The following discussion of the financial conditions and results of operations of the Target Group should be read in conjunction with the audited consolidated financial statements of the Target Group as at and for the years ended 31 December 2012 and 2013 and 2014 and the ten months ended 31 October 2015, and, in each case, the related notes set out in the Accountants' Report on the Target Group included as Appendix I to this circular. The audited consolidated financial statements of the Target Group have been prepared in accordance with HKFRSs, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussion may contain forward-looking statements that involve risks and uncertainties. The actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the section headed "Risk factors" and elsewhere in this circular.

OVERVIEW

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

As at the Latest Practicable Date, the property portfolio of the Target Group comprised two property development projects, namely (i) the Binjiang International Project in Quanzhou, Fujian Province and (ii) The Cullinan Bay Project in Yangzhou, Jiangsu Province. The Binjiang International Project consists of 4 phases, all of which have been completed. The Cullinan Bay Project consists of 2 phases, of which Stage 1 of Phase 1 has completed construction and commenced pre-sale of properties, Stage 2 of Phase 1 has commenced construction and pre-sale of properties, while Phase 2 has yet to commence construction. As at 31 December 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.

For the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015, revenue of the Target Group was approximately RMB90.6 million, RMB203.7 million, RMB256.5 million and RMB86.8 million, respectively. The profit and total comprehensive income attributable to owners of the Target Company for the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015 was approximately RMB15.0 million, RMB26.8 million, RMB35.1 million and RMB20.6 million, respectively.

BASIS OF PRESENTATION

Pursuant to the reorganisation of the Target Group as more fully described in the sections headed "History and background of the Target Group" and "Statutory and general information" in Appendix IX to this circular, the Target Company became the holding company of all the companies now comprising the Target Group on 9 October 2014. Since the Controlling Shareholders controlled all the companies now comprising the Target Group before and after its group reorganisation, the Target Group comprising the Target Company and its subsidiaries resulting from its group reorganisation is regarded as a continuing entity. The financial statements of the Target Group have been prepared on the basis as if the Target Company had always been the holding company of the Target Group using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The consolidated statements of financial position, consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period as included in the Accountants' Report on the Target Group, the text of which is set out in Appendix I to this circular, include the results of operations of the companies comprising the Target Group have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/establishment where it is a shorter period.

SIGNIFICANT FACTORS AFFECTING RESULTS OF OPERATIONS OF THE TARGET GROUP

The Target Group's business and prospects significantly depend on the performance of the PRC property market, particularly the property markets in Quanzhou and Yangzhou

The Target Group is a residential property developer primarily focusing on the development residential properties for sale in Quanzhou, Fujian Province and Yangzhou, Jiangsu Province, the PRC through its two projects, namely, the Binjiang International Project and The Cullinan Bay Project. As a result, the Target Group's business and prospects significantly depend on the performance of the PRC property market, particularly the property markets in Quanzhou and Yangzhou. The PRC property market may experience undersupply or oversupply of property units and significant property price fluctuations. Any significant downturn in the PRC economy could adversely affect demand for residential properties in the PRC. In addition, the PRC national and local governments may frequently adjust monetary, fiscal or other economic policies to prevent and curtail the overheating of the economy, in particular, the property market, which may reduce demand for property and result in adverse effect on the Target Group's business and financial condition. Any excessive development in the property markets where the Target Group operates may result in an oversupply of properties, intensified competition and increase in land acquisition costs due to intensified competition, which may materially and adversely affect the Target Group's business, results of operations and financial condition.

The Target Group's operations are subject to extensive governmental regulations

The Target Group's business is subject to extensive governmental regulations. As with other PRC property developers, the Target Group must comply with various requirements mandated by the PRC laws and regulations, including the policies and procedures established by local authorities designed for the implementation of such laws and regulations. In particular, the PRC government has in recent years taken various measures to regulate the property market in order to discourage speculations in the property market, such as raising benchmark interest rates of commercial banks, placing additional limitations on the ability of commercial banks to issue loans to property developers, imposing additional taxes and levies on property sales, restricting foreign investment in the PRC property market and imposing restrictions on the purchase of properties by domestic individuals.

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

The Target Group's operating results depend on the sale of properties, which is affected by factors including schedule of property development and delivery, and timing of property sales

The Target Group derives revenue from the sales of properties. According to the Target Group's accounting policy, revenue of the Target Group is recognised when the respective properties have been completed and delivered to the customers. Periods in which the Target Group delivers completed properties with a higher aggregate GFA typically generate a higher level of revenue. However, the Target Group's revenue is not evenly distributed over different periods of any particular year due to a combination of factors, which include the overall delivery schedules of the Target Group's projects, the market demand for their properties and the timing of the sale of properties that the Target Group developed.

Consequently, the results of operations of the Target Group for any given period may not be indicative of the actual demand for properties or the pre-sale or sales achieved during such period. The Target Group's revenue and net profit during any given period generally reflect property purchase decisions made by purchasers some time earlier. As a result, the Target Group's results of operations are not necessarily indicative of results that may be expected for any future period.

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

During the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015, the overall ASP realised from the delivered properties was approximately RMB3,707 per sq.m., RMB3,766 per sq.m., RMB4,595 per sq.m. and RMB7,067 per sq.m. respectively. The overall ASP of properties within a single property project is subject to pricing of properties which was based on a number of factors, such as types, features, location of the properties and the supply and demand conditions of the local market. In the case that the Target Group experienced a greater decrease in ASP while average cost of sales per sq.m. increased or remained stable, the Target Group may not be able to maintain its gross profit margin as those in the Track Record Period, and its financial performance may be adversely affected.

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

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

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

The Target Group is required to reassess the fair value of its investment properties as at the end of each reporting period in accordance with the HKFRSs. Gains or losses arising from changes in the fair value of investment properties upon revaluation are included in the profit or loss of the Target Group in the corresponding periods, which may have a substantial effect on its profitability. During the Track Record Period, gains from fair value changes in investment properties were approximately RMB5.9 million, RMB7.9 million, RMB4.4 million and RMB1.9 million respectively, accounting for approximately 26.3%, 19.9%, 8.2% and 4.8% of the Target Group's profit before tax for the respective periods. If the gains from fair value changes in investment properties were excluded, the Target Group's profit before tax for the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015 would have been approximately RMB16.5 million, RMB31.8 million, RMB49.3 million and RMB37.9 million respectively.

The fair values of investment properties are based on valuations conducted by DTZ, a firm of independent and qualified professional valuers, using valuation techniques that involves professional judgments and adopts certain bases and assumptions. Furthermore, the fair values of the investment properties during the years were significantly affected by the prevailing property market conditions and are subject to market fluctuations. Unforeseeable changes to the property development projects as well as national and local economic conditions may also affect the value of the Target Group's property development projects. There is no assurance that the fair values of investment properties will continue to increase in the future. The fair values of investment properties may decrease in the event that the property markets in the PRC experience a downturn or the PRC government implements any policies resulting in a general decline in property price. Any decrease in the fair values of investment properties in the future will have an adverse effect on the Target Group's business, results of operations and financial position.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the fair values of investment properties, with all other variables held constant, on profit before tax during the Track Record Period. Hypothetical fluctuations are assumed to be 0.9% and 11.5% which are commensurate with historical fluctuations in fair values of investment properties during the Track Record Period:

Hypothetical fluctuation	-11.5%	-0.9%	+0.9%	+11.5%
Change in profit before tax *(RMB'000)*				
For the year ended 31 December 2012	-679	-53	+53	+679
For the year ended 31 December 2013	-903	-71	+71	+903
For the year ended 31 December 2014	-506	-40	+40	+506
For the ten months ended 31 October 2014	-495	-39	+39	+495
For the ten months ended 31 October 2015	-219	-17	+17	+219

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

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

The Target Group makes provisions for the amount of applicable LAT payable in accordance with the relevant PRC laws and regulations from time to time, pending final settlement with the relevant tax authorities. For the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015, the Target Group recorded approximately RMB1.4 million, RMB1.7 million, RMB5.5 million and RMB11.3 million respectively as LAT expenses. In the event that the LAT provisions made by the Target Group are substantially lower than the actual LAT amounts as assessed by the PRC government in the future, its business, results of operations and financial position may be adversely affected.

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

The Target Group provides guarantees to the banks in connection with its customers' mortgage loans for the purchase of pre-sale units provisionally to finance their purchase of the residential properties of the Target Group. The Target Group's guarantee is released at the earlier of (i) the bank receiving the individual property ownership certificate of the relevant property from the customer as security for the mortgage loan; or (ii) the full settlement of mortgage loans by the customers. If any customer defaults on his or her payment obligations under the mortgage loan during the terms of such guarantee, the bank may request the Target Group to fulfill such payment obligation. As at 31 October 2015, the outstanding financial guarantee providing with guarantee period up to the full settlement of mortgage loan was approximately RMB353.5 million. Should any material default by the customers of the Target Group occur under their mortgage loans guaranteed by the Target Group, the Target Group would be called upon to make significant payments to the banks, which could materially and adversely affect its result of operations and financial condition.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information in the Accountants' Report on the Target Group included in Appendix I to this circular has been prepared on the historical cost basis, except for investment properties and certain financial instruments which are measured at fair values, in accordance with all applicable HKFRSs issued by HKICPA. It also requires the management of the Target Company to make judgments, assumptions and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These judgments, assumptions and estimates are based on historical experience and other factors that are believed to be relevant under the circumstances. The actual results may differ from these estimates.

The proposed Directors believe the following accounting policies and estimates are the most critical to the understanding of the financial position and results of operations of the Target Group. Other significant accounting policies and critical estimates are set forth in detail in Notes 4 and 5 respectively to the Accountants' Report on the Target Group included in Appendix I to this circular.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Target Group has transferred to the customer the significant risks and rewards of ownership of the goods;
- the Target Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Target Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the customers. Delivery takes place on the date when the customers sign the delivery documents or a specific number of days after the date of final collection notice is sent by the Target Group to the customers pursuant to the sales contract. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statements of financial position as "Pre-sales proceeds received on sales of properties" under current liabilities.

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of each reporting period, to cover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated with a number of assumptions relating to the operating environment of the Target Group and requires a significant level of judgment exercised by the management of the Target Company. Any change in such assumptions and judgments would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

For the purposes of measuring deferred taxation arising from investment properties that are measured using the fair value model, the management of the Target Group has reviewed the investment property portfolios together with certain properties characteristics. For certain investment properties held by the Target Group as at the end of each reporting period during the Track Record Period, the management of the Target Group concluded that they are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time rather than through sale. Therefore, in measuring the Target Group's deferred taxation on investment properties, the management have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. The Target Group has estimated the deferred tax taking into account of the land appreciation tax and enterprise income tax on disposal of these investment properties.

Land Appreciation Tax

The Target Group is subject to LAT in the PRC. The implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain property development projects of the Target Group have not finalised the LAT calculations and payments with local tax authorities in the PRC. Accordingly, significant judgment is required in determining the amount of land appreciation and its related income tax provisions. The Target Group recognised the LAT based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expenses and the related income tax provisions in the periods in which such tax is finalised with local tax authorities.

Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation, which include both completed investment properties and investment properties under construction for such purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values based on the fair value assessment by independent professionally qualified valuers. Gains or losses due to the fair value change of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

Inventories

Inventories comprise properties held-for-sale and properties under development for sale.

Properties held-for-sale and properties under development held-for-sale which are intended to be sold in the ordinary course of business upon completion of development are stated at the lower of cost and net realisable value on an individual basis. Costs comprise the acquisition costs, capitalised borrowing cost and other direct costs attributable to such properties. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and the estimated selling expenses, which are determined by the management of the Target Group based on the prevailing market conditions and the best available information.

RESULTS OF OPERATIONS

The consolidated statements of profit or loss and other comprehensive income of the Target Group for the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015 as set out below are included in the Accountants' Report on the Target Group set out in Appendix I to this circular:

	Years ended 31 December			Ten months ended 31 October	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	90,603	203,689	256,532	183,120	86,796
Cost of sales	(63,802)	(156,007)	(186,705)	(134,234)	(39,425)
Gross profit	26,801	47,682	69,827	48,886	47,371
Other income	448	930	1,404	1,227	4,569
Other gains and losses	191	1,399	(428)	(48)	(1,182)
Fair value change of investment properties	5,900	7,850	4,400	4,300	1,900
Selling expenses	(4,854)	(7,723)	(9,252)	(7,746)	(4,855)
Administrative expenses	(6,039)	(8,752)	(10,313)	(8,403)	(7,774)
Finance costs	—	(1,650)	(1,977)	(1,797)	(207)
Profit before tax	22,447	39,736	53,661	36,419	39,822
Income tax expense	(7,152)	(12,364)	(17,848)	(12,827)	(18,837)
Profit and total comprehensive income for the year/period	**15,295**	**27,372**	**35,813**	**23,592**	**20,985**
Attributable to:					
Owners of the Target Company	15,031	26,836	35,094	23,053	20,598
Non-controlling interests	264	536	719	539	387

Note:

For further information about the unaudited consolidated financial information of the Target Group for the ten months ended 31 October 2014, please refer to the section headed "Appendix V — Letters from the reporting accountant of the Group and the Independent Financial Adviser on loss estimate of the Group, loss forecast of the Enlarged Group and the unaudited financial information of the Target Group".

DESCRIPTION OF PRINCIPAL CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ITEMS

Revenue

The Target Group engages in the property development and revenue recognised during the Track Record Period was derived from the sale and delivery of properties of the Binjiang International Project in Quanzhou, Fujian Province to customers, net of discounts and sales related taxes.

Revenue from sale of properties is recognised when the construction of the respective properties has been completed and delivered to the customers. Delivery takes place on the date when the customers sign the delivery documents or a specific number of days after the final collection notice is sent by the Target Group to the customers pursuant to sales contract. The Target Group is allowed to commence pre-sales upon the properties under development having satisfied the pre-sales requirement in accordance with relevant PRC laws and regulations. There is typically a time gap between the pre-sale of properties and the delivery of completed properties. Deposits and instalments received from customers prior to the delivery of the completed properties are included in the consolidated statements of financial position as "Pre-sales proceeds received on sales of properties" under current liabilities.

Revenue of the Target Group for any given period is determined by the GFA delivered and ASP realised from these delivered properties in the relevant period. The GFA of properties delivered in any given period is mainly driven by schedule of property development and delivery. ASP realised from these delivered properties in such period is primarily affected by overall market demand and conditions at the time the properties were pre-sold or sold, geographical location, design characteristics, target customer group, quality and costs of the properties sold. In general, ASP of properties within a single property development project is subject to pricing of properties which was based on a number of factors, such as types, features, location of the properties and the supply and demand condition of the local market. ASP of retail shops is also higher than that of the residential properties. To promote overall pre-sales progress of properties, the Target Group may offer to pre-sell units at prices lower than those of the comparable completed properties in the market during the pre-sales stage.

