THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Chaoyue Group Limited (the "**Company**"), you should at once hand this circular accompanying with the form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.

CHAOYUE GROUP LIMITED
超越集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 147)

(I) VERY SUBSTANTIAL ACQUISITION AND (II) NOTICE OF SPECIAL GENERAL MEETING

Financial adviser to the Company

八方金融有限公司 OCTAL Capital Limited

A notice convening the special general meeting of the Company to be held at Unit 3213, 32nd Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on Friday, 23 January 2015 at 11:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the special general meeting is enclosed with this circular. Such form of proxy is also published on the website of (i) the Company at www.chaoyuehk.com and (ii) The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.

Whether or not you are able to attend and/or vote at the special general meeting of the Company in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the special general meeting of the Company or any adjournment thereof (as the case may be) should you so wish.

31 December 2014

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Shares by the Purchaser pursuant to the terms and conditions of the Agreement
"Agreement"	the conditional agreement dated 27 August 2014 (after trading hours) entered into between the Purchaser and the Vendor in relation to the Acquisition
"ASP"	average selling price per sq. m.
"associate(s)"	shall have the same meaning as ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day(s) on which government authorities in the PRC are open for business (except statutory holidays in the PRC)
"Company"	Chaoyue Group Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 147)
"Completion"	completion of the Acquisition
"completion certificate"	construction works completion inspection acceptance certificate/record issued by local urban construction bureaus or competent authorities in the PRC with respect to the completion of property projects (竣工驗收備案)
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration for the Sale Shares under the Agreement
"construction land planning permit"	construction land planning permit issued by local urban zoning and planning bureaus or competent authorities in the PRC (建設用地規劃許可證)
"construction works commencement permit"	construction works commencement permit issued by local construction committees or competent authorities in the PRC (建築工程施工許可證)

"construction works planning permit"	construction works planning permit issued by local urban zoning and planning bureaus or competent authorities in the PRC (建設工程規劃許可證)
"controlling shareholder(s)"	shall have the same meaning as ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group and the Target Group
"GDP"	gross domestic product
"GFA"	gross floor area
"Group"	the Company and its subsidiaries
"Guangxi Changhua"	廣西昌樺投資有限公司 (Guangxi Changhua Investment Company Limited*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Target
"Guangxi Yizheng"	廣西益正貿易有限公司 (Guangxi Yizheng Trading Company Limited*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Target
"Guangxi Zhenghuan"	廣西正桓貿易有限公司 (Guangxi Zhenghuan Trading Company Limited*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Target
"Hainan Zhenghe"	洲際油氣股份有限公司 (Geo-Jade Petroleum Corporation), formerly known as 海南正和實業集團有限公司 (Hainan Zhenghe Industrial Group Co. Ltd., whose name has been changed to 洲際油氣股份有限公司 on 6 August 2014), a company incorporated in the PRC with its shares listed on the Shanghai Stock Exchange (stock code: 600759) and is independent of the Company and its connected person
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"independent third party(ies)"	party(ies) which is/are independent of and not connected (within the meaning ascribed to it in the Listing Rules) with any of the Directors, substantial shareholders or chief executive of the Company or any of the subsidiaries of the Company or any of their respective associates and is not otherwise a connected person
"Independent Valuer"	DTZ Debenham Tie Leung Limited, an independent professional valuer to conduct the valuation on property of the Target
"land grant contract"	a land use rights grant contract (土地使用權出讓合同)
"land use rights certificate"	a certificate (or certificates as the case may be) of the right of a party to use a parcel of land (土地使用權證)
"LAT"	land appreciation tax (土地增值稅) as defined in the PRC Provisional Regulations on Land Appreciation Tax of 1994 and its implementation rules, as described in the section headed "Regulatory overview relating to the Target Group" in this circular
"Latest Practicable Date"	31 December 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Liuzhou Dongcheng"	柳州東城投資開發有限公司 (Liuzhou Dongcheng Investment & Development Co., Ltd.*), a company established in the PRC with limited liability and is wholly-owned by independent third parties
"Liuzhou Huagui"	柳州華桂房地產開發有限公司 (Liuzhou Huagui Property Development Company Limited*), a property developer based in Liuzhou, being the owner of the 30% equity interest of the Target and is wholly-owned by independent third parties
"MOHURD"	the Ministry of Housing and Urban Rural Development
"mu"	畝, a Chinese area unit, equivalent to approximately 614.4 sq.m.
"plot ratio"	the ratio of the gross floor area (excluding floor area below ground) of all buildings to their site area

