTRACTS

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

(a) the Acquisition Agreement;

(b) the FA Loan Agreement;

(c) the FA Option Agreement;

(d) the TB Loan Agreement;

(e) the TB Option Agreement;

(f) the Disposal Agreement;

(g) the Original Subscription Agreement;

[(h) [the Deed of Non-Competition;]

[(i) the [REDACTED] Agreement;]

(j) the Amended Subscription Agreement;

(k) the Amended TB Option Agreement;

(l) the New FA Option Agreement;

(m) the termination deed entered into between the Company and First Apex dated 27 October 2014 to terminate the FA Option Agreement; and

[(n) [the Deed of Indemnity.]

## J. LEGAL PROCEEDINGS OF THE GROUP

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

On 19 July 2013, a statutory demand under Section 218 of the Companies Act, 1965 dated 15 July 2013 (the "**Statutory Demand**") was served on First Mobile Group Sdn. Bhd. ("**FMGSB**"), a wholly-owned subsidiary of the Company by Messrs. Surend Mokhzani & Partners, the legal representative of Metroport Logistics (Malaysia) Sdn. Bhd., the plaintiff, for a judgment sum of approximately Malaysian Ringgit 1,376,000 granted by Shah Alam High Court in Malaysia on 31 July 2012. FMGSB is required to settle the aforesaid amount within 21 days from the date of service of the Statutory Demand, failing which, winding-up proceedings may be commenced against FMGSB. At the adjourned hearing of the Winding-up Petition on 5 February 2014, the Shah Alam High Court in Malaysia ordered, among other things, that FMGSB be wound up and that the Official Receiver of Malaysia be appointed as the provisional liquidator of FMGSB.

## K. DEED OF INDEMNITY

The Controlling Shareholders (collectively the "**Indemnifiers**") have entered into the Deed of Indemnity (being the material contract referred to in paragraph I(l) in this appendix) in favour of the Company (for itself and on trustee for the subsidiaries of the Enlarged Group).

Under the Deed of Indemnity, the Indemnifiers have jointly and severally undertaken with the Company to indemnify the Company and each member of the Enlarged Group (on its own behalf and as trustee for the subsidiaries of the Enlarged Group) and at all times keep the same fully indemnified against any loss (including loss of profits during any period of disruption to its business operations) or liability suffered by the Company and/or any other member of the Enlarged Group including, but not limited to any payment made or required to be made by the Company or any other member of the Enlarged Group and any costs (including all reasonable legal costs) and expenses (including relocation expenses) incurred by any member of the Enlarged Group as a result of or in connection with:

(1) any penalty, claim, damages, fine, charges, reprimand, public censure or loss arising from or in connection with any actions, claims, demands, investigations, proceedings or judgments that may be brought or threatened to be brought against any member of the Enlarged Group (whether successful, compromised or settled) (the "**Claims**"); or

(2) disputing, defending or settling any such Claims or enforcing any settlement of or judgment in respect of any such Claims; or

(3) other liabilities falling on any member of the Enlarged Group,

arising from any non-compliance of the Target Group disclosed in the section headed "Business of the Target Group — Legal proceedings and compliance — Compliance" in this circular.

## L. QUALIFICATIONS AND CONSENTS OF EXPERTS

Cinda International Capital Limited, Goldin Financial Limited, Deloitte Touche Tohmatsu, ZHONGHUI ANDA CPA Limited, Appleby, Dacheng Law Offices, DTZ Debenham Tie Leung Limited, ZHONGHUI ANDA Risk Services Limited and Ms. Deanna Law have each given and have not withdrawn their respective written consents to the issue of this circular with copies of their reports, valuation certificates, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included. The qualifications of the experts who have given opinions in this circular are as follows:

| Name | Qualification |
|---|---|
| Cinda International Capital Limited | Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO |
| Goldin Financial Limited | Licensed to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO |
| Deloitte Touche Tohmatsu | Certified public accountants |
| ZHONGHUI ANDA CPA Limited | Certified public accountants |
| Appleby | Cayman Islands attorneys-at-law |
| Dacheng Law Offices | PRC legal advisers |
| DTZ Debenham Tie Leung Limited | Independent property valuer |
| ZHONGHUI ANDA Risk Services Limited | Independent internal control consultant |
| Ms. Deanna Law | Hong Kong barrister-at-law |