The following table sets forth the breakdown of the Target Group's revenue by different phases of the Binjiang International Project for the periods indicated:

	Years ended 31 December									**Ten months ended 31 October**					
	2012			**2013**			**2014**			**2014**			**2015**		
	Revenue	**Total saleable GFA delivered**	**ASP**	**Revenue**	**Total saleable GFA delivered**	**ASP**	**Revenue**	**Total saleable GFA delivered**	**ASP**	**Revenue**	**Total saleable GFA delivered**	**ASP**	**Revenue**	**Total saleable GFA delivered**	**ASP**
	RMB'000	*sq.m.*	*RMB per sq.m.*	*RMB'000*	*sq.m.*	*RMB per sq.m.*	*RMB'000*	*sq.m.*	*RMB per sq.m.*	*RMB'000* (unaudited)	*sq.m.*	*RMB per sq.m.*	*RMB'000*	*sq.m.*	*RMB per sq.m.*
Phase 1	16,748	4,876.76	3,434	29,444	9,051.32	3,253	12,663	2,580.06	4,908	9,587	1,914.67	5,007	2,663	753.48	3,534
Phase 2	44,110	11,362.94	3,882	45,473	11,790.00	3,857	20,646	3,917.15	5,271	16,649	3,132.52	5,315	21,482	3,289.00	6,531
Phase 3	29,745	8,203.62	3,626	42,163	11,107.70	3,796	2,885	555.39	5,193	2,348	388.76	6,040	2,340	625.22	3,743
Stage 1 of Phase 4	—	—	—	86,609	22,131.04	3,913	112,787	26,858.16	4,199	109,631	26,112.94	4,198	8,239	1,148.77	7,172
Stage 2 of Phase 4	—	—	—	—	—	—	107,551	21,920.19	4,906	44,905	9,152.46	4,906	52,072	6,464.73	8,055
Total	90,603	24,443.32	3,707	203,689	54,080.06	3,766	256,532	55,830.95	4,595	183,120	40,701.35	4,499	86,796	12,281.20	7,067

For the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015, the revenue of Target Group from sales of properties was approximately RMB90.6 million, RMB203.7 million, RMB256.5 million and RMB86.8 million respectively, which was derived from the sales of residential properties and retail shops of Phases 1 to 4 of the Binjiang International Project of a total GFA delivered of approximately 24,443 sq.m., 54,080 sq.m., 55,831 sq.m. and 12,281 sq.m. for the same periods respectively. In the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015, the overall ASP realised from these delivered properties was approximately RMB3,707 per sq.m., RMB3,766 per sq.m., RMB4,595 per sq.m. and RMB7,067 per sq.m. respectively.

Cost of sales

The following table sets forth the breakdown of the Target Group's cost of sales for the periods indicated:

	Years ended 31 December			Ten months ended 31 October	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Construction and development costs	57,845	143,918	174,284	125,626	36,449
Land acquisition cost	3,796	7,799	7,319	5,287	1,673
Capitalised finance costs	2,161	4,290	5,102	3,321	1,303
Total	63,802	156,007	186,705	134,234	39,425

Cost of sales of the Target Group represented the costs incurred in respect of properties sold and delivered, which was directly associated with revenue recognised from sale and delivery of properties during the given period. During the Track Record Period, cost of sales mainly included construction and development costs, land acquisition cost and capitalised finance costs.

The construction and development costs primarily consisted of the construction contracting costs, project design costs and salaries and staff benefit expenses. One of the principal components of the construction and development costs was construction contracting costs incurred for services rendered by construction contractors, including the contractors for construction works of major building foundation. Salaries and staff benefit expenses were mainly contributed by staff of engineering department who was responsible for monitoring the overall construction progress and conducting other maintenance works.

For the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015, the cost of sales of the Target Group was approximately RMB63.8 million, RMB156.0 million, RMB186.7 million and RMB39.4 million respectively. The change in cost of sales during the Track Record Period was primarily attributable to the change in total GFA of completed properties delivered in the corresponding periods. The average cost of sales per GFA delivered for the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015 was approximately RMB2,610 per sq.m., RMB2,885 per sq.m., RMB3,344 per sq.m. and RMB3,210 per sq.m. respectively, representing an increase of approximately 23.0% from the year ended 31 December 2012 to the ten months ended 31 October 2015 primarily due to the commencement of delivery of completed properties of Phase 4 of the Binjiang International Project since July 2013 which incurred a relatively higher average construction and development costs as compared to that of other phases of the Binjiang International Project as the construction materials and labour costs increased over the period.

Gross profit and gross profit margin

For the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015, the Target Group made gross profits of approximately RMB26.8 million, RMB47.7 million, RMB69.8 million and RMB47.4 million respectively, at gross profit margins of approximately 29.6%, 23.4%, 27.2% and 54.6% respectively.

The following table sets forth the breakdown of the Target Group's gross profits and gross profit margins by different phases of the Binjiang International Project for the periods indicated:

	Years ended 31 December						Ten months ended 31 October			
	2012		2013		2014		2014		2015	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Phase 1	6,335	37.8	10,117	34.4	7,154	56.5	5,499	57.4	1,054	39.6
Phase 2	13,031	29.5	13,227	29.1	9,932	48.1	8,081	48.5	12,486	58.1
Phase 3	7,435	25.0	11,955	28.4	1,375	47.7	1,291	55.0	640	27.4
Stage 1 of Phase 4	—	—	12,383	14.3	22,707	20.1	22,050	20.1	4,386	53.2
Stage 2 of Phase 4	—	—	—	—	28,659	26.6	11,965	26.6	28,805	55.3
Total gross profit/overall gross profit margin	26,801	29.6	47,682	23.4	69,827	27.2	48,886	26.7	47,371	54.6

Other income

Other income for the Track Record Period mainly included rental income from investment properties and bank interest income.

The following table sets forth the breakdown of the Target Group's other income for the periods indicated:

	Years ended 31 December			Ten months ended 31 October	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Rental income from investment properties	202	246	253	212	2,376
Bank interest income	244	682	1,151	1,015	2,193
Others	2	2	—	—	—
Total	448	930	1,404	1,227	4,569

Other gains and losses

Other gains and losses for the Track Record Period consisted of net foreign exchange gains/loss primarily resulted from the translation of amounts due to directors which were denominated in Hong Kong dollars into RMB, loss on disposal of plant and equipment, fair value changes on structured deposits designated as fair value through profit or loss ("**FVTPL**") and impairment losses on trade and other receivables.

The following table sets forth the breakdown of the Target Group's other gains and losses for the periods indicated:

	Years ended 31 December			Ten months ended 31 October	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Net foreign exchange gains/(losses)	234	1,405	(243)	(117)	(1,182)
Write-off of plant and equipment	—	—	(283)	—	—
Fair value changes on structured deposits designated as at FVTPL	—	14	30	30	—
Impairment loss on trade receivables	—	(20)	—	—	—
(Impairment loss)/reversal of impairment loss on other receivables	(43)	—	68	39	—
Total	191	1,399	(428)	(48)	(1,182)

Fair value change of investment properties

The kindergarten and car parking spaces of the Binjiang International Project, which were held by the Target Group during the Track Record Period for rental income and/or for capital appreciation, were classified and accounted for as investment properties at their fair values in the consolidated statements of financial position in accordance with HKFRSs. The changes in fair values of investment properties would be recognised in the consolidated statements of profit or loss and other comprehensive income in the corresponding periods. As at 31 December 2012, 2013 and 2014 and 31 October 2015, the fair values of the Target Group's investment properties, which was valued by DTZ, a firm of independent and qualified professional valuers, was approximately RMB101.5 million, RMB112.8 million, RMB117.2 million and RMB119.1 million respectively. For the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015, the Target Group recorded gains from changes in fair values of investment properties of approximately RMB5.9 million, RMB7.9

million, RMB4.4 million and RMB1.9 million respectively, which represented approximately 26.3%, 19.9%, 8.2% and 4.8% of the profit before tax respectively, or approximately 39.3%, 29.5%, 12.5% and 9.2% of the profit attributable to owners of the Target Group respectively.

The fair values of completed investment properties relating to the car parking spaces and kindergarten of the Binjiang International Project as at 31 December 2012, 2013 and 2014 and 31 October 2015 was determined based on the investment approach which considered the capitalised rental incomes from the contracted tenancies. The reversionary market rent after the expiry of contracted tenancies and the market rent of comparable properties were also taken into account for fair value assessment. The fair values of investment properties which were not rented out or under construction relating to car parking spaces of Phase 4 of the Binjiang International Project as at 31 December 2012, 2013 and 2014 and 31 October 2015 was based on capitalisation of the hypothetical and reasonable market rents with a typical lease term and taking into account of estimated cost of completion, where appropriate. One of the key inputs for fair value assessment of investment properties, was mainly the term yield and reversion yield, which was determined based on the analysis of the sales transactions of properties similar to the Binjiang International Project in Huian County, with the market expectation from property investors taken into account to reflect factors specific to the Target Group's investment properties.

For further details of the valuation methodologies of investment properties, please refer to "Appendix VI — Property valuation of the Enlarged Group" to this circular.

For financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to fair value measurements in its entirety. The investment properties of Target Group were classified under Level 3 of the fair value hierarchy on the basis that the key inputs to fair value measurements of investment properties which were term yield, reversion yield and market rent of comparable properties required adjustments using unobservable input and were significant to fair value measurements of investment properties in its entirety. For further details of the classification of the investment properties of Target Group under Level 3 of the fair value hierarchy, please refer to Note 17 to the Accountants' Report on the Target Group included in Appendix I to this circular.

Selling expenses

During the Track Record Period, the Target Group's selling expenses comprised sales commission expenses for external sales agents, advertising and promotion expenses, salaries for marketing personnel and other sales related expenses.

The change in Target Group's selling expenses was in line with the change in revenue during the Track Record Period. As a percentage of revenue, selling expenses amounted to approximately 5.4%, 3.8%, 3.6% and 5.6% for the years ended 31 December 2012, 2013, 2014 and the ten months ended 31 October 2015 respectively.

Administrative expenses

During the Track Record Period, the administrative expenses mainly consisted of salaries and staff benefits expenses, office and travelling expenses, taxes and other levies, depreciation and other administrative related expenses. The increase in administrative expenses of the Target Group over the period from the year ended 31 December 2012 to the year ended 31 December 2014 was mainly due to the growth in operation scale of Yangzhou Dehui since its establishment in August 2012 for construction and development of The Cullinan Bay Project. The administrative expenses for the ten months ended 31 October 2015 decreased as compared to the ten months ended 31 October 2014, primarily attributable to the decrease in business travelling and meeting expenses incurred by Yangzhou Dehui after the commencement of the pre-sale of Stage 1 of Phase 1 of The Cullinan Bay Project in May 2014.

The following table sets forth the breakdown of the Target Group's administrative expenses for the periods indicated:

	Years ended 31 December			Ten months ended 31 October	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and staff benefits expenses	1,406	3,038	3,836	2,856	3,249
Office and travelling expenses	1,665	3,241	3,472	3,038	1,938
Taxes and other levies	998	849	1,066	821	1,026
Depreciation	568	700	362	307	524
Rent	94	312	291	267	74
Donation	640	120	—	—	30
Others	668	492	1,286	1,114	933
Total	6,039	8,752	10,313	8,403	7,774

Finance costs

Finance costs are primarily made up of interest expense on secured bank borrowings and bills discounting charges less interest capitalised in qualifying assets. During the Track Record Period, the Target Group entered into a credit facility contract and a supplementary agreement with a commercial bank in China pursuant to which such bank agreed to provide credit facility within a stipulated limit of two-year. The credit facility contract set out the limit, terms and types of credit facilities, including the issuance of commercial bills, to be granted by the bank and the guarantees required for such credit facilities. Within the stipulated credit limit, the Target Group issued bills to certain construction contractors as payments for construction fees. In order to issue such bills, the Target Group presented the relevant construction contracts to the bank and made pledged deposits in an amount which is equivalent to a portion of the face amount of the bills to be issued as demanded by the bank. All the bills issued by the Target Group during the Track Record Period were due within one year. Before the maturity date, the bills were presented by the relevant construction contractors to the bank for early cash settlement at discount. These relevant construction contractors obtained an amount equal to the face amount of the bills after deducting discounting charges which were borne by the Target Group. At maturity, the bank directly debited the Target Group's bank account for settlement of the face amount of the bills. Thus, the Target Group recorded bills discounting charges since the year ended 31 December 2012 as a result of discounting bills from banks for early cash settlement. The PRC Legal Advisers confirmed that the bills issued by the Target Group under the bill discounting arrangement are legal and enforceable according to the Negotiable Instruments Law of the PRC (中國票據法).

Interest expense on secured bank borrowings and bills discounting charges are capitalised to the extent the secured bank borrowings and bills are directly for financing the construction and development of a particular property development project. The capitalisation of interest expenses on secured bank borrowings and bills discounting charges would cease when a particular property development project is substantially ready for its intended use. As a result, the finance costs fluctuated during the Track Record Period as a result of the combined effect of the total finance costs incurred from secured bank borrowings and bills discounting and the level of interest capitalised in each financial period.

The following table sets forth the breakdown of finance costs for the periods indicated:

	Years ended 31 December			**Ten months ended 31 October**	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Bills discounting charges	800	3,191	1,664	1,664	—
Interest on secured bank borrowings wholly repayable within five years	1,131	1,451	14,590	12,233	12,476
Less: amounts capitalised in the cost of qualifying assets	(1,931)	(2,992)	(14,277)	(12,100)	12,269
	—	1,650	1,977	1,797	207

Income tax expense

Income tax expense consisted of current tax, which included the provisions for EIT and LAT, and movement in deferred tax assets and liabilities in respect of the Target Group's operations in the PRC.

The following table sets forth the breakdown of income tax expense for the periods indicated:

	Years ended 31 December			Ten months ended 31 October	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax:					
PRC Enterprise Income Tax ("EIT")	6,569	7,853	7,890	5,448	9,915
PRC Land Appreciation Tax ("LAT")	1,370	1,748	5,526	4,126	11,348
	7,939	9,601	13,416	9,574	21,263
Deferred tax	(787)	2,763	4,432	3,253	(2,426)
Total	7,152	12,364	17,848	12,827	18,837

Hong Kong Profits Tax

During the Track Record Period, no provision for Hong Kong Profits Tax has been made as the income of the Target Group neither arose in, nor was derived from, Hong Kong.

EIT

Pursuant to the PRC EIT Law, the operating subsidiaries of the Target Group in PRC are subject to EIT. The provision for EIT for the PRC subsidiaries during the Track Record Period was based on the statutory tax rate of 25% under the PRC EIT Law.

LAT

The operating subsidiaries of the Target Group in PRC are subject to LAT which was levied on all income from the sale or transfer of properties in the PRC developed by the Target Group at progressive rates ranging from 30% to 60% of the appreciation value, which was the proceeds of sales of properties less deductible expenditures including borrowing costs and property development expenditures relating to gains from the sales of properties in the PRC. If appreciation value for the sales of ordinary residential properties does not exceed 20% of the total deductible expenditures, LAT payment would be exempted.

Deferred tax

The deferred tax liabilities of the Target Group were primarily related to deferred taxes due to the fair value changes of investment properties and LAT. The deferred tax assets of the Target Group were primarily related to deferred taxes due to pre-sales proceeds and tax losses as a result of the operating losses of Yangzhou Dehui since its establishment in August 2012.