"PRC"	the People's Republic of China, and for the purpose of this circular only, excluding Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan
"PRC Legal Adviser"	Hills & Co, the legal adviser as to PRC laws of the Company
"pre-sale permit"	the pre-sale permit authorising a developer to start the pre-sale of a property under construction (商品房預售許可證)
"Properties"	the properties under development and investment properties in Liuzhou, the PRC held by the Target Group
"public tender", "auction", or "listing-for-sale"	public tender, auction or listing at a land exchange administered by the local government, each of which is a competitive bidding process through which a purchaser acquires land use rights directly from the PRC government; please refer to the section headed "Regulatory overview relating to the Target Group" in this circular for a detailed explanation of these processes
"Purchaser"	福州國天企業管理有限公司 (Fuzhou Guotian Enterprise Management Company Limited*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Sale Shares"	70% of the equity interest of the Target as at the date of the Agreement
"Saleable GFA"	(i) GFA of a property which the Target intend to sell and which does not exceed the multiple of the site area and the maximum permissible plot ratio as specified in the relevant land grant contracts or other approval documents from governmental authorities relating to the project; and (ii) GFA of all underground car parks which the Target intend to transfer the right to use thereof
"SGM"	the special general meeting of the Company to be convened and held to consider and, if thought fit, approve, among other things, the Agreement and the transactions contemplated thereunder
"Share(s)"	ordinary share(s) of HK$0.001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplemental Agreement"	the supplemental agreement entered into between the Vendor and the Purchaser on 24 December 2014, amending certain terms of the Agreement
"Target"	柳州正和樺桂置業集團有限公司 (Liuzhou Zhenghe Huagui Real Estate Group Company Limited*), a company incorporated in the PRC with limited liability
"Target Group"	the Target and its subsidiaries
"Track Record Period"	three years ended 31 December 2013 and six months ended 30 June 2014
"Vendor"	福清市旺福房地產開發有限公司 (Fuqing Wangfu Property Development Company Limited*), a company incorporated in the PRC with limited liability
"HK$"	Hong Kong dollars, the lawful currency in Hong Kong
"RMB"	Renminbi, the lawful currency in the PRC
"sq. m."	square metre(s)
"%"	per cent.

The terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" have the meanings given to such terms under the Listing Rules, unless the context otherwise requires.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC Government authorities or the PRC entities mentioned in this circular and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

Solely for illustration purposes, an exchange rate of RMB1 = HK$1.26 has been used in this circular. The rate should not be taken as a representation that RMB could actually be converted into HK$ at that rate or at all.

* *for identification purpose only*

CHAOYUE GROUP LIMITED
超越集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 147)

Executive Directors:
Mr. Yuen Leong
Ms. Luan Li

Independent Non-Executive Directors:
Dr. Lam Man Kit, Dominic
Mr. Yap Yung
Mr. Zhang Guangsheng

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

Head office and principal place of business in Hong Kong:
Unit 3213, 32nd Floor
COSCO Tower
183 Queen's Road Central
Hong Kong

31 December 2014

To the Shareholders,

Dear Sir or Madam,

**(I) VERY SUBSTANTIAL ACQUISITION
AND
(II) NOTICE OF SPECIAL GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 2 September 2014. After trading hours of the Stock Exchange on 27 August 2014, the Purchaser and the Vendor entered into the Agreement (as supplemented by the Supplemental Agreement), pursuant to which the Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares. The Sale Shares represent a 70% equity interest in the Target. The Consideration for the Sale Shares is RMB280 million (equivalent to approximately HK$353.3 million) and will be settled in full in cash.