## M. TOTAL EXPENSES

The aggregate fees, together with the Stock Exchange [REDACTED] fee, legal and other professional fees, printing and other expenses relating to the Acquisition, the [REDACTED] and the Subscription, are estimated to be HK$[40.2] million of which, approximately HK$[5.6] million is payable by the Company and approximately HK$[34.6] million is payable by the Vendors.

## N. PROMOTER

The Company has no promoter for the purpose of the Listing Rules.

## O. MISCELLANEOUS

Except as disclosed in this appendix to this circular:

(a) within the two years preceding the date of this circular:

(i) no share or loan capital of the Company or any of its subsidiaries had been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms had been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and

(iii) no share or loan capital of the Company or any of it subsidiaries was under option or was agreed conditionally or unconditionally to be put under option.

(b) as at the Latest Practicable Date, none of the persons whose names are listed in the paragraph "Qualifications and consents of experts" in this appendix had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(c) the Directors have been advised that no material liability for estate duty would be likely to fall upon any member of the Group;

(d) there is no arrangement under which future dividend declared by the Company have been waived or agreed to be waived;

(e) there had not been any interruption in the business of the Group which may have had a significant effect on the financial position of the Group in the 12 months preceding the date of this circular;

(f) neither the Company nor any of its subsidiaries had issued or agreed to issue any founder shares, management shares, deferred shares or any debentures;

(g) all necessary arrangements had been made with HKSCC for the Shares and the New Shares to continue to be accepted as eligible securities of CCASS;

(h) the Directors were not aware of any person who is directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including options in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries; and

(i) none of the Company's equity or debt securities is [REDACTED] or dealt with in any other stock exchange nor is any [REDACTED] or permission to deal being or proposed to be sought.

The English text of this circular shall prevail over the Chinese text.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on the Company's website at http://www.firstmobile.com.hk and on the SFC's website at http://www.sfc.hk. The documents are also available for inspection at the Company's principal place of business in Hong Kong at Workshop 6, Level One, Wah Yiu Industrial Centre, 30–32 Au Pui Wan Street, Fotan, Shatin, New Territories, Hong Kong during 9:30 a.m. to 5:30 p.m., Monday to Friday (other than public holidays) from the date of this circular up to and including the date of the EGM:

(a) the New Memorandum and Articles;

(b) the memorandum of association and articles of association of China General;

(c) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(d) the letter of advice from Goldin Financial Limited to the Independent Shareholders dated [●] 2015, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;

(e) the annual reports of the Company for each of the two years ended 31 December 2012;

(f) the interim reports of the Company for the six months ended 30 June 2013;

(g) the accountants' report on the Target Group for the three years ended 31 December 2014 and the six months ended 30 June 2015 prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this circular;

(h) the auditor's report on the Company for the three years ended 31 December 2014 and the six months ended 30 June 2015 prepared by ZHONGHUI ANDA CPA Limited, the text of which is set out in Appendix II to this circular;

(i) the accountants' report from ZHONGHUI ANDA CPA Limited relating to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(j) the letter, summary of valuations and valuation certificates relating to the values of property interests of the China General Group as at [31 July 2015] prepared by DTZ Debenham Tie Leung Limited, the texts of which are set out in Appendix IV to this circular;

(k) the letter summarising certain aspects of the Companies Law prepared by Appleby, the text of which is set out in Appendix VI to this circular;

(l) the PRC legal opinion issued by Dacheng Law Offices, the PRC Legal Advisers;

(m) the internal control report from ZHONGHUI ANDA Risk Services Limited relating to the internal control deficiencies of the Enlarged Group identified and the recommended remedial actions to rectify the deficiencies;

(n) the counsel opinion dated 27 October 2014 issued by Hong Kong barristers-at-law, Ms. Deanna Law;

(o) the Companies Law;

(p) the material contracts referred to in the paragraph "Summary of material contracts" in Appendix VII to this circular;

(q) the written letters of consent referred to in the paragraph "Qualifications and consents of experts" in Appendix VII to this circular; and

(r) a copy of this circular.