As a result of the foregoing, the effective tax rate, representing income tax expense divided by profit before tax, was approximately 32.1%, 31.2%, 33.1% and 47.3% in the years ended 31 December 2012, 2013, 2014 and the ten months ended 31 October 2015, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Ten months ended 31 October 2015 compared to ten months ended 31 October 2014

Revenue

The revenue of the Target Group decreased from approximately RMB183.1 million for the ten months ended 31 October 2014 to approximately RMB86.8 million for the ten months ended 31 October 2015, representing a decrease of approximately 52.6%. Such decrease was primarily attributable to the net effect of (i) a decrease in total GFA delivered by approximately 69.8% and (ii) an increase in overall ASP realised from the delivered properties by approximately 57.1% during the ten months ended 31 October 2015 as compared with that of the previous corresponding period.

The total GFA delivered decreased by approximately 28,420 sq.m. or 69.8% from approximately 40,701 sq.m. for the ten months ended 31 October 2014 to approximately 12,281 sq.m. for the ten months ended 31 October 2015 as result of the slowdown in delivery of completed properties of the Target Group after the commencement of the delivery of completed properties of the final phase, i.e. Stage 2 of Phase 4, of the Binjiang International Project in June 2014.

The overall ASP realised from the delivered properties increased by approximately RMB2,568 per sq.m. or 57.1% from approximately RMB4,499 per sq.m. for the ten months ended 31 October 2014 to approximately RMB7,067 per sq.m. for the ten months ended 31 October 2015. Such increase was primarily due to an increase in proportion of retail shops sold from approximately 0.8% of total GFA delivered for the ten months ended 31 October 2014 to approximately 34.4% of total GFA delivered for the ten months ended 31 October 2015 while ASP realised from the delivered retail shops was substantially higher than that from the delivered residential units in the Binjiang International Project.

Cost of sales

The cost of sales of the Target Group decreased by approximately RMB94.8 million or 70.6% from approximately RMB134.2 million for the ten months ended 31 October 2014 to approximately RMB39.4 million for the ten months ended 31 October 2015. The decrease was primarily attributable to the decrease in construction and development costs as a result of the slowdown in delivery of completed properties of the Target Group after the commencement of the delivery of completed properties of Stage 2 of Phase 4 of the Binjiang International Project in June 2014.

Gross profit and gross profit margin

The gross profit of the Target Group decreased by approximately RMB1.5 million or 3.1% from approximately RMB48.9 million for the ten months ended 31 October 2014 to approximately RMB47.4 million for the ten months ended 31 October 2015 mainly due to (i) decrease in revenue as discussed in the paragraph headed "Revenue" above; and (ii) largely offset by the growth of gross profit margin from approximately 26.7% for the ten months ended 31 October 2014 to approximately 54.6% for the ten months ended 31 October 2015 primarily attributable to the increase in overall ASP of the delivered properties.

Other income

Other income increased from approximately RMB1.2 million for the ten months ended 31 October 2014 to approximately RMB4.6 million for the ten months ended 31 October 2015, representing an increase of approximately 283.3%. The increase in other income during the period was primarily attributable to (i) an increase in bank interest income by approximately RMB1.2 million as a result of an increase in average balances of restricted and pledged bank deposits, time deposit and bank balances in the ten months ended 31 October 2015 as compared to the ten months ended 31 October 2014 and (ii) an increase in rental income from investment properties by approximately RMB2.2 million after the Target Group ceased to grant the property management company the rights to use the car parking spaces of the Binjiang International Project after the grant expired in November 2014 and commenced to earn rental income from these car parking spaces owned by the Target Group since January 2015.

Other gains and losses

Net losses recorded as other gains and losses increased from approximately RMB48,000 for the ten months ended 31 October 2014 to approximately RMB1.2 million for the ten months ended 31 October 2015 primarily attributable to an increase in net foreign exchange losses from approximately RMB0.1 million to RMB1.2 million during the same period. Such foreign exchange losses were mainly resulted from foreign exchange translation of amounts due to directors of the Target Company denominated in HKD into RMB. The increase in net foreign exchange losses was due to a greater extent of depreciation of RMB against HKD in the ten months ended 31 October 2015 than that in the ten months ended 31 October 2014.

Fair value change of investment properties

The Target Group recorded gains from fair value change of investment properties of approximately RMB4.3 million and RMB1.9 million for the ten months ended 31 October 2014 and 2015 respectively, representing a decrease of approximately 55.8% during the period. The decrease in gains from fair value change of investment properties for the ten months ended 31 October 2015 was attributable to the slowdown of fair value growth as a result of the change in certain property market conditions during the same period.

Selling expenses

Selling expenses decreased by approximately RMB2.8 million or 36.4% from approximately RMB7.7 million for the ten months ended 31 October 2014 to approximately RMB4.9 million for the ten months ended 31 October 2015 as additional advertising and promotion expenses were spent during the ten months ended 31 October 2014 to promote the pre-sales of The Cullinan Bay Project which commenced in May 2014.

Administrative expenses

The administrative expenses of the Target Group decreased by approximately RMB0.6 million or 7.1% from approximately RMB8.4 million for the ten months ended 31 October 2014 to approximately RMB7.8 million for the ten months ended 31 October 2015 primarily attributable to the decrease in business travelling and meeting expenses incurred by Yangzhou Dehui after the commencement of the pre-sale of Stage 1 of Phase 1 of The Cullinan Bay Project in May 2014.

Finance costs

Finance costs recognised in the profit or loss of the Target Group was the total finance costs less amounts capitalised in qualifying assets. The finance costs recognised in profit or loss for the ten months ended 31 October 2014 and 2015 represented the interest expense on secured bank borrowings and bills discounting charges for financing the construction and development of Stages 1 and 2 of Phase 4 of the Binjiang International Project of which the delivery of the relevant completed properties commenced since July 2013 and June 2014 respectively.

Finance costs decreased by approximately RMB1.6 million or 88.9% from approximately RMB1.8 million for the ten months ended 31 October 2014 to approximately RMB0.2 million for the ten months ended 31 October 2015, primarily due to the decrease in average balance of secured bank borrowings and bills for financing the construction and development of Phase 4 of the Binjiang International Project after certain net repayment.

Before capitalisation of finance costs in qualifying assets, the total finance costs decreased from approximately RMB13.9 million for the ten months ended 31 October 2014 to approximately RMB12.5 million for the ten months ended 31 October 2015, mainly due to the full settlement of bills of approximately RMB45.0 million during the ten months ended 31 October 2014.

Income tax expense

The income tax expense of the Target Group increased by approximately RMB6.0 million or 46.9% from approximately RMB12.8 million for the ten months ended 31 October 2014 to approximately RMB18.8 million for the ten months ended 31 October 2015, mainly attributable to the increases in EIT and LAT by approximately RMB11.7 million which was partially offset by a decrease in deferred tax expense by approximately RMB5.7 million during the period.

Profit for the period and net profit margin

The profit of the Target Group decreased by approximately RMB2.6 million or 11.0% from approximately RMB23.6 million for the ten months ended 31 October 2014 to approximately RMB21.0 million for the ten months ended 31 October 2015. Such decrease was primarily due to the combined effect of (i) a decrease in gross profit by approximately RMB1.5 million; (ii) a decrease in fair value gain on investment properties by approximately RMB2.4 million; and (iii) an increase in income tax expense by approximately RMB6.0 million as discussed in the above paragraphs; and partially offset with (i) an increase of other income of approximately RMB3.4 million; and (ii) a reduction of selling expenses, administrative expenses and finance costs by approximately RMB5.0 million in aggregate.

The net profit margin of the Target Group increased from approximately 12.9% for the ten months ended 31 October 2014 to approximately 24.2% for the ten months ended 31 October 2015 primarily attributable to the combined effect of (i) an increase in the gross profit margin from approximately 26.7% for the ten months ended 31 October 2014 to approximately 54.6% for the ten months ended 31 October 2015 as discussed in the above paragraph headed "— Gross profit and gross profit margin" and (ii) an increase in income tax expenses as percentage of revenue from approximately 7.0% for the ten months ended 31 October 2014 to approximately 21.7% for the ten months ended 31 October 2015.

Year ended 31 December 2014 compared to year ended 31 December 2013

Revenue

The revenue of the Target Group increased by approximately RMB52.8 million or 25.9% from approximately RMB203.7 million for the year ended 31 December 2013 to approximately RMB256.5 million for the year ended 31 December 2014 was primarily attributable to the combined effect of (i) an increase in total GFA delivered by approximately 3.2% and (ii) an increase in overall ASP realised from the delivered properties by approximately 22.0% in 2014.

The total GFA delivered increased by approximately 1,751 sq.m. or 3.2% from approximately 54,080 sq.m. for the year ended 31 December 2013 to approximately 55,831 sq.m. for the year ended 31 December 2014 as result of the increase in the delivery of completed properties of Stages 1 and 2 of Phase 4 of the Binjiang International Project since July 2013 and June 2014 respectively.

The overall ASP realised from the delivered properties increased by approximately RMB829 per sq.m. or 22.0% from approximately RMB3,766 per sq.m. for the year ended 31 December 2013 to approximately RMB4,595 per sq.m. for the year ended 31 December 2014. The Target Group upward adjusted ASP for properties pre-sold since 2012 in view of the growing market demand for residential properties in Quanzhou. As overall ASP realised in the year ended 31 December 2014 were mostly contributed by the delivery of completed properties pre-sold in or after 2012 while overall ASP realised in the year ended 31 December 2013 were mostly contributed by the delivery of completed properties pre-sold in or before 2011, the increase in ASP by the Target Group in view of the growing market demand for residential properties in Quanzhou in 2012 led to an increase in overall ASP realised from the delivered properties for the year ended 31 December 2014, as compared to the overall ASP realised from the delivered properties for the year ended 31 December 2013.

Cost of sales

The cost of sales of the Target Group increased by approximately RMB30.7 million or 19.7% from approximately RMB156.0 million for the year ended 31 December 2013 to approximately RMB186.7 million for the year ended 31 December 2014. The increase during the period was primarily attributable to the increase in construction and development costs as a result of the increase in total GFA delivered contributed by the delivery of completed properties of Stages 1 and 2 of Phase 4 of the Binjiang International Project, as compared to the delivery of Phases 1 to 3 during the year ended 31 December 2013, coupled with the increased in the average cost of sales per GFA for Phase 4 as compared with that for Phases 1 to 3.

Gross profit and gross profit margin

The gross profit of the Target Group increased by approximately RMB22.1 million or 46.3% from approximately RMB47.7 million for the year ended 31 December 2013 to approximately RMB69.8 million for the year ended 31 December 2014 which was in line with the increase in revenue as a result of the increase in both total GFA delivered and overall ASP realised from the delivered properties.

The gross profit margin increased from approximately 23.4% for the year ended 31 December 2013 to approximately 27.2% for the year ended 31 December 2014 primarily attributable to the net effect of (i) an increase in ASP realised from the delivered properties by approximately 22.0% as discussed above in the paragraph headed "— Revenue" and (ii) an increase in average cost of sales per GFA delivered by approximately 15.9% primarily attributable to the increase in average construction and development costs for Phase 4 of the Binjiang International Project mainly due to the increase in construction material and labour costs.

Other income

Other income increased by approximately RMB0.5 million or 55.6% from approximately RMB0.9 million for the year ended 31 December 2013 to approximately RMB1.4 million for the year ended 31 December 2014. The increase in other income during the year was primarily due to a RMB0.5 million increase in bank interest income as a result of an increase in average balances of restricted and pledged bank deposits, time deposits and bank balances for the year ended 31 December 2014 as compared to the year ended 31 December 2013.

Other gains and losses

The Target Group recorded a loss of approximately RMB0.4 million during the year ended 31 December 2014 as compared to a gain of approximately RMB1.4 million for the year ended 31 December 2013. Such change was mainly attributable to (i) the foreign exchange loss of approximately RMB0.2 million as a result of foreign exchange translation of amounts due to directors denominated in HKD into RMB as a result of HKD/RMB exchange rate fluctuation during the periods. A net foreign exchange loss was recognised for the year ended 31 December 2014 due to the depreciation of RMB against HKD in 2014, as compared to a net foreign exchange gain of approximately RMB1.4 million for the year ended 31 December 2013 due to the appreciation of RMB against HKD in 2013; and (ii) loss on disposal of plant and equipment of approximately RMB0.3 million.

Fair value change of investment properties

The Target Group recorded gains from fair value change of investment properties of approximately RMB7.9 million and RMB4.4 million for the year ended 31 December 2013 and 2014 respectively, representing a decrease of approximately 44.3% during the period. The decrease in gains from fair value change of investment properties for the year ended 31 December 2014 was primarily due to the completion of construction for car parking spaces of the Binjiang International Project in June 2014.

Selling expenses

Selling expenses increased by approximately RMB1.6 million or 20.8% from approximately RMB7.7 million for the year ended 31 December 2013 to approximately RMB9.3 million for the year ended 31 December 2014 primarily attributable to an increase in advertising and promotion expenses for promotion of pre-sales of The Cullinan Bay Project which commenced in May 2014.

Administrative expenses

The administrative expenses of the Target Group increased by approximately RMB1.5 million or 17.0% from approximately RMB8.8 million for the year ended 31 December 2013 to approximately RMB10.3 million for the year ended 31 December 2014 primarily attributable to the increase in salaries and staff benefits expenses for administrative staff and office and travelling expenses as a result of the growth in operation scale of Yangzhou Dehui during the periods.

Finance costs

Finance costs recognised in the profit or loss of the Target Group was the total finance costs less amounts capitalised in qualifying assets. The finance costs recognised in profit or loss for the year ended 31 December 2013 was primarily attributable to the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013, whereas those for the year ended 31 December 2014 were contributed by both Stage 1 and Stage 2 of Phase 4 of the Binjiang International Project of which the delivery of the relevant completed properties commenced since July 2013 and June 2014, respectively. The finance costs recognised in profit or loss increased from approximately RMB1.7 million for the year ended 31 December 2013 to approximately RMB2.0 million for the year ended 31 December 2014 was contributed to the commencement of delivery of completed properties of both Stages 1 & 2 of Phase 4 of the Binjiang International Project since July 2013 and June 2014 respectively, therefore the relevant finance costs subsequently incurred were expensed, this was partially offset by the decrease in balance of bank borrowings raised for financing the construction and development of Stages 1 and 2 of Phase 4 of the Binjiang International Project.

Before capitalisation of finance costs in qualifying assets, the total finance costs increased from approximately RMB4.6 million for the year ended 31 December 2013 to approximately RMB16.3 million for the year ended 31 December 2014. Such increase was mainly due to the increase in bank borrowings raised for financing the construction and development of the Cullinan Bay Project.

Income tax expense

The income tax expense of the Target Group increased by approximately RMB5.4 million or 43.5% from approximately RMB12.4 million for the year ended 31 December 2013 to approximately RMB17.8 million for the year ended 31 December 2014. The increase in income tax expense was mainly attributable to the increase in LAT by approximately RMB3.8 million and the increase in deferred tax expense by approximately RMB1.6 million during the year ended 31 December 2014.