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 100%, the Acquisition and the transactions contemplated under the Agreement constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and are subject to the approval by the Shareholders at the SGM by way of poll. To the best of the Directors' knowledge, the Vendor and its associates do not hold any Shares as at the Latest Practicable Date and no Shareholder has a material interest in the transactions contemplated under the Agreement. Accordingly, no Shareholder will be required to abstain from voting at the SGM in respect of the resolution(s) relating to the Acquisition.

The purpose of this circular is to provide you with, among other things, (i) details of the Acquisition; (ii) the financial information on the Group and the Target Group; (iii) the pro forma financial information of the Group assuming Completion; (iv) other information required under the Listing Rules in relation to enhanced disclosure; and (v) the notice convening the SGM.

THE AGREEMENT

Date: 27 August 2014

Parties:

Purchaser: 福州國天企業管理有限公司 (Fuzhou Guotian Enterprise Management Company Limited*), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the Company;

Vendor: 福清市旺福房地產開發有限公司 (Fuqing Wangfu Property Development Company Limited*), a company incorporated in the PRC with limited liability.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, (i) the Vendor is principally engaged in property development in Fuzhou City, Fujian Province; (ii) the Vendor and its ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons; and (iii) save for being parties to the Agreement, the Company and its connected persons do/did not have any other (current or prior) relationship or business arrangements with the Vendor and its ultimate beneficial owners.

Assets to be acquired

The Purchaser conditionally agreed to purchase and the Vendor conditionally agreed to sell the Sale Shares, free from any mortgage, pledge, charge, security, lien, restrictions, equity, purchase right, right of first refusal, transfer, lease, voting rights, trust, entrusted arrangement, option, third party rights or interests, other encumbrances or guarantee, or any other preferential arrangement of similar effect (including but not limited to transfer of ownership or retention arrangement) attached to any equity interest, land use right or right of ownership of property. The Sale Shares represent a 70% equity interest in the Target. Further information on the Target Group is set out in the paragraph headed "Information on the Target Group" below.

Consideration

The Consideration for the Sale Shares is RMB280 million (equivalent to approximately HK$353.3 million) and will be payable by the Purchaser to the Vendor in full in cash within 15 Business Days after the date of Completion (or such later date as the parties may agree). The Consideration was determined after arm's length negotiations with reference to, among other things, (i) the original acquisition cost of the 70% equity interest in the Target paid by the Vendor (i.e. RMB260 million, equivalent to approximately HK$327.6 million); and (ii) 70% of the unaudited adjusted consolidated net asset value of the Target Group as at 31 December 2013 of approximately RMB291.1 million (equivalent to approximately HK$366.8 million) (based on the unaudited consolidated net asset value of the Target Group as at 31 December 2013 and adjusted with the fair value of the Properties held by the Target Group as at 31 December 2013 as preliminarily assessed by the Independent Valuer using market approach). The Consideration represents a discount of approximately 3.8% to the aforesaid adjusted consolidated net asset value of the Target Group.

As at 30 September 2014, based on the audited consolidated net asset value of the Target Group as at 30 June 2014 and adjusted with the fair value of the Properties held by the Target Group as at 30 September 2014 as assessed by the Independent Valuer using market approach, the Consideration represents a premium of approximately 70.0% to the aforesaid audited adjusted consolidated net asset value of the Target Group as at 30 June 2014 being approximately RMB235.7 million (equivalent to approximately HK$296.9 million). The material change in the audited adjusted consolidated net asset value of the Target Group is due to the recognition of deferred tax liability of the Target Group by the reporting accountants of the Company which amounted to approximately RMB133.5 million (equivalent to approximately HK$168.5 million). Further details on the calculation of the adjusted consolidated net asset value of the Target Group can be found on page III-7 of this circular.