FMG FIRST MOBILE GROUP

**FIRST MOBILE GROUP HOLDINGS LIMITED**
**(第一電訊集團有限公司)***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 865)**

# NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the "Meeting") of First Mobile Group Holdings Limited (the "Company") will be held at [●], Hong Kong on [REDACTED], [REDACTED] at [REDACTED] to consider and, if thought fit, pass the following resolutions with or without amendments as special resolutions or ordinary resolutions (as the case may be). Capitalised terms defined in the circular dated [●] issued by the Company (the "Circular") shall have the same meanings when used in this notice unless otherwise specified.

## SPECIAL RESOLUTIONS

1. **"THE CAPITAL REORGANISATION**

**THAT** conditional upon:- (i) approval of the Capital Reduction (as defined below) by the Grand Court of the Cayman Islands (the "Cayman Islands Court"); (ii) registration by the Registrar of Companies of the Cayman Islands of the order of the Cayman Islands Court confirming the Capital Reduction (as defined below) and the minute approved by the Cayman Islands Court containing the particulars required under the Companies Law in respect of the Capital Reduction (as defined below) and compliance with any condition as may be imposed by the Cayman Islands Court in relation to the Capital Reduction (as defined below); and (iii) the Listing Committee granting the [REDACTED] of, and permission to deal in, the New Shares in issue, upon the date on which the Capital Reduction (as defined below) becomes effective (the "Effective Date"):

(a) the par value of each issued Share be reduced from HK$0.10 to HK$0.0005 by cancelling paid up share capital to the extent of HK$0.0995 per Share in issue as at the Effective Date by way of a reduction of capital (the "Capital Reduction");

(b) immediately following the Capital Reduction, all remaining authorised but unissued shares of the Company as at the Effective Date be cancelled (the "Authorised Share Capital Cancellation");

* *For identification purposes only*

(c) upon the Capital Reduction and the Authorised Share Capital Cancellation becoming effective, every 10 Shares of HK$0.0005 each in the Company be consolidated into one New Share with a par value of HK$0.005 each (the "Share Consolidation"), and any fractions of New Shares arising on the Share Consolidation shall not be allocated to the holders of the existing Shares otherwise entitled thereto but such fractions shall be aggregated and sold for the benefit of the Company in such manner, on such terms and subject to such conditions as the Directors may, in their sole and absolute discretion, think fit;

(d) the entire amount standing to the credit of the share premium account of the Company as at [30 June 2015] amounting to approximately HK$127.54 be cancelled (the "Share Premium Cancellation");

(e) the authorised share capital of the Company be increased from HK$300,000,000 to HK$500,000,000 divided into 100,000,000,000 New Shares of HK$0.005 each by the creation of an additional 40,000,000,000 New Shares (the "Authorised Share Capital Increase" and together with the Capital Reduction, the Authorised Share Capital Cancellation, the Share Consolidation and the Share Premium Cancellation, "Capital Reorganisation");

(f) the credit which arises as a result of the Capital Reduction and the Share Premium Cancellation be transferred to the distributable reserve of the Company and be applied to cancel the accumulated losses of the Company as at [30 June 2015], and any one or more of the Director(s) be and is/are hereby authorized to apply the balance in the distributable reserve of the Company (if any) in any manner permitted by the Companies Law; and

(g) any one or more of the Director(s) be and is/are hereby authorised to do all such acts and things, to sign and execute all such further documents or agreements or deeds on behalf of the Company and to do such acts and things, to sign and execute all such further documents and to take such steps as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the implementation of and giving effect to any matter relating to the Capital Reorganisation and the transactions contemplated thereunder."