Profit for the year and net profit margin

The profit of the Target Group increased by approximately RMB8.4 million or 30.7% from approximately RMB27.4 million for the year ended 31 December 2013 to approximately RMB35.8 million for the year ended 31 December 2014 which was in line with the increase in revenue as a result of the increase in both total GFA delivered and overall ASP realised from the delivered properties during the year ended 31 December 2014.

The net profit margin of the Target Group increased from approximately 13.5% for the year ended 31 December 2013 to approximately 14.0% for the year ended 31 December 2014 primarily attributable to the combined effect of (i) an increase in the gross profit margin from approximately 23.4% for the year ended 31 December 2013 to approximately 27.2% for the year ended 31 December 2014 as a result of the delivery of completed properties of Stage 2 of Phase 4 of the Binjiang International Project which were sold at a higher gross profit margin when compared to that of other phases and (ii) a smaller gain in fair value changes of investment properties during the year ended 31 December 2014 as discussed in the above paragraph.

Year ended 31 December 2013 compared to year ended 31 December 2012

Revenue

The revenue of the Target Group increased by approximately RMB113.1 million or 124.8% from approximately RMB90.6 million for the year ended 31 December 2012 to approximately RMB203.7 million for the year ended 31 December 2013 primarily attributable to the increase in total GFA delivered by approximately 121.2% and overall ASP realised from properties sold and delivered by approximately 1.6% in 2013.

The total GFA delivered increased by approximately 29,637 sq.m. or 121.2% from approximately 24,443 sq.m. for the year ended 31 December 2012 to approximately 54,080 sq.m. for the year ended 31 December 2013 mainly attributable to the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013.

The overall ASP realised from the delivered properties remained relatively stable at approximately RMB3,707 per sq.m. and approximately RMB3,766 per sq.m. for the year ended 31 December 2012 and 2013 respectively.

Cost of sales

The cost of sales of the Target Group increased by approximately RMB92.2 million or 144.5% from approximately RMB63.8 million for the year ended 31 December 2012 to approximately RMB156.0 million for the year ended 31 December 2013. The increase was primarily attributable to an increase in construction and development costs as a result of the increase in total GFA delivered contributed by the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project in the second half of 2013 as discussed in the above paragraph.

Gross profit and gross profit margin

The gross profit of the Target Group increased by approximately RMB20.9 million or 78.0% from approximately RMB26.8 million for the year ended 31 December 2012 to approximately RMB47.7 million for the year ended 31 December 2013 which was in line with the increase in revenue mainly attributable to the increase in total GFA and overall ASP realised from the properties sold and delivered during the year.

The gross profit margin of the Target Group decreased from approximately 29.6% for the year ended 31 December 2012 to approximately 23.4% for the year ended 31 December 2013 primarily attributable to an increase in average cost of sales per GFA delivered by approximately 10.5% primarily attributable to an increase in average construction and development costs for Phase 4 of the Binjiang International Project as a result of the increase in construction material and labour costs, whereas the overall ASP realised in respective periods remained relatively stable as discussed in the paragraph headed "—Revenue" above.

Other income

Other income increased by approximately RMB0.5 million or 125.0% from approximately RMB0.4 million for the year ended 31 December 2012 to approximately RMB0.9 million for the year ended 31 December 2013 primarily due to a RMB0.5 million increase in bank interest income resulted from an increase in average balances of restricted and pledged bank deposits and time deposits and bank balances in the year ended 31 December 2013 as compared to the year ended 31 December 2012.

Other gains and losses

Other gains and losses increased by approximately RMB1.2 million or 600.0% from approximately RMB0.2 million for the year ended 31 December 2012 to approximately RMB1.4 million for the year ended 31 December 2013 primarily attributable to the increase in net foreign exchange gains of approximately RMB1.2 million as a result of the translation of an amount due to a director dominated in HKD into RMB. The increase in net foreign exchange gains was mainly due to a greater extent of appreciation of RMB against HKD in the year ended 31 December 2013 than that in the year ended 31 December 2012.

Fair value change of investment properties

The Target Group recorded gains from fair value changes of investment properties of approximately RMB5.9 million and RMB7.9 million for the years ended 31 December 2012 and 2013 respectively, representing an increase of approximately 33.9% during the year. The increase in gains from fair value changes of investment properties in the year ended 31 December 2013 was primarily contributed from the increase in fair value of car parking spaces under construction as a result of the improved construction and development progress in 2013.

Selling expenses

Selling expenses increased by approximately RMB2.8 million or 57.1% from approximately RMB4.9 million for the year ended 31 December 2012 to approximately RMB7.7 million for the year ended 31 December 2013. The increase in selling expenses in the year ended 31 December 2013 was primarily attributable to an increase in advertising and promotion expenses due to the launch of marketing and promotion events in the second half of 2013 for pre-sale of The Cullinan Bay Project scheduled in May 2014.

Administrative expenses

The administrative expenses of the Target Group increased by RMB2.8 million or 46.7% from approximately RMB6.0 million for the year ended 31 December 2012 to approximately RMB8.8 million for the year ended 31 December 2013 primarily attributable to the increase in salaries and staff benefits expenses for administrative staff and office and travelling expenses as a result of the growth in operation scale of Yangzhou Dehui since its establishment in August 2012.

Finance costs

No finance costs incurred for the year ended 31 December 2012, whereas approximately RMB1.7 million of finance costs incurred for the year ended 31 December 2013. Finance costs recognised in the profit or loss of the Target Group was the total finance costs less amounts capitalised in qualifying assets. The finance costs recognised in profit or loss for the year ended 31 December 2013 were primarily attributable to the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013, and therefore the finance costs incurred were expensed. No finance cost was expensed in the year ended 31 December 2012 as the construction and development of Phase 4 of the Binjiang International Project had not yet been completed in 2012, resulting in the capitalisation of all finance costs in qualifying assets during the year.

Before capitalisation of finance costs in qualifying assets, the total finance costs increased from approximately RMB1.9 million for the year ended 31 December 2012 to approximately RMB4.6 million for the year ended 31 December 2013. Such increase was mainly due to the increase in bills discounting charges borne by the Target Group in respect of bills issued to construction contractors for early cash settlement.

Income tax expense

The income tax expense of the Target Group increased by approximately RMB5.2 million or 72.2% from approximately RMB7.2 million for the year ended 31 December 2012 to approximately RMB12.4 million for the year ended 31 December 2013. The increase in income tax expense in 2013 was mainly due to the increase in EIT by approximately RMB1.3 million as a result of the increase in profit before tax and the change of deferred tax from a credit balance of approximately RMB0.8 million for the year ended 31 December 2012 to an expense of approximately RMB2.8 million for the year ended 31 December 2013.

Profit for the year and net profit margin

The profit of the Target Group increased by approximately RMB12.1 million or 79.1% from approximately RMB15.3 million for the year ended 31 December 2012 to approximately RMB27.4 million for the year ended 31 December 2013 which was in line with the increase in revenue as a result of the increase in both total GFA delivered and overall ASP realised from the delivered properties during the year ended 31 December 2013.

The net profit margin decreased from approximately 16.9% for the year ended 31 December 2012 to approximately 13.5% for the year ended 31 December 2013 primarily attributable to a decrease in the gross profit margin from approximately 29.6% for the year ended 31 December 2012 to approximately 23.4% for the year ended 31 December 2013 as a result of the delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project which were sold at a lower gross profit margin when compared to that of other phases.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

The following table sets forth a summary of the consolidated statements of cash flows of the Target Group for the periods indicated:

	Year ended 31 December			Ten months ended 31 October	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash (used in) from operating activities	(157,819)	4,159	(58,001)	(70,447)	26,646
Net cash (used in) from investing activities	(15,624)	(58,031)	53,861	56,444	(17,153)
Net cash from (used in) financing activities	167,553	61,420	100,225	105,539	(24,651)
Net (decrease)/increase in cash and cash equivalents	**(5,890)**	**7,548**	**96,085**	**91,536**	**(15,158)**
Cash and cash equivalents at beginning of year	27,864	21,974	29,522	29,522	125,607
Effect of foreign exchange rate changes	—	—	—	—	333
Cash and cash equivalents at end of year	**21,974**	**29,522**	**125,607**	**121,058**	**110,782**

Net cash (used in) from operating activities

The cash from operating activities during the Track Record Period was primarily sourced from proceeds received from customers due to pre-sales and sales of Target Group's properties. The cash used in operating activities during the Track Record Period was primarily for payment of the Target Group's property development activities which included land acquisition and respective construction works.

The Target Group had net cash used in operating activities of approximately RMB157.8 million for the year ended 31 December 2012, mainly as a result of the profit before tax of approximately RMB22.4 million generated in this year, which was negatively adjusted for (i) an increase in inventories of approximately RMB262.3 million mainly due to the acquisition of land in Yangzhou for the construction and development of The Cullinan Bay Project in 2012 and (ii) an increase in trade and other receivables of approximately RMB17.2 million mainly contributed by an increase in deposits paid to suppliers for the construction of property development projects of the Target Group. This was partially offset by (i) an increase in pre-sales proceeds received on sales of properties of approximately RMB108.1 million mainly due to the receipt of pre-sales proceeds from pre-sales of Stage 1 of Phase 4 of the Binjiang International Project and (ii) an increase in trade and bills payables of approximately RMB23.2 million mainly due to issuance of bills for settlement of construction fees to a major construction contractor for the construction of the Binjiang International Project.

The Target Group had net cash from operating activities of approximately RMB4.2 million for the year ended 31 December 2013, mainly as a result of the profit before tax of approximately RMB39.7 million generated in this year, and primarily adjusted for (i) an increase in other payables and accruals of approximately RMB61.3 million mainly due to the increase in accrued construction costs relating to the construction and development of The Cullinan Bay Project and (ii) an increase in trade and bills payables of approximately RMB18.8 million mainly contributed by issuance of additional bills for settlement of construction fees to major construction contractors for the construction of the Binjiang International Project. This was partially offset by (i) an increase in inventories of approximately RMB51.5 million mainly contributed by an increase in properties under development for sales as a result of the construction and development of The Cullinan Bay Project and (ii) a decrease in pre-sales proceeds received on sales of properties of approximately RMB47.3 million mainly due to the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project during the year.

The Target Group had net cash used in operating activities of approximately RMB58.0 million for the year ended 31 December 2014, mainly as a result of the profit before tax of approximately RMB53.7 million generated in this period, which was negatively adjusted for (i) a decrease in pre-sales proceeds received on sales of properties of approximately RMB138.3 million mainly due to the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of both Stages 1 and 2 of Phase 4 of the Binjiang International Project and (ii) a decrease in trade and bills payables of approximately RMB45.1 million mainly due to the full settlement of bills on construction fees to major contractors for the construction of the Binjiang International Project. This was partially offset by a decrease in inventories of approximately RMB82.9 million mainly due to the delivery of completed properties of Phase 4 of the Binjiang International Project during the period.

The Target Group had net cash from operating activities of approximately RMB26.6 million for the ten months ended 31 October 2015 as a result of the profit before tax of approximately RMB39.8 million generated in this period, and primarily adjusted for (i) an increase in pre-sales proceeds received on sales of properties of approximately RMB49.1 million mainly due to the pre-sale of Stage 1 of Phase 1 of The Cullinan Bay Project and (ii) an increase in other payables and accruals of approximately RMB35.8 million mainly due to the additional accrued construction costs for The Cullinan Bay Project. This was partially offset by (i) an increase in inventories of approximately RMB74.9 million mainly due to the further construction and development costs incurred for The Cullinan Bay Project during the period and (ii) an increase in trade and other receivables of approximately RMB16.5 million primarily due to an increase in deposits paid to suppliers for the construction and development of The Cullinan Bay Project.

Net cash from investing activities

The cash from investing activities during the Track Record Period was primarily sourced from the repayment from a related party, redemption of structured deposits and the interest income received from restricted and pledged bank deposits and time deposits and bank balances. The cash used in investing activities during the Track Record Period was primarily for the purchase of structured deposits, advance to a related party.

The Target Group had net cash used in investing activities of approximately RMB15.6 million for the year ended 31 December 2012 primarily due to (i) the placement of pledged bank deposits of approximately RMB10.0 million as securities for general banking facilities granted to the Target Group and (ii) the additions to investment properties under construction of approximately RMB4.6 million for the construction works on car parking spaces of Phase 4 of the Binjiang International Project during the year.

The Target Group had net cash used in investing activities of approximately RMB58.0 million for the year ended 31 December 2013 primarily due to (i) the net placement of structured deposits of approximately RMB25.0 million by Yangzhou Dehui; (ii) advance to a related party of approximately RMB23.3 million; (iii) net placement of pledged bank deposits of approximately RMB5.0 million as securities for general banking facilities granted to the Target Group and (iv) the additions to investment properties under construction of approximately RMB3.5 million for the construction works on car parking spaces of Phase 4 of the Binjiang International Project during the year.

The Target Group had net cash from investing activities of approximately RMB53.9 million for the year ended 31 December 2014 primarily due to (i) the redemption of structured deposits of approximately RMB25.0 million by Yangzhou Dehui and (ii) a net repayment from related parties of approximately RMB23.3 million during the year.

The Target Group had net cash used in investing activities of approximately RMB17.2 million for the ten months ended 31 October 2015 primarily due to an increase in restricted deposits of approximately RMB19.3 million as a result of the receipt of pre-sale proceeds for Stage 1 of Phase 1 of The Cullinan Bay Project.

Net cash from financing activities

The cash from financing activities during the Track Record Period was primarily contributed by the proceeds from secured bank borrowings and advances from a related party and directors. The cash used in financing activities during the Track Record Period was mainly related to repayments of secured bank borrowings and advances from directors.

The Target Group had net cash from financing activities of approximately RMB167.6 million for the year ended 31 December 2012 primarily due to (i) advances from a related party and directors of approximately RMB309.3 million mainly for financing the acquisition of land in Yangzhou for construction and development of The Cullinan Bay Project and (ii) a capital contribution of approximately RMB10.0 million for establishment of Hengde during the year. It was partially offset by repayment to directors of approximately RMB153.1 million during the year.

The Target Group had net cash from financing activities of approximately RMB61.4 million for the year ended 31 December 2013 primarily due to (i) a net withdrawal of secured bank borrowings of approximately RMB55.3 million mainly contributed by the drawdown of newly granted secured bank borrowings for financing the construction and development of The Cullinan Bay Project and (ii) advances from a related party and directors of RMB142.5 million during the year. It was partially offset by a repayment to directors of approximately RMB131.8 million during the year.

The Target Group had net cash from financing activities of approximately RMB100.2 million for the year ended 31 December 2014 primarily due to a net withdrawal of secured bank borrowings of approximately RMB117.2 million mainly contributed by the drawdown of another newly granted secured bank borrowings for financing the construction and development of The Cullinan Bay Project. It was partially offset by the payment of interest expenses and bills discounting charges of approximately RMB16.3 million during the year.