The Group intends to finance the Consideration as to RMB230 million (equivalent to approximately HK$290.2 million) by borrowings and RMB50 million (equivalent to approximately HK$63.1 million) by internal resources. On 22 December 2014, the Purchaser obtained a banking facility from a PRC bank in the sum of RMB230 million (equivalent to approximately HK$290.2 million) for a period of three years and carries an interest rate of 12% per annum solely for the purpose of financing the Acquisition. The interest is payable quarterly.

Conditions precedent

Completion will be conditional upon the satisfaction or waiver (as the case may be) of the following conditions:

(i) the Agreement and the transactions contemplated thereunder having been approved by the Shareholders at the SGM;

(ii) the transactions contemplated under the Agreement not being treated as a reverse takeover by the Stock Exchange which would otherwise result in the Company being required to comply with the new listing requirements;

(iii) Liuzhou Huagui having consented to the Acquisition and waived its right of first refusal to acquire the Sale Shares in writing;

(iv) the Agreement and the change in shareholding in the Target having been approved by the Ministry of Commerce of the PRC or its delegated authority(ies) in accordance with applicable laws in the PRC;

(v) the Purchaser being satisfied with the due diligence report issued by a PRC legal adviser acceptable to the Purchaser in respect of the Target's establishment, continuation, operation and material assets;

(vi) the Purchaser being satisfied with the accountants' report issued by an accounting firm acceptable to the Purchaser in respect of the financial statements of the Target for the three years ended 31 December 2013 and six months ended 30 June 2014 (or such other period as the parties to the Agreement may agree);

(vii) the Agreement and the transactions contemplated thereunder having been approved or consented by the shareholders and board of directors of the Vendor and the Target, and other third parties (including but not limited to financing banks and guarantee companies, if necessary);

(viii) the Purchaser and Liuzhou Huagui having entered into the new memorandum and articles of association of the Target and agreed to the composition and nomination of the new board of directors of the Target after Completion *(Note)*; and

(ix) all representations, warranties and undertakings given by the Vendor remaining true and accurate in all respects without any material omission.

Note: The only change to be made to the new memorandum and articles of association of the Target is the change of the identity of one of the shareholders of the Target from the Vendor to the Purchaser. Save this change of identity of shareholder, there will not be any other changes to be made to the memorandum and articles of association of the Target.

Only conditions (v) and (ix) above are waivable conditions and are only waivable by the Purchaser at its absolute discretion. As at the Latest Practicable Date, the Purchaser had no intention to waive any of these conditions. If the conditions above have not been fulfilled or waived by the Purchaser in writing (as the case may be) by 31 March 2015 (or such later date as the parties may agree), the Agreement shall terminate and neither party shall have any obligations or liabilities under the Agreement except for any antecedent breaches. As at the date of this circular, condition (ii) was satisfied, with the others remaining to be satisfied or waived.

Completion

Completion shall take place on the date falling on the 15th Business Day after all the conditions to the Agreement having been fulfilled or waived (as the case may be) (or such other date as the parties to the Agreement may agree).

Upon Completion, members of the Target Group will become non-wholly-owned subsidiaries of the Company and the results, assets and liabilities of the Target Group will be consolidated into the financial statements of the Group.

Board composition

Upon Completion, the board of directors of the Target shall comprise three directors, of whom two will be representing the Purchaser and one will be representing Liuzhou Huagui. The chairman of the board of directors and legal representative of the Target will be appointed by the Purchaser.

THE SUPPLEMENTAL AGREEMENT

On 24 December 2014, the Purchaser entered into the Supplemental Agreement with the Vendor to amend certain terms of the Agreement. The principal amendments contemplated under the Supplemental Agreement are set out below:

If any PRC authorities at any time questions or penalise in relation to the share transfer procedure, tax or effectiveness of the transfer of the 70% equity interest of the Target from Hainan Zhenghe to the Vendor, the Vendor will indemnify the Group against all loss arising from the questioning and penalties. The Vendor will also unconditionally help the Purchaser to do all the necessary procedures to ensure the completion of this transaction and the continuing legal validity of Purchaser's 70% equity interest in the Target.