**2. "ADOPTION OF NEW MEMORANDUM AND ARTICLES**

**THAT** subject to and upon the passing of Resolution No. 1 as set out in the notice convening this Meeting, the New Memorandum and Articles (a copy of which is marked "A" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purpose) be and are hereby approved and adopted as the new memorandum of association and articles of association of the Company in substitution for and to the exclusion of the Existing Memorandum and Articles with immediate effect."

## ORDINARY RESOLUTIONS

**3. "THE ACQUISITION**

**THAT:**

(a) the Acquisition Agreement (a copy of which is marked "B" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purposes) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) subject to the fulfillment of the conditions in the Acquisition Agreement and conditional upon the Listing Committee approving the [REDACTED] of, and granting permission to deal in the Consideration Shares, the Directors be and are hereby granted a specific mandate (the "Consideration Shares Specific Mandate") to allot, issue, credited as fully paid, the Consideration Shares to the Vendors pursuant to the Acquisition Agreement, provided that the Consideration Shares Specific Mandate shall be in addition to and shall not prejudice nor revoke such other general or specific mandate(s) which may from time to time be granted to the Directors prior to or after the passing of this resolution; and

(c) any one or more of the Director(s) be and is/are hereby authorised to do all such acts and things, to sign and execute all such further documents or agreements or deeds on behalf of the Company (including the affixation of the common seal of the Company where execution under seal is required) and to do such acts and things, to sign and execute all such further documents and to take such steps as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the implementation of and giving effect to any matter relating to the Acquisition Agreement and the transactions contemplated thereunder."

**4. "THE [REDACTED]**

**THAT:**

(a) the [REDACTED] Agreement (a copy of which is marked "C" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purposes) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) subject to the fulfillment of the conditions in the [REDACTED] Agreement and conditional upon the Listing Committee approving the [REDACTED] of, and granting permission to deal in the [REDACTED], the Directors be and are hereby granted a specific mandate (the "[REDACTED] Specific Mandate") to allot, issue, credited as fully paid, the [REDACTED] to the Qualifying Shareholders at the subscription price of [REDACTED] per [REDACTED] on the basis of 2 [REDACTED] for every 1 New Share held to the Qualifying

Shareholders on the terms set out in the Circular (a copy of which is marked "D" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purposes) provided that the [REDACTED] Specific Mandate shall be in addition to and shall not prejudice nor revoke such other general or specific mandate(s) which may from time to time be granted to the Directors prior to or after the passing of this resolution;

(c) the entering into of the [REDACTED] Agreement by the Company be and is hereby approved, confirmed and ratified and the performance of the transactions contemplated thereunder by the Company (including but not limited to the arrangements for taking up of the underwritten [REDACTED], if any, by the [REDACTED]) be and are hereby approved;

(d) the absence of arrangement for excess application for the [REDACTED] according to the terms and conditions set out in the Circular be and is hereby approved; and

(e) any one or more of the Director(s) be and is/are hereby authorised to do all such acts and things, to sign and execute all such further documents or agreements or deeds on behalf of the Company (including the affixation of the common seal of the Company where execution under seal is required) and to do such acts and things, to sign and execute all such further documents and to take such steps as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the implementation of and giving effect to any matter relating to the [REDACTED], the [REDACTED] Agreement and the transactions contemplated thereunder."