The Target Group had net cash used in financing activities of approximately RMB24.7 million for the ten months ended 31 October 2015 primarily due to (i) the repayment of bank borrowings of approximately RMB12.2 million in accordance with the terms of respective loan agreements and (ii) the payment of interest expenses of approximately RMB12.5 million.

Restricted and pledged bank deposits, time deposits and bank balances and cash

The following table summarises the time deposits, bank balances and restricted and pledged bank deposits held by the Target Group as at the dates indicated:

	As at 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Restricted and pledged bank deposits				
— Restricted deposits	1,209	2,038	12,147	31,470
— Deposits pledged for general banking facilities	10,000	15,000	—	—
	11,209	17,038	12,147	31,470
Time deposits	—	—	68,000	65,728
Bank balances and cash	21,974	29,522	57,607	45,054
Total	33,183	46,560	137,754	142,252

Balances of restricted bank deposits were the bank deposits in designated bank accounts solely for collecting proceeds from pre-sales of properties and settlement of construction costs for properties pursuant to the relevant PRC laws and regulations. Such balances of restricted bank deposits would be released after the completion of construction and development of the relevant properties. Pledged bank deposits held by the Target Group represented the security deposits pledged for general banking facilities granted to the Target Group.

Capital resources

During the Track Record Period, the Target Group was mainly financed by the internally generated fund which was mainly contributed by the properties sold by the Target Group, shareholders' loans and secured bank borrowings.

Save that the Target Group will no longer be funded by shareholders' loans after the completion of acquisition of the Target Company, the proposed Directors expect that there will be no other material changes in the mix and relative costs of capital resources.

Capital expenditure

For the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015, the Target Group incurred capital expenditure of approximately RMB5.8 million, RMB4.6 million, RMB0.5 million and RMB23,000, respectively. The following table sets forth the capital expenditures for the periods indicated:

	Years ended 31 December			Ten months ended 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Additions in respect of investment properties	4,600	3,450	—	—
Additions in respect of plant and equipment	1,221	1,147	512	23
Total	**5,821**	**4,597**	**512**	**23**

Internal control measures to manage the exposure of cash flow mismatch

The cash inflows of the Target Group were mainly contributed by proceeds from customers which would be received in respect of sales and pre-sales transactions made only after the grant of pre-sales permit for Target Group's property projects. On the other hand, the Target Group made payments mainly for land acquisitions settlement of services rendered by construction contractors and repayment of secured bank borrowings, leading to cash outflows since land acquisition and throughout the construction period of the property projects. The timing difference between the receipt of proceeds from pre-sales and sales of properties and payment for land acquisition and services rendered by construction contractors and repayment of bank borrowings may result in cash flow mismatch which may adversely affect the liquidity position and working capital requirement of the Target Group in the future.

In order to manage the exposure of cash flow mismatch in the future, the Target Group implemented several internal control measures, including but not limited to, (i) preparing quarterly or semi-annually reports by the finance department to monitor the actual expenditures incurred for each property development project; (ii) preparing group-based cash flow forecast after taking into account of the expected settlements to suppliers and loan repayments; and (iii) holding quarterly or semi-annually meetings by the proposed Directors to review the status of outstanding payables and the cash flow forecast to ensure adequate cash flows would be available to fulfill its funding requirements property development projects.

Working capital

There are a number of factors that may affect the Enlarged Group's working capital needs during the 12 months following the date of this circular, including the development plan of The Cullinan Bay Project and requirements to satisfy the Target Group's outstanding and future debt obligations. As at 31 October 2015, the Target Group expected to pay approximately RMB854.1 million to complete the remaining development and to settle any outstanding development costs of the Binjiang International Project and The Cullinan Bay Project. Such amount included approximately RMB236.5 million of construction commitment as at 31 October 2015 which will be incurred for development of the Target Group's property project. For details of the schedule of further development costs to be incurred, please refer to the section headed "Business of the Target Group — Future development and plan" in this circular. In addition, as at 31 December 2015, the Enlarged Group's outstanding bank borrowings amounted to approximately HK$620.9 million, of which (i) approximately HK$418.0 million was borrowings of the Group; and (ii) approximately HK$202.9 million (or RMB170.0 million) was bank borrowings of the Target Group. For details of the Target Group's bank borrowings, please refer to the paragraph headed "Indebtedness and contingent liabilities" of this section.

The Enlarged Group intended to fund its working capital requirement mainly by its internally generated funds and bank borrowings. The internally generated funds will be primarily sourced from proceeds from pre-sales and sales of its properties to be received by the Target Group. As at the Latest Practicable Date, the amount of pre-sale proceeds received for the properties that have yet to be delivered by the Target Group amounted to approximately RMB190.0 million. The bank borrowings will include bank borrowings presently available and any new bank borrowings to be obtained by the Target Group to fund its capital requirement when necessary. In November 2014, it had received a non-legally binding confirmation from a commercial bank that they had in principle agreed to grant to the Target Group a banking facility in the amount of RMB200.0 million for the development of The Cullinan Bay Project. The in-principle approval is valid for one year and loan will be granted subject to completion of the lending approval procedure of the bank and lending conditions being fulfilled. The proposed Directors will apply for the banking facility when it is necessary to seek further financing and they are of the view that there is no obstacle for the Target Group to obtain the said banking facility. Furthermore, another banking facility of RMB60 million was granted to the Target Group by a commercial bank in the PRC for a period of three years from January 2016, the draw-down of which is subject to the Target Group's provision to the bank of collaterals (including but not limited to car parking spaces, residential properties and/or retail shops).

The proposed Directors are of the opinion, and the Sponsor concurs, that, taking into consideration the financial resources presently available to the Enlarged Group, including the internally generated funds and bank borrowings, in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next 12 months commencing from the date of this circular.

NET CURRENT LIABILITIES/ASSETS

The table below sets forth the Target Group's net current assets/liabilities as at the dates indicated:

	At 31 December			As at 31 October	As at 31 December
	2012	**2013**	**2014**	**2015**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
CURRENT ASSETS					
Inventories	659,540	714,045	645,440	732,576	769,867
Amount due from a related party	—	23,301	—	—	—
Trade and other receivables	28,342	29,009	14,999	31,502	27,251
Prepaid land appreciation tax	15,406	14,766	11,040	3,409	2,854
Structured deposits	—	25,000	—	—	—
Restricted and pledged bank deposits	11,209	17,038	12,147	31,470	36,368
Time deposits, bank balances and cash	21,974	29,522	125,607	110,782	122,533
	736,471	**852,681**	**809,233**	**909,739**	**958,873**
CURRENT LIABILITIES					
Trade and bills payables	29,279	48,078	2,953	5,484	5,689
Other payables and accruals	30,821	92,150	77,247	113,013	133,174
Pre-sales proceeds received on sales of properties	272,265	224,983	86,687	135,817	165,214
Amounts due to related parties	413,409	422,766	54,112	55,626	57,148
Secured bank borrowings	6,600	55,600	17,175	10,000	170,000
Income tax payable	4,949	4,998	6,494	13,004	16,189
	757,323	**848,575**	**244,668**	**332,944**	**547,414**
NET CURRENT (LIABILITIES) ASSETS	**(20,852)**	**4,106**	**564,565**	**576,795**	**411,459**

The Target Group experienced net current liabilities of approximately RMB20.9 million as at 31 December 2012 respectively, and net current assets of approximately RMB4.1 million, RMB564.6 million and RMB576.8 million as at 31 December 2013 and 2014 and 31 October 2015 respectively. The position of net current liabilities as at 31 December 2012 was primarily due to the amounts due to related parties which were repayable on demand and classified as current liabilities. The amounts due to related parties had been fully settled/discharged and recognised as equity. The proposed Directors consider that the current asset position of the Target Group has been improving.

In respect of the current portion of secured bank borrowings as at 31 December 2013, a subsidiary of the Target Group may have breached a loan term relating to the debt-to-asset ratio requirement. The secured bank borrowings had a carrying amount of approximately RMB50.0 million as at 31 December 2013 and loan term of approximately 3 years for financing the construction and development of The Cullinan Bay Project. Prior to obtaining a letter of confirmation from the relevant bank confirming that it would not demand immediate repayment of the secured bank borrowings, the relevant secured bank borrowings outstanding as at 31 December 2013 were classified as current liabilities for accounting purposes. For more details, please refer to the section headed "Potential breach of loan covenant during the Track Record Period" below.

The Target Group recorded net current assets of approximately RMB4.1 million as at 31 December 2013 as compared to the net current liabilities of approximately RMB20.9 million as at 31 December 2012, primarily attributable to (i) an increase in inventories by approximately RMB54.5 million mainly resulted from an increase in properties under development for sale and (ii) a decrease in pre-sales proceeds received on sales of properties by approximately RMB47.3 million driven by the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013. It was partially offset by (i) an increase in other payables and accruals by approximately RMB61.3 million mainly driven by an increase in accrued construction costs related to the construction and development of The Cullinan Bay Project and (ii) an increase in current portion of secured bank borrowings by approximately RMB49.0 million mainly due to the drawdown of newly granted secured bank borrowings for financing the construction and development of The Cullinan Bay Project during the year, which were classified as current liabilities for accounting purpose as discussed above.

The net current assets of the Target Group increased by approximately RMB560.5 million or 137.7 times from approximately RMB4.1 million as at 31 December 2013 to approximately RMB564.6 million as at 31 December 2014, primarily attributable to the combined effect of (i) a decrease in amounts due to related parties by approximately RMB368.7 million mainly due to the assignment of interests, rights and benefits of Mr. Tsoi and Mr. Shie in balances due from Hengde to the Target Company of approximately RMB170.1 million and RMB208.0 million respectively in consideration for the issue of 4,500,000 shares and 5,500,000 shares of the Target Company respectively on 23 October 2014; (ii) a decrease in pre-sales proceeds received on sales of properties by approximately RMB138.3 million primarily attributable to the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of Phase 4 of the Binjiang International Project; (iii) a decrease in the current portion of secured bank borrowings by approximately RMB38.4 million due to the reclassification of certain secured bank borrowings from current liabilities as at 31 December 2013 to non-current liabilities as at 31 December 2014 on the basis of a written confirmation from relevant bank that it was not aware of any breach of loan covenants by the Target Group or circumstances leading to any early loan repayment on 31 August 2014; (iv) a decrease in trade and bills payables by approximately RMB45.1 million due to the full settlement of bills; and (v) an increase in time deposits, bank balances and cash by approximately RMB96.1 million during the year. It was partially offset by a decrease in inventories by approximately RMB68.6 million primarily driven by the decrease in properties held-for-sale as a result of the delivery of completed properties of Phase 4 of the Binjiang International Project.

The net current assets of the Target Group increased by approximately RMB12.2 million from approximately RMB564.6 million as at 31 December 2014 to approximately RMB576.8 million as at 31 October 2015, primarily attributable to the combined effect of (i) an increase in inventories by approximately RMB87.1 million mainly due to the additional construction and development costs capitalised for The Cullinan Bay Project; (ii) an increase in restricted and pledged bank deposits, time deposits and bank balances and cash by approximately RMB4.5 million as a result of the receipt of pre-sale proceeds for Stage 1 and Stage 2 of Phase 1 of The Cullinan Bay Project, net of the payments of operating expenses and construction costs for the Target Group; (iii) a decrease in current portion of secured bank borrowings by approximately RMB7.2 million due to certain repayment during the period and (iv) increase in trade and other receivables of approximately RMB16.5 million resulting from increase in deposits paid to suppliers for The Cullinan Bay Project. It was partially offset by (i) an increase in other payables and accruals by approximately RMB35.8 million mainly due to the additional accrued construction costs for The Cullinan Bay Project; and (ii) an increase in pre-sales proceeds received on sales of properties by approximately RMB49.1 million mainly due to the pre-sale of The Cullinan Bay Project.

The net current assets of the Target Group decreased by approximately RMB165.3 million from approximately RMB576.8 million as at 31 October 2015 to approximately RMB411.5 million as at 31 December 2015 primarily due to the reclassification of secured bank borrowings of approximately RMB165.0 million due in November 2016 from non-current liabilities as at 31 October 2015 to current liabilities as at 31 December 2015.

DESCRIPTION OF CERTAIN KEY BALANCE SHEET ITEMS

Investment properties

Property interests held by the Target Group under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

As at 31 December 2012 and 2013, the investment properties held by the Target Group consisted of the completed portion, which included kindergarten and car parking spaces of Phases 1 to 3 of the Binjiang International Project, and the portion under construction, which were car parking spaces of Phase 4 of the Binjiang International Project. As at 31 December 2014 and 31 October 2015, the investment properties consisted of the completed kindergarten and car parking spaces of Phases 1–4 of the Binjiang International Project subsequent to the completion of construction of car parking spaces of Phase 4 of the Binjiang International Project during the year ended 31 December 2014. As at 31 December 2012, 2013 and 2014 and 31 October 2015, the fair value of investment properties of the Target Group was approximately RMB101.5 million, RMB112.8 million, RMB117.2 million and RMB119.1 million, respectively, based on the fair value assessment carried out by DTZ, a firm of independent and qualified professional valuers.

Fair value of investment properties was affected by, among other factors, the rate of economic growth, interest rate and political and economic developments in the PRC. In addition, property value of each of the investment properties under development is also affected by construction costs and development progress.

The following table shows a breakdown and movement of the Target Group's investment properties during the Track Record Period:

	Completed investment properties	**Investment properties under construction**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Fair value			
At 1 January 2012	86,600	4,400	91,000
Additions	—	4,600	4,600
Increase in fair value recognised in profit or loss	4,600	1,300	5,900
At 31 December 2012	91,200	10,300	101,500
Additions	—	3,450	3,450
Increase in fair value recognised in profit or loss	3,600	4,250	7,850
At 31 December 2013	94,800	18,000	112,800
Increase in fair value recognised in profit or loss	4,400	—	4,400
Transfer	18,000	(18,000)	—
At 31 December 2014	117,200	—	117,200
Increase in fair value recognised in profit or loss	1,900	—	1,900
At 31 October 2015	119,110	—	119,110

Inventories

Inventories of the Target Group, which comprised properties under development for sales and properties held-for-sale, were accounted for as current assets in the consolidated statements of financial position. The following table sets forth a breakdown of the Target Group's inventories as at the dates indicated:

	At 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties under development for sale	508,320	537,283	545,575	672,136
Properties held-for-sale	151,220	176,762	99,865	60,440
Total	659,540	714,045	645,440	732,576

Properties under development for sale

Changes in the balances of properties under development for sale during the Track Record Period reflected the total GFA under construction as at each reporting date which were significantly affected by project development schedule. Upon the satisfaction of condition for the delivery of completed properties, the respective accumulated capitalised costs of these completed properties would be transferred from properties under development for sale to properties held-for-sale. As at 31 December 2012, 2013, 2014 and 31 October 2015, properties under development for sale of the Target Group amounted to approximately RMB508.3 million, RMB537.3 million, RMB545.6 million and RMB672.1 million respectively.