The Vendor will indemnify the Group against any and all costs, expenses, fine, penalty, claim, demand, loss, damage, liability which may be suffered or incurred by the Group arising out of:

(i) any breach of any representation or warranty made in the Agreement by the Vendor;

(ii) any breach of any PRC laws and regulations or any contractual obligations under any agreements entered with any third parties by the Target Group prior to Completion, even if such breaches are discovered after Completion;

(iii) any breach of any commitments made in the Agreement by the Vendor resulting in any loss, liability, penalty or costs incurred by the Purchaser or the Target Group;

(iv) any claims arising from any unsettled financial liabilities or guarantees of the Target Group prior to the date of Completion.

The Vendor also warrants to the Purchaser that the Target Group has paid all taxes and stamp duties as required under the PRC laws and regulations and the Target Group does not have any outstanding tax payments nor any penalties or fines issued by the tax authorities.

Save as the above, all other principal terms of the Agreement remain unchanged and continue to remain in full force and effect.

INFORMATION ON THE TARGET GROUP

Background

The Target was incorporated in the PRC with limited liability on 7 January 2010 with registered capital of RMB100 million. At the time of its incorporation, the Target was owned as to 70% by Hainan Zhenghe and 30% by Liuzhou Huagui. In December 2013, Hainan Zhenghe entered into an agreement with the Vendor to dispose of, among other things, 70% equity interest in the Target to the Vendor at the consideration of approximately RMB260 million (equivalent to approximately HK$325 million) and completion of the disposal took place in May 2014. The Target is currently owned as to 70% by the Vendor and 30% by Liuzhou Huagui. As advised by the Vendor, the Vendor would like to realise its investments in the Target for capital to fund its other property development projects.

At the time of its incorporation, the Target was named 柳州正和樺桂房地產開發有限公司 (Liuzhou Zhenghe Huagui Property Development Company Limited*). On 25 February 2012, Hainan Zhenghe and Liuzhou Huagui mutually agreed to rename the Target to 柳州正和樺桂置業集團有限公司 (Liuzhou Zhenghe Huagui Real Estate Group Company Limited*) and such amendment became effective on 5 March 2012.

In August 2013, Hainan Zhenghe and Liuzhou Huagui mutually agreed to increase the registered capital of the Target from RMB100 million to RMB200 million, where Hainan Zhenghe would contribute RMB70 million in cash and Liuzhou Huagui would contribute RMB30 million in cash. The capital injection was completed on 30 September 2013.

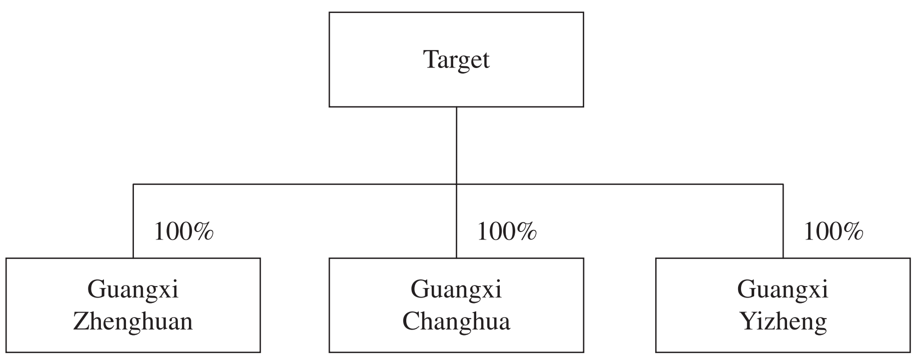
To the best of the Directors' knowledge, information and belief, Hainan Zhenghe and Liuzhou Huagui and its respective ultimate beneficial owner(s) are independent third parties of the Company and its connected persons. As at the Latest Practicable Date, the Directors are not aware of any events which may have a material adverse effect on the Target Group.