**5. "THE SUBSCRIPTION**

**THAT:**

(a) the Subscription Agreements (a copy of which is marked "E" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purposes) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) subject to the fulfillment of the conditions in the Subscription Agreements and conditional upon the Listing Committee approving the [REDACTED] of, and granting permission to deal in the Subscription Shares, the Directors be and are hereby granted a specific mandate (the "Subscription Shares Specific Mandate") to allot, issue, credited as fully paid, the Subscription Shares to the Subscribers pursuant to the Subscription Agreements, provided that the Subscription Shares Specific Mandate shall be in addition to and shall not prejudice nor revoke such other general or specific mandate(s) which may from time to time be granted to the Directors prior to or after the passing of this resolution; and

(c) any one or more of the Director(s) be and is/are hereby authorised to do all such acts and things, to sign and execute all such further documents or agreements or deeds on behalf of the Company (including the affixation of the common seal of the Company where execution under seal is required) and to do such acts and things, to sign and execute all such further documents and to take such steps as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the implementation of and giving effect to any matter relating to the Subscription Agreements, the allotment and issue of the Subscription Shares and the transactions contemplated thereunder."

**6. "THE WHITEWASH WAIVER**

**THAT:**

(a) subject to the Executive granting to the Vendors the Whitewash Waiver and the satisfaction of any condition(s) attached to the Whitewash Waiver imposed by the Executive, the waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code, waiving any obligation of the Vendors and parties acting in concert with it to make a mandatory general offer to other Shareholders in respect of the New Shares as a result of the acquisition of the Consideration Shares be and is hereby approved; and

(b) any one or more of the Director(s) be and is/are hereby authorised to do all such acts and things, to sign and execute all such further documents or agreements or deeds on behalf of the Company (including the affixation of the common seal of the Company where execution under seal is required) and to take such steps as he/she/they may consider necessary, appropriate, desirable or expedient to do such acts and things, to sign and execute all such further documents and to take such steps as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the implementation of and giving effect to any matter relating to the Whitewash Waiver."

**7. "SPECIAL DEAL**

**THAT**, subject to the consent of the Executive (or any delegate of the Executive) pursuant to Rule 25 of the Takeovers Code with respect to special deal and any conditions that may be imposed thereon:

(a) the Disposal Agreement (a copy of which is marked "F" and tabled before the Meeting and initialled by the chairman of the Meeting for identification purposes) and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) any one or more of the Director(s) be and is/are hereby authorised to do all such acts and things, to sign and execute all such further documents or agreements or deeds on behalf of the Company (including the affixation of the common seal of the Company where execution under seal is required) and to do such acts and things, to sign and execute all such further documents and to take such steps as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the implementation of and giving effect to any matter relating to the Disposal Agreement and the transactions contemplated thereunder."

**8. "PROPOSED APPOINTMENT OF PROPOSED DIRECTORS**

**THAT:**

(a) the appointment of the following candidates as Directors with effect from completion of the Acquisition be and is hereby approved:

(i) Mr. Shie Tak Chung as executive Director;

(ii) Mr. Tsoi Kin Sze as executive Director;

(iii) Mr. Wu Zhisong as executive Director;

(iv) Mr. Lee Lit Mo Johnny as executive Director;

(v) Mr. Ma Sai Yam as independent non-executive Director;

(vi) Mr. Zhang Senquan as independent non-executive Director; and

(vii) Mr. Wang Yiming as independent non-executive Director.

(b) the Board be and is hereby authorised to fix their remuneration."

By order of the Board
**Ng Kok Hong**
*Executive Chairman*

Hong Kong, [●]

*Head Office and Principal Place of Business:*
Workshop 6, Level 1
Wah Yiu Industrial Centre
30-32 Au Pui Wan Street
Fotan, Shatin, New Territories
Hong Kong

*Notes:*

1. Every shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the Company's branch share registrar in Hong Kong, [REDACTED] not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

3. Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the Meeting if the shareholder so desires.

4. Where there are joint holders of any Share, any one of such joint holders may vote, either personally or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting, the vote of the joint holder whose name stands first on the register of members of the Company in respect of the joint holding who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

5. As at the date of this notice, the Board consists of Mr. Ng Kok Hong, Mr. Ng Kok Tai and Mr. Ng Kok Yang, all being executive Directors.

* *For identification purpose only*