Balances of properties under development for sale increased by approximately RMB29.0 million or 5.7% from approximately RMB508.3 million as at 31 December 2012 to approximately RMB537.3 million as at 31 December 2013 primarily attributable to the net effect of (i) additional capitalised costs for construction and development of Phase 4 of the Binjiang International Project and The Cullinan Bay Project and (ii) the transfer of the accumulated capitalised costs of Stage 1 of Phase 4 of the Binjiang International Project as properties held-for-sale in view of the fact that construction of Stage 1 of Phase 4 of the Binjiang International Project was completed and ready for delivery since July 2013.

Balances of properties under development for sale increased by approximately RMB8.3 million or 1.5% from approximately RMB537.3 million as at 31 December 2013 to approximately RMB545.6 million as at 31 December 2014 primarily attributable to the net effect of (i) additional capitalised costs for construction and development of Stage 2 of Phase 4 of the Binjiang International Project and The Cullinan Bay Project and (ii) the transfer of the accumulated capitalised costs of Stage 2 of Phase 4 of the Binjiang International Project as properties held-for-sale in view of the fact that construction of Stage 2 of Phase 4 of the Binjiang International Project was completed and ready for delivery in June 2014.

Balances of properties under development for sale increased by approximately RMB126.5 million or 23.2% from approximately RMB545.6 million as at 31 December 2014 to approximately RMB672.1 million as at 31 October 2015 primarily due to the additions of capitalised costs for construction and development of The Cullinan Bay Project during the period.

Properties held-for-sale

Properties held-for-sale represented the completed properties that have not been delivered to customers as at each reporting date during the Track Record Period. Changes in the balances of properties held-for-sale during the Track Record Period were driven by the total GFA completed and delivered in each reporting period. Both of these factors were significantly affected by the project development schedule and the property market condition. The Target Group had properties held-for-sale, comprising only the completed and undelivered properties of the Binjiang International Project, of approximately RMB151.2 million, RMB176.8 million, RMB99.9 million and RMB60.4 million as at 31 December 2012, 2013 and 2014 and 31 October 2015 respectively.

Balances of properties held-for-sale increased by approximately RMB25.6 million or 16.9% from approximately RMB151.2 million as at 31 December 2012 to approximately RMB176.8 million as at 31 December 2013 primarily attributable to the net effect of (i) the transfer of accumulated capitalised costs of Stage 1 of Phase 4 of the Binjiang International Project as properties held-for-sale and (ii) the cost recognition mainly resulted from the delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project in 2013.

Balances of properties held-for-sale decreased by approximately RMB76.9 million or 43.5% from approximately RMB176.8 million as at 31 December 2013 to approximately RMB99.9 million as at 31 December 2014 primarily attributable to the net effect of (i) the transfer of accumulated capitalised costs of Stage 2 of Phase 4 of the Binjiang International Project as properties held-for-sale and (ii) the cost recognition mainly resulted from the delivery of completed properties of Phase 4 of the Binjiang International Project during the period.

Balances of properties held-for-sale decreased by approximately RMB39.5 million or 39.5% from approximately RMB99.9 million as at 31 December 2014 to approximately RMB60.4 million as at 31 October 2015 primarily due to the cost recognition mainly resulted from the delivery of completed properties of the Binjiang International Project during the period.

Trade receivables

The following table sets forth a breakdown of the Target Group's trade receivables as at the dates indicated:

	As at 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	2,888	2,938	6,989	7,012
Less: impairment loss recognised	(10)	(30)	(30)	(30)
Total	2,878	2,908	6,959	6,982

Trade receivables of the Target Group as at each reporting date during the Track Record Period represented the outstanding amount of property purchase consideration payable by customers after the completed properties were delivered to customers. The purchase price of properties sold was payable by each customer pursuant to the terms in sales agreements. After customers paid non-refundable initial deposits at or prior to signing the sales agreements, customers may either settle the outstanding amounts by means of lump-sum payment, installments, with mortgage loan financing or payment via housing fund accounts of customers. Trade receivables of the Target Group as at 31 December 2012, 2013 and 2014 and 31 October 2015 were primarily comprised of (i) outstanding installment payments to be made by customers and (ii) outstanding mortgage payments agreed to be released by mortgagee banks.

The Target Group recorded gross trade receivables of approximately RMB2.9 million, RMB2.9 million, RMB7.0 million and RMB7.0 million as at 31 December 2012, 2013 and 2014 and 31 October 2015 respectively.

The following aging analysis of gross trade receivables was based on the date when the revenue from sale of the respective properties was recognised:

	As at 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–30 days	—	450	—	1,890
31–90 days	1,230	729	—	5,092
91–180 days	1,100	1,420	4,479	—
181–365 days	470	329	2,510	—
Over 365 days	88	10	—	30
Total	2,888	2,938	6,989	7,012

The Target Group generally granted no credit period to customers and only allowed certain customers to settle the purchase consideration by installments. The proposed Directors would monitor the recoverability of the overdue trade receivables and impairment losses would be provided for the overdue trade receivables when there is objective evidence that these may be uncollectable. As at 31 December 2012, 2013 and 2014 and 31 October 2015, the recognised impairment losses were approximately RMB10,000, RMB30,000, RMB30,000 and RMB30,000 respectively. Further details of trade receivables are set out in the Accountants' Report on the Target Group included as Appendix I to this circular.

As at 31 December 2015, approximately 68.5% of the net trade receivables as at 31 October 2015 had been subsequently settled.

The following table sets forth the average trade receivables turnover days for the periods indicated:

	For the year ended 31 December			For the ten months ended 31 October
	2012	**2013**	**2014**	**2015**
Average trade receivables turnover days	13	5	7	24

Note: Average trade receivables turnover days were calculated based on average balance of trade receivables divided by total revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the sum of the beginning balance and ending balance for the relevant period divided by two.

The average trade receivables turnover days decreased from approximately 13 days for the year ended 31 December 2012 to approximately 5 days for the year ended 31 December 2013 primarily attributable to the increase in revenue for the year ended 31 December 2013 as a result of the increase in delivery of completed properties during the same year as compared to those delivered in the year ended 31 December 2012.

The average trade receivables turnover days increased from approximately 5 days for the year ended 31 December 2013 to approximately 7 days for the year ended 31 December 2014 primarily attributable to the increase in the balance of trade receivables as at 31 December 2014 as it generally took longer for the Target Group to receive outstanding mortgage payments agreed to be released by mortgagee banks during the year ended 31 December 2014.

The average trade receivables turnover days increased from approximately 7 days for the year ended 31 December 2014 to approximately 24 days for the ten months ended 31 October 2015 primarily due to the longer time for collecting outstanding mortgage payments agreed to be released by mortgagee banks during the ten months ended 31 October 2015.

Structured deposits

The Target Group acquired RMB-dominated structured deposits of approximately RMB45.0 million issued by a PRC bank in the year ended 31 December 2013. The return and principal were not guaranteed by banks and the expected return was determined with reference to the market price of the underlying equity and debt instruments and exchange rate in foreign currency market. The structured deposits are designated at FVTPL on initial recognition as they contain non-closely related embedded derivative. The proposed Directors consider that the fair values of the structured deposits approximate to their carrying values as at 31 December 2013. The expected return rate is 2.4% per annum as at 31 December 2013.

The Target Group redeemed structured deposits of approximately RMB20.0 million in December 2013 and the remaining balances of approximately RMB25.0 million were fully redeemed in January 2014 at their principal amounts together with returns which approximated the expected return.

Save as disclosed above, the Target Group did not acquire any structured deposit in the years ended 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015.

The Target Group did not hold any investments as at the Latest Practicable Date.

Investment, treasury and risk management policy of the Target Group

During the Track Record Period, the Target Group managed surplus cash mainly through investing in RMB-dominated structured deposits issued by a PRC bank which has sound reputations. The proposed Directors believed that such structured deposits offered a reasonable rate of return for risks taken as compared to that offered by fixed deposits at commercial banks in the PRC.

The Target Group has in place an investment, treasury and risk management policy which governs the Target Group's investments since January 2010. The investment, treasury and risk management policy of the Target Group includes, among other things, the following:

— investment should only be undertaken when the Target Group has surplus cash beyond the requirement of working capital;

— the term of investments shall only be for a period of not more than 12 months in order to maintain liquidity and financial flexibility;

— the types of investments shall only be limited to those of low risk which offer a return better than that offered by fixed deposits at commercial banks in the PRC;

— high risk investments such as securities and their derivatives and investment funds are prohibited; and

— short-term investment products should only be purchased from reputable and licensed financial institutions.

In order to further reduce risks associated with the Target Group's investments described above, the proposed Directors have decided that the Target Group would not seek any investments that are not principal-protected in the future. The investment, treasury and risk management policy will be updated from time to time in accordance with the development of the Target Group and the macro-economic environment in the PRC.

Internal control procedures of the Target Group's investments

The entering into of an investment by the Target Group must be approved by the proposed Directors. The finance department of the Target Group will make investment recommendation to the proposed Directors by reviewing the prevailing working capital position, estimating the expected working capital requirement and assessing the rate of return and level of risk of the recommended investments. The proposed Directors will then be responsible for considering the risks and benefits of entering into an investment by taking into account of various factors such as the flexibility of investment term, availability of better investment alternatives and global economic conditions so as to assess if the entering into of an investment is appropriate.

Mr. Wu Zhisong, one of the proposed executive Directors, is also responsible for overseeing the investment activities of the Target Group, including executing investment transactions and managing the investment portfolio to ensure that they are in line and within the investment, treasury and risk management policy of the Target Group. He must report to the Board on the investment activities and prepare regular performance report to the Board. Mr. Wu has accumulated over 8 years of experience in the financial management. He is a qualified intermediate economist in taxation and a qualified intermediate accountant of the PRC since December 1995 and December 1999 respectively.

Trade and bills payables

The following table sets forth a breakdown of the Target Group's trade and bills payables as at the dates indicated:

	As at 31 December			**As at 31 October**
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	4,279	3,078	2,953	5,484
Bills payables	25,000	45,000	—	—
Total	29,279	48,078	2,953	5,484

Trade and bills payables as at each reporting date during the Track Record Period mainly represented payables to third parties suppliers and construction contractors. The payment to construction contractors was generally made in accordance with stage of completion of a property development project as set out in the construction contractor contracts. Save for 3% to 10% of the total contracted amount would be retained to cover any expenses that may be incurred as a result of any construction defects, the Target Group would settle the payables to construction contractors within the credit period. Such retention money payables are settled approximately 2–5 years after the completion of the construction works.

Trade and bills payables increased by approximately RMB18.8 million or 64.2% from RMB29.3 million as at 31 December 2012 to approximately RMB48.1 million as at 31 December 2013 mainly due to the issuance of bills for settlement of construction fees payables to major construction contractors who were responsible for major building foundation construction works for Phase 4 of the Binjiang International Project during the years.

Trade and bills payables decreased by approximately RMB45.1 million or 93.8% from RMB48.1 million as at 31 December 2013 to approximately RMB3.0 million as at 31 December 2014 mainly due to the full settlement of bills of approximately RMB45.0 million during the year.

Trade and bills payables increased by approximately RMB2.5 million or 83.3% from approximately RMB3.0 million as at 31 December 2014 to approximately RMB5.5 million as at 31 October 2015 primarily attributable to the increase in trade payables to suppliers and construction contractors for the continuous construction and development of The Cullinan Bay Project during the period.

The credit period offered by construction contractors, suppliers of raw materials and other suppliers for settlement of construction related payables was normally within 90 days from the invoice date. For bills issued by the Target Group, the maturity date was one year from the bills issuance date. The following is an aging analysis of trade and bills payables presented based on the invoice date at the dates indicated:

	As at 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–60 days	177	91	44	2,730
61–90 days	—	122	—	10
91–180 days	25,750	25,050	116	26
181 days–1 year	66	20,040	274	563
Over 1 year	3,286	2,775	2,519	2,155
Total	29,279	48,078	2,953	5,484

The trade and bills payables which have been aged over one year as shown in the above aging analysis were principally the retention monies which the Target Group withheld pursuant to contractual arrangements with construction contractors for any construction defects. As at 31 December 2015, approximately 52.8% of the total trade payables of approximately RMB2.9 million as at 31 October 2015 had been subsequently settled.

During the Track Record Period, the Target Group had not experienced material defaults in payment of trade and bills payables.

The following table sets forth the average trade and bills payables turnover days for the periods indicated:

	For the years ended 31 December			For the ten months ended 31 October
	2012	**2013**	**2014**	**2015**
Average trade and bills payables turnover days	101	90	50	33

Note: Average trade and bills payables turnover days were calculated based on average balance of trade and bills payables divided by total cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the sum of the beginning balance and ending balance for the relevant period divided by two.

The average trade and bills payables turnover days decreased from approximately 101 days for the year ended 31 December 2012 to approximately 90 days for the year ended 31 December 2013 primarily attributable to a greater percentage of increase in cost of sales as a result of an increase in delivery of completed properties of the Binjiang International Project in 2013, as compared to the percentage of increase in trade and bills payables contributed by issuance of additional bills of approximately RMB20.0 million for settlement of construction fees payables to a major construction contractor for the construction of the Binjiang International Project.

The average trade and bills payables turnover days decreased from approximately 90 days for the year ended 31 December 2013 to approximately 50 days for the year ended 31 December 2014 and further decreased to approximately 33 days for the ten months ended 31 October 2015 primarily attributable to the decrease in bills payables resulted from the settlement of bills of approximately RMB45.0 million during the year ended 31 December 2014.

Other payables and accruals

The following table sets forth a breakdown of the Target Group's other payables and accruals as at the dates indicated:

	As at 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accrued construction costs	20,361	79,387	62,032	97,383
Accrual of social insurance and housing fund	3,355	4,040	4,628	4,628
Accrued staff costs	256	578	640	194
Public maintenance fund received from customers	3,709	3,805	4,014	4,247
Other tax payables	1,456	2,446	3,945	4,789
Accrual agency fee	132	433	555	865
Interest payable	—	99	—	—
Deposits received from suppliers	1,125	904	904	154
Others	427	458	529	753
Total	30,821	92,150	77,247	113,013

Other payables and accruals primarily consisted of accrued construction costs, public maintenance fund received from customers and accrual of social insurance and housing fund. Accrued construction costs represented the unbilled portion of construction and development costs actually completed and not recorded as trade payable as at the end of the respective periods. The balances of public maintenance fund from customers was received on behalf of the Ministry of Housing and Urban-Rural Development of PRC from the property customers as maintenance fund for the public facilities within the Binjiang International Project.

Balances of other payables and accruals increased by approximately RMB61.4 million or 199.4% from approximately RMB30.8 million as at 31 December 2012 to approximately RMB92.2 million as at 31 December 2013 primarily attributable to the increase in accrued construction costs incurred for construction and development of The Cullinan Bay Project.

Balances of other payables and accruals decreased by approximately RMB15.0 million or 16.3% from approximately RMB92.2 million as at 31 December 2013 to approximately RMB77.2 million as at 31 December 2014 mainly attributable to the decrease in accrued construction costs as a result of the settlement of respective accrued costs for construction of The Cullinan Bay Project.

