

BUSINESS OF THE TARGET GROUP

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.

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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

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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.

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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

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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

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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.

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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.

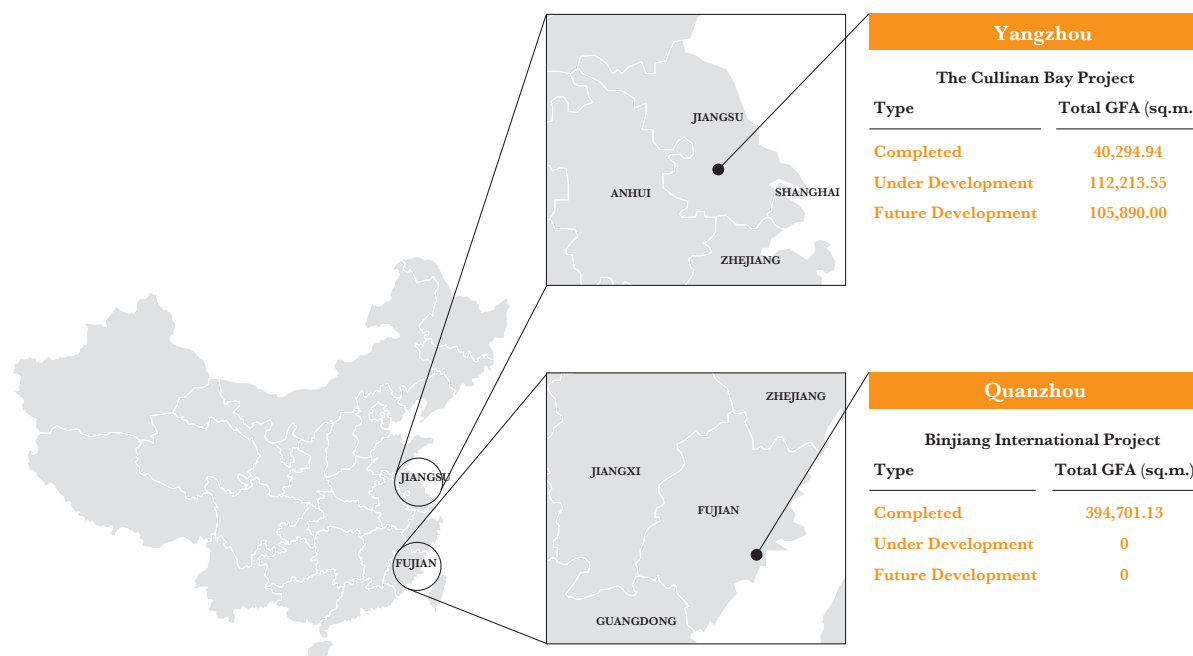
PROPERTY DEVELOPMENT PROJECTS OF THE TARGET GROUP

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.

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The following map shows the geographical locations and key information of development of the projects of the Target Group as at 31 July 2015:



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

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- 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.

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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:

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.)
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	—	—	—	—	—	—	—	—

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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 (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

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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.

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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:

<u>Usage</u>	<u>GFA completed</u> <i>(sq.m.)</i>	<u>GFA under development</u> <i>(sq.m.)</i>	<u>GFA planned for future development</u> <i>(sq.m.)</i>
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⁾	<u>17,145.92⁽³⁾</u>	<u>11,226.99</u>	<u>11,574.10</u>
Total	<u><u>434,996.07</u></u>	<u><u>112,213.55</u></u>	<u><u>105,890.00</u></u>

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.

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Description of the property development projects

Binjiang International Project

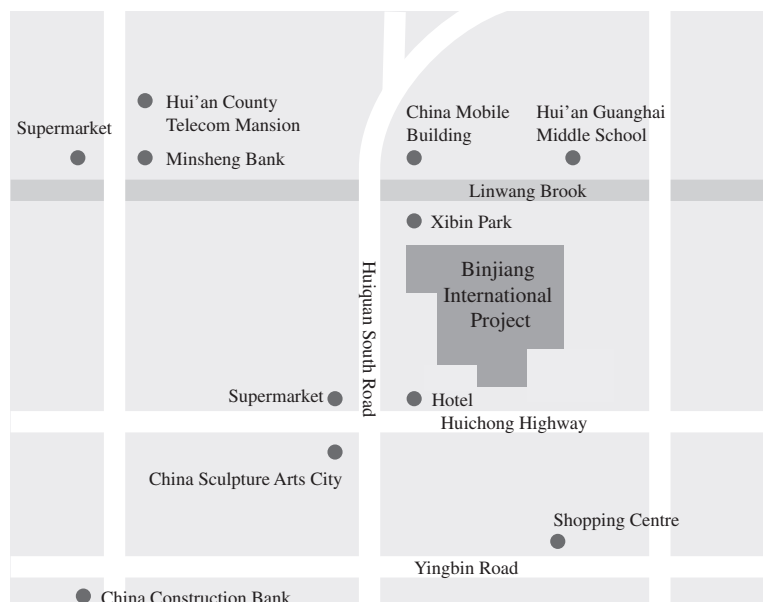


The Binjiang International Project is a residential project consisting of high-rise residential buildings, ancillary retail shops, kindergarten, clubhouse, swimming pool and car parking spaces located in the intersection of 324 National Highway and Xibin Park (溪濱公園) in Huian County, Quanzhou, Fujian 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.