Subsidiaries of the Target

The Target Group comprises the Target and three wholly-owned subsidiaries, namely Guangxi Zhenghuan, Guangxi Changhua and Guangxi Yizheng. Guangxi Zhenghuan, Guangxi Changhua and Guangxi Yizheng do not have material operations. The following table sets forth the date of incorporation and registered capital of the subsidiaries:

Subsidiary	Date of incorporation	Registered capital	Beneficial ownership
Guangxi Zhenghuan	18 July 2011	RMB10 million	100%
Guangxi Changhua	18 July 2011	RMB10 million	100%
Guangxi Yizheng	15 August 2011	RMB10 million	100%

Set out below is the group structure of the Target Group:



Principal business activities

The Target is principally engaged in primary land development projects and property development in Liuzhou, Guangxi Zhuang Autonomous Region, the PRC and investment holding whereas Guangxi Zhenghuan, Guangxi Changhua and Guangxi Yizheng do not have material operations.

Property development

In 2010 and 2011, the Target successfully bid from the local government parcels of land in Liuzhou and planned to undertake residential and commercial property development project (the "**Phase I Project**") at the site. The site area of the Phase I Project is approximately 231,696.9 sq. m.. According to the development plan of the Phase I Project, the Target Group would construct a stack of residential and commercial properties with GFA of approximately 500,000 sq. m.. The Phase I Project comprises of three development zones, namely, zone A, zone B and zone C. As at the Latest Practicable Date, based on information provided by the Target Group, the Target Group has completed zone B, and majority parts of zone A, where an aggregate GFA of approximately 137,343.5 sq. m. were completed and the Target Group has sold GFA of approximately 108,777.5 sq. m. and received proceeds of approximately RMB993 million.

As at 30 June 2014, the Target has paid a cumulative investment sum of approximately RMB946.1 million for the Phase I Project. It is expected that the Phase I Project will be completed in 2017 and the total investment cost for the Phase I Project would amount to approximately RMB1,294.6 million.

In 2012, the Target successfully bid another parcels of land adjacent to the aforesaid site with total site area of approximately 141,217.5 sq. m., and planned to undertake a property development project (the "**Phase II Project**"). According to the development plan of the Phase II Project, the Target Group would construct another stack of residential and commercial properties with a total GFA of approximately 580,000 sq. m.. The Phase II Project comprises of three development zones, namely, zone D, zone E and zone F. It is expected that the Phase II Project will be completed in 2018 and the total investment cost for the Phase II Project would amount to approximately RMB2 billion.

Based on the budget and working capital forecast prepared by the Target Group, it is expected that the Target Group will be self-sustainable and will finance its property development project by the cash flow generated from the sale of properties and borrowings.

Set out below is the development schedule of the Phase I Project and the Phase II Project:

The Phase I Project

Date	**Events**	
2010	–	Land acquisition
	–	Commencement of construction work in zone A
2011	–	Land acquisition
	–	Commencement of pre-sale of properties in zone A
	–	Commencement of construction work in zone B
	–	Commencement of pre-sale of properties in zone B
2012	–	Acceptance certificate of completion of work for certain properties in zone A obtained
2013	–	Acceptance certificate of completion of work for certain properties in zone B obtained
	–	Commencement of construction work in zone C
2014	–	Commencement of pre-sale of properties in zone C
2016E	–	Acceptance certificate of completion of work for properties in Zone C obtained

The Phase II Project

Date		Events
2012	–	Land acquisition
	–	Commencement of construction work in zone D
2013	–	Acceptance certificate of completion of work for certain properties in zone D obtained
2014	–	Commencement of pre-sale of properties in zone D
	–	Commencement of construction work in zone E
2015E	–	Commencement of construction work in zone F
	–	Commencement of pre-sale of properties in zone E
	–	Commencement of pre-sale of properties in zone F
2017E	–	Acceptance certificate of completion of work for properties in zone E obtained
2018E	–	Acceptance certificate of completion of work for properties in zone F obtained

Note: "E" denotes expected timing for relevant events set out above to occur.