Balances of other payables and accruals increased by approximately RMB35.8 million or 46.4% from approximately RMB77.2 million as at 31 December 2014 to approximately RMB113.0 million as at 31 October 2015 mainly due to the increase in accrued construction costs attributable to the further construction and development of The Cullinan Bay Project.

Pre-sales proceeds received on sales of properties

Deposits and instalments received from customers prior to the delivery of the completed properties in respect of sales of the respective properties were recorded as pre-sales proceeds received on sales of properties as current liabilities in the consolidated statements of financial position. Pre-sales proceeds received on sales of properties are recognised as revenue when the respective properties have been completed and delivered to the customers.

Balances of pre-sales proceeds received on sales of properties of approximately RMB272.3 million and RMB225.0 million as at 31 December 2012 and 2013 respectively were all contributed by the pre-sales proceeds received from customers of the Binjiang International Project.

Balances of pre-sales proceeds received on sales of properties decreased by approximately RMB47.3 million or 17.4% from approximately RMB272.3 million as at 31 December 2012 to approximately RMB225.0 million as at 31 December 2013 primarily attributable to the recognition of pre-sales proceeds received from customers as revenue as a result of the commencement of delivery of completed properties of Stage 1 of Phase 4 of the Binjiang International Project since July 2013.

The pre-sale of The Cullinan Bay Project in Yangzhou commenced in May 2014. Balance of pre-sales proceeds received on sales of properties as at 31 December 2014 consisted of pre-sales proceeds received from customers of the Binjiang International Project and The Cullinan Bay Project. The balance decreased by approximately RMB138.3 million or 61.5% from approximately RMB225.0 million as at 31 December 2013 to approximately RMB86.7 million as at 31 December 2014 primarily attributable to the recognition of pre-sales proceeds received from customers as revenue as a result of the delivery of completed properties of Phase 4 of the Binjiang International Project.

Balances of pre-sales proceeds received on sales of properties increased by approximately RMB49.1 million or 56.6% from approximately RMB86.7 million as at 31 December 2014 to approximately RMB135.8 million as at 31 October 2015 primarily attributable to the additional proceeds received on pre-sales of Phase 1 of The Cullinan Bay Project.

Amount due from a related party

Amount due from a related party as at 31 December 2012, 2013 and 2014 and the ten months ended 31 October 2015 of nil, approximately RMB23.3 million, nil and nil respectively represented receivable from Mr. Tsoi which was unsecured, non-interest bearing and repayable on demand.

INDEBTEDNESS AND CONTINGENT LIABILITIES

As at 31 December 2012, 2013 and 2014, 31 October and 31 December 2015, the Target Group had total indebtedness of approximately RMB428.0 million, RMB492.7 million, RMB241.3 million, RMB230.6 million and RMB227.1 million respectively.

The following table sets forth a summary of the indebtedness of the Target Group as at the dates indicated:

	As at 31 December			As at 31 October	As at 31 December
	2012	**2013**	**2014**	**2015**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Secured bank borrowings					
— current portion	6,600	55,600	17,175	10,000	170,000
— non-current portion	8,000	14,300	170,000	165,000	—
	14,600	69,900	187,175	175,000	170,000
Amounts due to related parties	413,409	422,766	54,112	55,626	57,148
Total	428,009	492,666	241,287	230,626	227,148

Secured bank borrowings

The total carrying amounts of the Target Group's outstanding secured bank borrowings as at 31 December 2012, 2013 and 2014, 31 October and 31 December 2015 were approximately RMB14.6 million, RMB69.9 million, RMB187.2 million, RMB175.0 million and RMB170.0 million respectively. All secured bank borrowings of the Target Group as at 31 December 2012, 2013 and 2014, 31 October and 31 December 2015 were denominated in RMB. Bank borrowings as at 31 December 2015 were unguaranteed but secured by certain of the properties under development owned by the Target Group.

The following table shows the maturity profile of secured bank borrowings as at the dates indicated:

	As at 31 December			As at 31 October	As at 31 December
	2012	**2013**	**2014**	**2015**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Total secured bank borrowings are repayable as follows:					
Within one year	6,600	7,600	17,175	10,000	170,000
More than one year but not exceeding two years	5,600	5,500	170,000	165,000	—
More than two years but not more than five years	2,400	56,800	—	—	—
	14,600	69,900	187,175	175,000	170,000
Less: Carrying amount of secured bank borrowings that are repayable on demand due to breach of loan covenants (shown under current liabilities)	—	(50,000)	—	—	—
Less: Amounts due for settlement within one year shown under current liabilities	(6,600)	(5,600)	(17,175)	(10,000)	(170,000)
Amounts shown under non-current liabilities	8,000	14,300	170,000	165,000	—

The Target Group's total outstanding secured bank borrowings increased significantly from approximately RMB14.6 million as at 31 December 2012 to approximately RMB187.2 million as at 31 December 2014 primarily for financing the construction and development of The Cullinan Bay Project over the periods. The balance of secured bank borrowings decreased from approximately RMB187.2 million as at 31 December 2014 to approximately RMB175.0 million as at 31 October 2015 and further decreased to approximately RMB170.0 million as at 31 December 2015 mainly attributable to certain repayment of bank borrowings during the periods.

As at 31 December 2015, the Target Group's banking facilities of approximately RMB170.0 million were utilised for property development project purpose.

The unutilised banking facilities of the Target Group as at 31 December 2015 was RMB60.0 million.

The following table summarises the fixed-rate and variable-rate borrowings of the Target Group as at the dates indicated:

	As at 31 December			At 31 October	At 31 December
	2012	**2013**	**2014**	**2015**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Fixed-rate borrowings	3,100	—	—	—	—
Variable-rate borrowings	11,500	69,900	187,175	175,000	170,000
	14,600	69,900	187,175	175,000	170,000

The effective interest rates of fixed-rate borrowings were 5.85% as at 31 December 2012. The effective interest rates of variable-rate borrowings were 1.92%, 0.31% to 1.92%, 0.30%, 0.30% and 0.30% plus the PRC Benchmark Lending Rate per annum as at 31 December 2012, 2013 and 2014, 31 October and 31 December 2015 respectively.

Secured bank borrowings of RMB14.6 million and RMB19.9 million as at 31 December 2012 and 2013, respectively, are guaranteed by certain directors and immediate family member of a director of the Target Group. Certain directors of the Target Group also provided unlimited personal guarantee to banks in respect of general facilities granted to the Target Group as at 31 December 2012 and 2013. All guarantees for secured bank borrowings and general facilities had been released or the relevant banking facilities had been repaid as at 31 December 2014.

During the Track Record Period, the Target Group also pledged the following assets to banks for the bank borrowings and other banking facilities granted to the Target Group and a related company:

	As at 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Inventories	31,594	361,779	342,275	336,934
Pledged bank deposits	10,000	15,000	—	—
	41,594	376,779	342,275	336,934

The proposed Directors confirm that the Target Group did not experience any difficulty in obtaining credit facilities or withdrawal of facilities during the Track Record Period and up to the Latest Practicable Date.

Potential breach of loan covenant during the Track Record Period

In respect of the secured bank borrowings outstanding as at 31 December 2013, the management of the Target Group discovered that a term of loan agreements relating to the debt-to-asset ratio requirement may have been breached. On discovery of this potential breach, the proposed Directors informed the relevant bank. Since the corresponding loan agreement includes a repayable on demand clause giving the bank an unconditional right to call the loan any time in respect of any breach of terms of loan agreements by the Target Group, and the bank has not confirmed to waive its right to demand immediate repayment, respective outstanding balances of secured bank borrowings of approximately RMB50.0 million as at 31 December 2013 with original loan tenors of over one year were repayable on demand and, therefore, classified as current liabilities for accounting purposes. As at the Latest Practicable Date, the Target Group has made repayment of approximately RMB4 million to the bank and the respective outstanding balances of the secured bank borrowings were approximately RMB46 million, which shall be repaid to the bank by the end of November 2016.

Pursuant to the terms of the relevant loan agreements, in case of any breach of financial covenants by the Target Group, the bank is entitled to demand immediate repayment of the principal, interest and fees of the respective loans, exercise its security rights, request for additional guarantees, terminate the relevant loan agreements, or settle the amounts payable under the relevant loan agreements by deducting the same amount in any other bank accounts of the Target Group opened at this bank. On 31 August 2014, the bank agreed not to demand for immediate repayment of respective loans pursuant to a written confirmation from the bank which did not represent a waiver for any breach of loan covenants. The bank has further confirmed that, in respect of the Target Group's bank borrowings as at 31 October 2014 and the Latest Practicable Date, it was not aware of any breach of loan covenants by the Target Group or circumstances leading to early loan repayment. As at the Latest Practicable Date, the debt-to-asset ratio of the relevant subsidiary of the Target Group was approximately 24.1% which fulfilled the debt-to-asset ratio requirement of not exceeding 65% as stipulated in the loan agreements. Based on the bank's written confirmation which stated that the bank was not aware of any breach of loan covenants, the proposed Directors believe that there is no cross default clause triggered off by the potential breach of loan covenant of other bank borrowings of the Target Group.

The Target Group will mitigate the risk of breaching loan covenants in future by (i) entering into a new loan contract only when the Target Group is feasible to comply with all covenants in the new contract after careful consideration; and (ii) implementing the internal control measures as described in the forthcoming paragraph headed "Internal control measures for ongoing compliance with loan covenants" in this section.

Loan covenants

As at the Latest Practicable Date, the Target Group held total outstanding secured bank borrowings of approximately RMB170.0 million to finance its property construction and development. The material loan covenants of the Target Group's material secured bank borrowings as at the Latest Practicable Date are as follows:

(i) utilise the secured bank borrowings only for the purpose as stipulated in loan agreements in relation to the development of a particular property project or project phase;

(ii) notify the relevant bank the details of any related party transactions entered into by the borrower if such transaction exceeds 10% of the net assets of the borrower;

(iii) obtain written consent from the relevant bank prior to providing assets pledged under the relevant bank borrowing as guarantee in favour of any third parties;

(iv) inform or obtain written consent from the relevant bank in respect of material adverse changes that may affect the borrower's repayment ability, corporate changes, merger, spinning-off, shareholding changes, investment, and obtaining additional debt financing from third parties; and

(v) fulfill certain financial ratios requirement, including debt-to-asset ratio which shall not exceed 65% and/or current ratio which shall not be less than 1.

Save for the above-mentioned potential breach of loan covenant during the Track Record Period, the proposed Directors confirm that the Target Group had (i) no other material breach of loan covenants of bank borrowings; (ii) neither notice of breach of material loan covenants nor demand for early or immediate loan repayment has been received from banks; (iii) no cross default clause of other bank borrowings has been triggered off as a result of the reclassification as at 31 December 2013; and (iv) no delay or default in the repayment of bank borrowings during the Track Record Period and up to the Latest Practicable Date.

Internal control measures for ongoing compliance with loan covenants

To ensure ongoing compliance with loan covenants, the Target Group has in place internal control measures, including but not limited to, on a regular basis (i) reviewing loan covenants of existing and new bank borrowings; (ii) assessing the Target Group's current financial position and its outstanding balances of bank borrowings; and (iii) reporting findings to the proposed Directors. The Target Group is in the process of strengthening its budgeting system under which monthly covenant compliance forecast would be conducted to ensure compliance with such covenants in the future. In case any potential breach of loan covenants is identified in the future, the proposed Directors will review the matter and promptly liaise with the relevant bank to resolve such potential breach of loan covenants. The proposed Directors consider that these measures can ensure ongoing compliance with loan covenants in the future.

Amounts due to related parties

The following table sets forth the breakdown of unsecured and unguaranteed amounts due to related parties as at the dates indicated:

	As at 31 December			As at 31 October	As at 31 December
	2012	**2013**	**2014**	**2015**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Amounts due to directors	196,571	41,915	54,112	55,626	57,148
Amount due to a related company	216,838	380,851	—	—	—
	413,409	422,766	54,112	55,626	57,148

The amounts due to directors as at 31 December 2012, 2013 and 2014, 31 October and 31 December 2015, which were unsecured, non-interest bearing and repayable on demand, were advances from Mr. Tsoi and Mr. Shie for financing the working capital of the Target Group during the Track Record Period.

In respect of the amount due to Mr. Tsoi and Mr. Shie, on 23 October 2014, Mr. Tsoi and Mr. Shie entered into a deed of assignment pursuant to which they shall assign their interests, rights and benefits in balances due from Hengde to the Target Company of approximately RMB170.1 million and RMB208.0 million respectively in consideration for the issue of 4,500,000 shares and 5,500,000 shares of the Target Company respectively, at an issue price of approximately RMB38 per share. The aforesaid consideration shares were allotted and issued to Mr. Tsoi and Mr. Shie on 23 October 2014.

Amount due to a related company as at 31 December 2012 and 2013 represented the advance made by by Mr. Shie and Mr. Tsoi through Jianhong Investment primarily for the support of operation of Yangzhou Dehui and was non-trade nature, unsecured, non-interest bearing and has no fixed repayment term.

Contingent liabilities

The contingent liabilities of the Target Group represented the corporate guarantee provided to PRC banks in respect of the mortgage loans provided to customers of the Target Group.

	As at 31 December			As at 31 October	As at 31 December
	2012	**2013**	**2014**	**2015**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)
Corporate guarantee given to banks in respect of mortgage facilities granted to property buyers	289,773	333,582	336,554	353,457	363,085

The guarantees provided by the Target Group to PRC banks in connection with mortgage loans granted to customers for financing their property purchases would be released at the earlier of (i) the receipt of the individual property ownership certificate of the relevant properties by the banks from customers as security for the mortgage loans and (ii) the full settlement of mortgage loans by the customers. As at 31 December 2012, 2013 and 2014, 31 October and 31 December 2015, the outstanding mortgage loan guarantees provided by the Target Group in favour of customers of the Target Group were approximately RMB289.8 million, RMB333.6 million, RMB336.6 million, RMB353.5 million and RMB363.1 million respectively. The proposed Directors believe that in case of default on mortgage loan payments by purchasers, the net realisable value of the underlying properties is expected to cover the outstanding mortgage principal together with the accrued interest and penalties. Accordingly, no provision has been made for these guarantees. During the Track Record Period, the Target Group has not encountered material defaults by purchasers that, in aggregate, had a material adverse effect on the financial conditions and results of operations.

During the year ended 31 December 2014, the Target Group has pledged its inventories to provide guarantee for a general banking facilities granted to a related party. This financial guarantee has no fair value at inception date based on valuation performed by DTZ, a firm of independent and qualified professional valuers. No provision for financial guarantee contracts has been made as the proposed Directors consider that the default risk of borrowers is low. In October 2014, the guarantee provided to the related party has been released.

COMMITMENTS

Construction commitments

The Target Group had the following construction commitments as at the dates indicated:

	As at 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Construction commitments in respect of properties under development for sale contracted for but not provided	43,647	72,308	354,973	236,517

The construction commitments of Target Group as at the end of each reporting period during the Track Record Period were the commitments which will be incurred in accordance with the construction progress of the Target Group's property development projects, including the Binjiang International Project and The Cullinan Bay Project. The construction commitments as at 31 December 2014 and 31 October 2015 were primarily related to the construction and development of The Cullinan Bay Project. The proposed Directors believe the Target Group will be able to settle construction commitments by internally generated funds and secured bank borrowings.