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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

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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.

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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)			Estimated further development costs to complete the relevant phase (RMB million) (Note 4)	Total development costs (RMB million) (Note 5)
	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)		
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.

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The Cullinan Bay Project

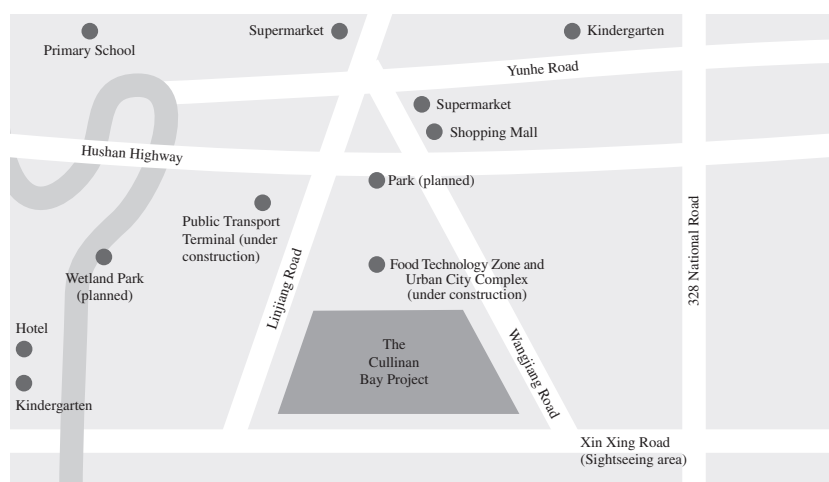


Leveraging on the success of the Binjiang International Project, in August 2012, the Target Group acquired two parcels of land located in Yangzhou, Jiangsu Province, the PRC for the development of The Cullinan Bay Project. As at 31 July 2015, The Cullinan Bay Project has an aggregated completed GFA of 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.

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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

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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.

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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.

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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:

Project phases	Development costs incurred (RMB million)			Estimated further development costs to complete the relevant phase (RMB million) (Note 4)	Total development costs (RMB million) (Note 5)	Schedule of further development costs to be incurred (Estimated) (RMB million) (Note 6)	
	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)			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.

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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.

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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.

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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:

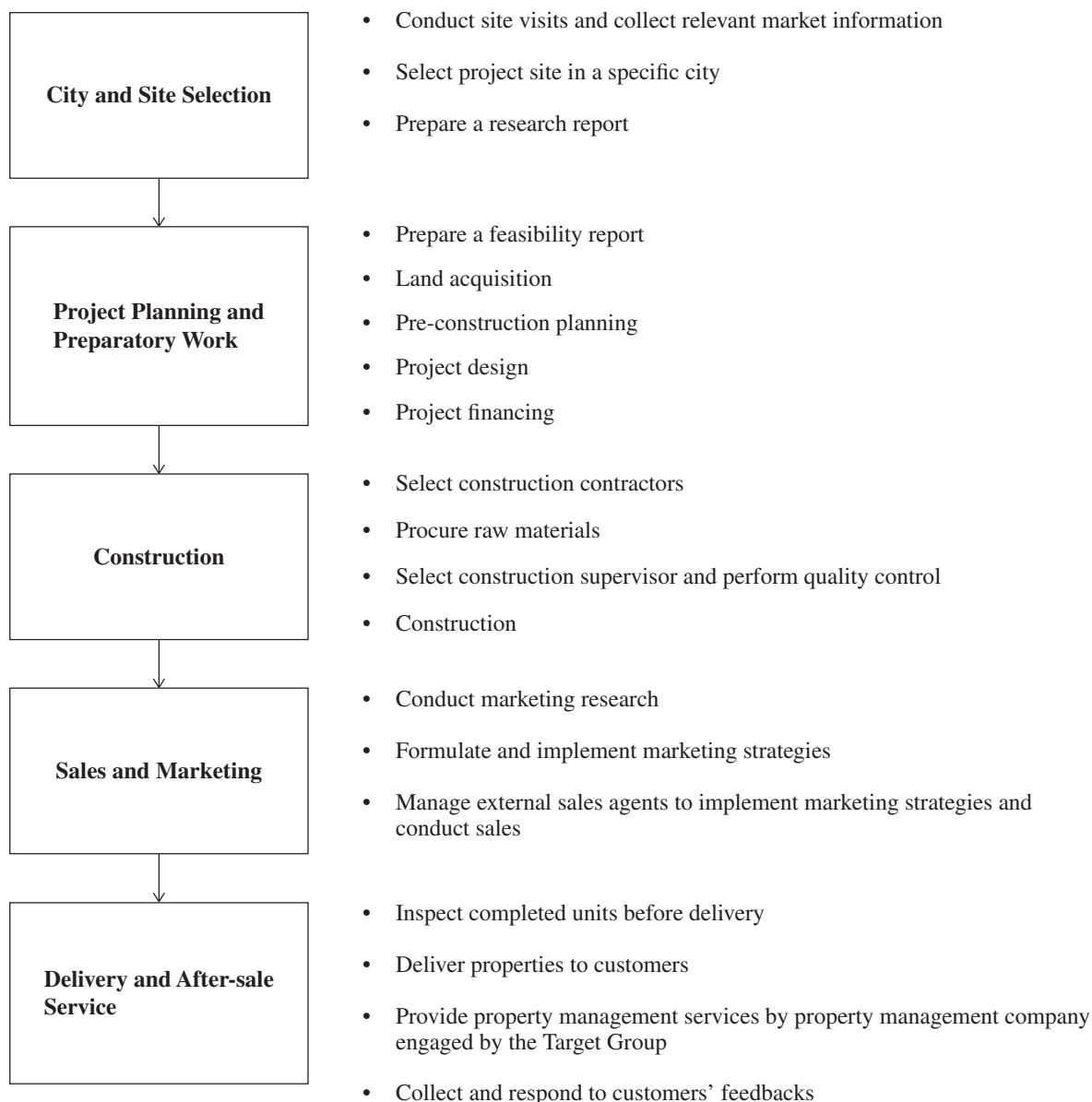
Entity	Name of the licence/ permit	Issuing authority	Issuance date	Expiry date
Hui An China General	Qualification Certificate for Real Estate Development Enterprise (class 3)* (《中華人民共 和國房地產開發企業資質 證書》(三級))	Housing and Urban-Rural Development of Quanzhou* (泉州市住房和城鄉建設 局)	12 August 2013	11 August 2016
Yangzhou 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

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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:



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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;

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- 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

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- 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.

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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.

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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.

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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.

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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.

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- 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

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- 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

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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.

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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

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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.

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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

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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

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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 losing 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

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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.

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- (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

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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.

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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

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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 accounts 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 certificate 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.

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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 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* (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

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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

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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

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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.

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(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

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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.

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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	Percentage of
			(net of business tax) (RMB'000)	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	<u>1,058</u>	<u>1.2%</u>
			<u>7,222</u>	<u>8.0%</u>

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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%
			<u>24,753</u>	<u>12.2%</u>

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%
			<u>11,440</u>	<u>4.5%</u>

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For the six months ended 30 June 2015

Customers	Corporate/ individual	Type of properties	Revenue	Percentage of
			(net of business tax) (RMB'000)	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	<u>1,131</u>	<u>1.8%</u>
			<u>39,143</u>	<u>63.8%</u>

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.

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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%
			<u>108,823</u>	<u>92.8%</u>

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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%
			<u>142,440</u>	<u>90.8%</u>

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%
			<u>87,461</u>	<u>84.2%</u>

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%
			<u>58,125</u>	<u>94.7%</u>

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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

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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)

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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

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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	<u>12</u>
 Total	 <u><u>54</u></u>

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.

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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.

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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.

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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
<i>PRC</i>					
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). 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.	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.

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.

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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
			<p>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.</p>	<p>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.</p>	
			<p>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.</p>	<p>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.</p>	
			<p>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.</p>	<p>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.</p>	

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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. 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.	<p>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.</p> <p>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 Hui'an County* (惠安縣住房與城鄉建設局) has issued a 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.</p>	<p>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.</p> <p>Hui An China General has obtained confirmation from the Housing and Town Construction Bureau of Hui'an 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局) confirmed in January 2015 that they agreed with the aforesaid confirmation issued by the Housing and Town Construction Bureau of Hui'an County. As advised by the PRC Legal Advisers, the Housing and Town Construction Bureau of Hui'an 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.</p> <p>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.</p> <p>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.</p>	<p>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.</p>

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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
			<p>According to the Opinion on Supervision of Funds from Pre-sale of Commodity Housing Units (泉州市商品房预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.</p>		

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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
<i>Hong Kong</i>					
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.	<p>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.</p> <p>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.</p>	<p>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:</p> <p>(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</p> <p>(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.</p>

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 brought, 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.

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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.

BUSINESS OF THE TARGET GROUP

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.

BUSINESS OF THE TARGET GROUP

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.

BUSINESS OF THE TARGET GROUP

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.