Operating commitment

The Target Group leased out some of investment properties under operating lease arrangement with a rental term of 20 years. The following table sets forth future non-cancellable minimum lease payments in respect of leases of which the Target Group acts as lessor as at the dates indicated:

	As at 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	217	246	246	254
In the second to fifth year inclusive	1,045	1,090	1,135	1,182
After five years	4,976	4,686	4,394	4,134
	6,238	6,022	5,775	5,570

The Target Group as leasee also entered into non-cancellable operating lease arrangements for offices premises and sales centres for an average term of 1 to 3 years with fixed rental. The following table sets forth the future minimum lease payment under non-cancellable operating leases of which the Target Group acts as lessee as at the dates indicated:

	As at 31 December			As at 31 October
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	190	426	161	79
In the second to fifth year inclusive	—	97	22	22
	190	523	183	101

OFF BALANCE SHEET ARRANGEMENTS

During the Track Record Period, except as disclosed in this section or in the Accountants' Report of the Target Group set out in Appendix I to this circular, the Target Group did not have any outstanding loan capital issued or agrees to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The directors of the Target Group have confirmed that during the Track Record Period and up to the Latest Practicable Date, except as disclosed in this section or in the Accountants' Report of the Target Group set out in Appendix I to this circular, the Target Group had not entered into any material off balance sheet arrangements.

KEY FINANCIAL RATIO ANALYSIS

The following table sets forth the key financial ratios of the Target Group as at/for the periods indicated:

		Year ended 31 December/ As at 31 December			Ten months ended 31 October/As at 31 October
	Notes	**2012**	**2013**	**2014**	**2015**
Return on equity (%)	*1*	26.8%	32.9%	12.0%	4.9% *(Note 8)*
Return on total assets (%)	*2*	2.4%	3.0%	3.8%	2.6% *(Note 8)*
Current ratio (times)	*3*	1.0	1.0	3.3	2.7
Quick ratio (times)	*4*	0.1	0.2	0.7	0.5
Gearing ratio (%)	*5*	614.8%	508.0%	48.2%	44.2%
Net debt to equity ratio (%)	*6*	583.3%	477.5%	23.1%	23.0%
Interest coverage	*7*	N/A	25.1	28.1	193.4

Notes:

(1) Return on equity is calculated based on the profit for the respective year/period divided by the average of total equity at the beginning and the end of year/period and multiplied by 100%.

(2) Return on total assets is calculated based on the profit for the respective year/period divided by the average of total assets at the beginning and the end of year/period and multiplied by 100%.

(3) Current ratio is calculated based on the total current assets as at the respective date divided by the total current liabilities as at the respective date.

(4) Quick ratio is calculated based on the total current assets net of inventories as at the respective date divided by the total current liabilities as at the respective date.

(5) Gearing ratio is calculated based on the total debts (comprising bank borrowings and amounts due to related parties) as at the respective date divided by total equity as at the respective date and multiplied by 100%. Debts are defined to include all liabilities incurred not in the ordinary course of business with trade-related payables excluded.

(6) Net debt to equity ratio is calculated based on all debts net of cash and cash equivalents as at the respective date divided by total equity as at the respective date.

(7) Interest coverage is calculated based on the profit before finance costs and tax divided by finance costs recorded in income statement for the respective year/period.

(8) Profit (on an annualised basis for the period ended 31 October 2015) divided by average total assets/ equity and multiplied by 100%.

Return on equity

Return on equity increased from approximately 26.8% for the year ended 31 December 2012 to approximately 32.9% for the year ended 31 December 2013 due to the increase in net profit during the year.

Return on equity decreased from approximately 32.9% for the year ended 31 December 2013 to approximately 12.0% for the year ended 31 December 2014 due to the combined effect of the increase in net profit during the year and the increase of total equity as at 31 December 2014 as a result of the issue of shares of the Target Company to Mr. Tsoi and Mr. Shie on 23 October 2014.

Return on total assets

Return on total assets increased from approximately 2.4% for the year ended 31 December 2012 to approximately 3.0% for the year ended 31 December 2013 due to the increase in net profit from approximately RMB15.3 million for the year ended 31 December 2012 to approximately RMB27.4 million for the year ended 31 December 2013, outweighing the higher average balance of total assets mainly attributable to the further increase in inventories for the continuous construction of Stage 2 of Phase 4 of the Binjiang International Project and the increase in time deposits, bank balances and cash, restricted and pledged bank deposits and structured deposits primarily raised from new bank borrowings.

Return on total assets increased from approximately 3.0% for the year ended 31 December 2013 to approximately 3.8% for the year ended 31 December 2014 primarily attributable to the increase in net profit from RMB27.4 million for the year ended 31 December 2013 to RMB35.8 million for the year ended 31 December 2014.

Current ratio

As at 31 December 2012 and 2013, current ratio maintained stable at approximately 1.0 time.

Current ratio improved from approximately 1.0 time as at 31 December 2013 to approximately 3.3 times as at 31 December 2014 primarily due to the decline in current liabilities as a result of the decrease in amounts due to a related company from RMB380.9 million as at 31 December 2013 to nil as at 31 December 2014 after Mr. Tsoi and Mr. Shie assigned their interests, rights and benefits in balances due from Hengde to the Target Company of approximately RMB378.1 million in aggregate on 23 October 2014.

Current ratio slightly decreased from approximately 3.3 times as at 31 December 2014 to approximately 2.7 times as at 31 October 2015 primarily due to increase in accrued construction costs and pre-sale proceeds received on sales of properties for The Cullinan Bay Project.

Quick ratio

Due to the growth of current assets other than inventories from approximately RMB76.9 million as at 31 December 2012 to approximately RMB138.6 million as at 31 December 2013 primarily attributable to increase in time deposits, bank balances and cash, restricted and pledged bank deposits, structured deposits and amount due from a related party, quick ratio rose from approximately 0.1 time as at 31 December 2012 to approximately 0.2 time as at 31 December 2013.

Quick ratio further increased from approximately 0.2 time as at 31 December 2013 to approximately 0.7 time as at 31 December 2014 primarily due to the decline in current liabilities as a result of the decrease in amount due to a related party.

Quick ratio decreased from approximately 0.7 time as at 31 December 2014 to approximately 0.5 time as at 31 October 2015 primarily attributable to the increase in current liabilities as explained for the change of current ratio for the same period in the above paragraph; and partially offset with an increase in inventories resulting from the additions of capitalised costs for construction and development of The Cullinan Bay Project.

Gearing ratio

Gearing ratio decreased from approximately 614.8% as at 31 December 2012 to approximately 508.0% as at 31 December 2013 as the equity increased at a rate faster than the growth of total debts.

Gearing ratio significantly decreased from 508.0% as at 31 December 2013 to approximately 48.2% as at 31 December 2014 primarily due to the decrease in amount due to a related company and the increase in share capital as a result of the assignment of the interests, rights and benefits of Mr. Tsoi and Mr. Shie in balances due from Hengde to the Target Company of approximately RMB378.1 million in aggregate in consideration of the issue of shares of the Target Company to Mr. Tsoi and Mr. Shie.

Gearing ratio decreased from approximately 48.2% as at 31 December 2014 to approximately 44.2% as at 31 October 2015 mainly due to the repayment of bank borrowings during the ten months ended 31 October 2015.

Net debt to equity ratio

The reasons for the fluctuation in net debt to equity ratio as at the end of each period during the Track Record Period are similar to those for changes in gearing ratio as set forth above.

Interest coverage

No interest coverage was calculated for the year ended 31 December 2012 as the Target Group capitalised all finance costs incurred in the inventories when the finance costs were directly attributable to the construction of properties.

Interest coverage increased from approximately 25.1 times for the year ended 31 December 2013 to approximately 28.1 times for the year ended 31 December 2014 as the profit before finance costs and tax increased at a faster rate than the increase of finance costs.

Interest coverage increased from approximately 28.1 times for the year ended 31 December 2014 to approximately 193.4 times for the ten months ended 31 October 2015, primarily due to the substantial decrease in finance costs recorded in income statement from RMB2.0 million for the year ended 31 December 2014 to RMB0.2 million for the ten months ended 31 October 2015 as a result of the settlement of bank borrowings and bills in relation to the construction and development of the Binjiang International Project.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

The Target Group is exposed to various types of financial risks, including market risks (consisting of interest rate risk, other price risk and currency risk), liquidity risk and credit risk in the normal course of its business.

Interest rate risk

The Target Group is exposed to cash flow interest rate risk in relation to secured bank borrowings, restricted and pledged bank deposits, time deposits and bank balances. The cash flow interest rate risk is mainly concentrated on fluctuations associated with variable rate linked to PRC Benchmark Lending Rate in respect of secured bank borrowings and variable rate restricted and pledged bank deposits, time deposits and bank balances.

The Target Group is also exposed to fair value interest rate risk in relation to fixed rate secured bank borrowings.

The Target Group currently does not have an interest rate hedging policy. However, the management keeps monitoring interest rate risk exposure and will consider interest rate hedging should it be necessary.

Other price risk

The Target Group is exposed to price risk through its investment in structured deposits which are designated as financial assets at FVTPL. The management of the Target Group manages this exposure by selecting the structured deposits with a diversified portfolio of investments with different risks. The Target Group's price risk is mainly concentrated market price of the underlying equity and debts instruments and exchange rate in foreign currency market. The Target Group currently does not use any derivative contracts to hedge its exposure to other price risk. The proposed Directors are considered the price risk as insignificant.

Currency risk

The Target Group has incurred balances of amounts due to directors which are denominated in foreign currency of relevant group entity and therefore exposed to foreign exchange risk.

The Target Group does not enter into any derivative contracts to minimise the currency risk exposure. However, the management of the Target Group monitors foreign exchange exposure and will consider hedging significant foreign exchange risk should the need arises.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of time deposits, bank balances and cash as well as undrawn banking facilities deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Target Group monitors the utilisation of bank borrowings.

Credit risk

The Target Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statements of financial position and the financial guarantee provided by the Target Group as disclosed in the above section headed "Contingent liabilities". The Target Group's credit risk is primarily attributable to its trade and other receivables, structured deposits, restricted and pledged bank deposits, time deposits and bank balances.

The Target Group's concentration of credit risk by geographical locations is mainly in the PRC, accounted for 99% of the total financial assets as at 31 December 2012 and 2013, 92% and 92% of the total financial assets as at 31 December 2014 and 31 October 2015, respectively.

In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The proposed Directors therefore consider that the credit risk of the Target Group is significantly reduced.

For the financial guarantees provided by the Target Group to secure obligations of the customers of the property units for the repayment of their mortgage loans, if there is a default in repayment by these purchasers, the Target Group is responsible for repaying the outstanding mortgage loans together with any accrued interests and penalties owed by the defaulted purchasers to banks. Under such circumstances, the Target Group is able to take over the ownership of the relevant properties and sell the properties to recover any amounts paid by the Target Group to banks. The proposed Directors therefore consider that the credit risk on such guarantees is significantly reduced.

The Target Group's credit risk position on other receivables closely monitored by management of the Target Group by reviewing the recoverable amount of other receivables as at the end of each reporting period to ensure the adequate impairment losses are made for irrecoverable amounts.

The credit risks on structured deposits, restricted and pledged bank deposits, time deposits and bank balances are limited because the counterparties are reputable banks in the PRC.

PROFIT ESTIMATE OF THE TARGET GROUP FOR 2015

On the bases set out in Appendix III to this circular, the proposed Directors estimate that the unaudited consolidated profit attributable to owners of the Target Company is as follows:

Estimated profit attributable to owners of the Target Company for the year ended 31 December 2015 *(Note)* .... not less than RMB21.0 million (approximately HK$25.1 million)

Note:

The bases on which the above profit estimate has been prepared are summarised in Part A of Appendix III to this circular. The proposed Directors have prepared the estimated profit attributable to owners of the Target Group for the year ended 31 December 2015 based on the audited financial results for the ten months ended 31 October 2015 and the unaudited management accounts of the Target Group for the remaining two months ended 31 December 2015.

DIVIDEND

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

DISTRIBUTABLE RESERVES

As at 31 October 2015, the Target Company had distributable reserves comprising of retained earning approximately RMB23.9 million available for distribution to its shareholders.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

The Target Group's business model, revenue and cost structure remained unchanged since 31 October 2015. Based on its unaudited management accounts for the two months ended 31 December 2015, its unaudited average monthly revenue for the two months ended 31 December 2015 was comparatively lower than the average monthly revenue for the ten months ended 31 October 2015 primarily due to lesser units being delivered in two months ended 31 December 2015 after commencement of the delivery of completed properties of the final phase, i.e. Stage 2 of Phase 4, of the Binjiang International Project in June 2014.

As far as the proposed Directors are aware, there have been no material changes in the general economic and market conditions in the PRC or the property market in which the Target Group operates that would materially and adversely affected its business operations or financial condition since 31 October 2015 and up to the date of this circular. The proposed Directors confirm that there had not been any material adverse change in the financial, operational or trading position or the prospects of the Target Group since 31 October 2015 and up to the date of this circular. The Directors confirm that there had not been any material adverse change in the financial, operational or trading position or the prospects of the Enlarged Group since 31 October 2015 and up to the date of this circular, except for the one-off [REDACTED] expenses.

The proposed Directors are not aware of any material change in the financial or trading position or outlook of the Target Group since 31 October 2015 up to and including the Latest Practicable Date.

The proposed Directors confirmed that the Target Group has not experienced any withdrawal of banking facilities, requests for early payment of outstanding bank loans or increase in the amount of pledge(s), cancellation or orders, bankruptcy or default of customers or suppliers which have had a material adverse impact on our business operations.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The proposed Directors confirm that, as at the Latest Practicable Date, there were no circumstances which, would have given rise to a disclosure requirement under Rules [REDACTED] to [REDACTED] of the Listing Rules.

PROPERTY INTERESTS AND PROPERTY VALUATION

DTZ, a firm of independent and qualified professional valuers, has valued the property interests of the Target Group as at 30 November 2015 and is of the opinion that the aggregate value of property interests of the Target Group as at such date was RMB940.8 million. The full text of the letter, summary of valuation and valuation certificates with regard to our property interests are set out in the Property Valuation Report in Appendix VI to this circular.

As required under Rule [REDACTED] of the Listing Rules, the statement below sets forth the reconciliation of the aggregate value of certain properties and land use rights as reflected in the consolidated financial statements as at 31 October 2015 as set out in Appendix I to this circular with the valuation of these property interests as at 30 November 2015 as set out in Appendix VI this circular.

	(RMB millions)
Net book value of properties as at 31 October 2015	
— Properties under development for sale	672
— Properties held-for-sale	60
— Investment properties	119
	851
Movements for the period from 31 October 2015 to 30 November 2015	14
Net book value as at 30 November 2015	865
Net valuation surplus	76
Market value of properties as at 30 November 2015 as set out in the property valuation report in Appendix VI to this circular	941