Primary land development under the Cooperation Agreement

In addition to the property development business, the Target Group is also engaged in primary land development projects, i.e. preliminary development work necessary to prepare the land for sale at public auctions. During the process of primary land development, the developers are able to obtain an in-depth understanding of the condition of the land and other related matters, and demonstrate to the local government the development and financial strengths of the developers. As a result, primary land developers generally have competitive advantages over other bidders in acquiring land in the tender process. It is also in line with market practice where PRC property developers are also engaged in primary land development projects.

The Company is of the view that primary land development is one of the principal activities of the Target taking into account that (i) it is conducted in its ordinary and usual course of business; (ii) the economic benefits derived therefrom are recognised as revenue under International Accounting Standards and thus constitute one of the revenue streams of the Target; and (iii) engaging in primary land development projects will help enhance the developers' position in acquiring quality land.

On 9 September 2009, the Target entered into a cooperation agreement (the "**Cooperation Agreement**") with a primary land development company in the PRC (the "**Partner**"), pursuant to which the Partner shall plan and organise the primary land development works (i.e. securing land, compensating and relocating residents, levelling land and constructing the basic infrastructure and facilities in order to meet the land selling requirement) for parcels of land with a total site area of approximately 3,226 mu (the "**Land**") or a net area of approximately 2,400 mu, whilst the Target shall be responsible for the management of the primary land development work, including but not limited to: (i) ensuring the work is completed in accordance with the prescribed schedule; (ii) entering into contracts in respect of purchase of materials and construction works incidental to the primary development work of the Land; and (iii) handling matters in relation to public tender for contractors for construction works. Save for these responsibilities, the Target Group does not actively participate in the primary land development works and its primary obligation under the Cooperation Agreement is to provide funding for the development works upon the receipt of invoice issued by the Partner. In return, subsequent to a successful auction of a parcel of land developed under the Cooperation Agreement, the Target Group is entitled to receive from the Partner (i) the development costs incurred in relation to the primary land development works and (ii) a 50% profit sharing of the auction proceeds after deducting all related taxes and expenses if the selling price of the parcel of land is over RMB250,000 per mu.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Partner is an entity under the local government of Liuzhou and is a third party independent of the Company and its connected persons.

The Target Group had carried out seven primary land development projects within the Land with a net site area of approximately 577.4 mu, all of which were completed during the three years ended 31 December 2013 and funded by internal resources of the Target Group and were subsequently acquired by the Target Group for property development in relation to the Phase I Project and the Phase II Project. The Target Group and the Partner have also completed primary land development works for another parcel of land of approximately 250 mu adjacent to Zhenghe City and the Target Group intends to acquire such land for future expansion of the Zhenghe City project. However there is no concrete timetable for the public auction to be held by the government. The Partner is currently carrying out the relocation of existing residents and demolishment of existing premises for the remaining land with a net site area of approximately 1,572.6 mu. After completion of such relocation and demolishment, the Target Group intends to take over the sites for further primary land development however the Target Group has no definite timeframe for these development works as the relocations and demolishment are subject to approvals from the government and the existing residents and thus the completion date of which is uncertain.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is principally engaged in investment holding. As at the Latest Practicable Date, the principal assets of the Group comprise (i) 60% interest in United (Fujian) Enterprise Management Co., Ltd., a company involved in the provision of business consulting services, trading of goods and construction, operation and maintenance of websites and/or e-commerce platform; and (ii) 30% interest in the gold and copper mining operation in the Republic of Kyrgyz.

It is the Company's strategy to review from time to time potential business opportunities and investments to enhance Shareholders' value. The Group has been focusing on finding suitable investments that present development opportunities and also able to provide a sustainable stream of cash flow and profit in the long run.

According to 《2013國民經濟和社會發展統計公報》 (2013 National Economy and Social Development Statistics Report*) issued by National Bureau of Statistics of the PRC in February 2014 (the "**Statistics Report**"), the total floor area of residential buildings completed (竣工面積) in 2013 dropped by approximately 0.4% to approximately 787 million sq. m.. The Directors believe that it was mainly attributable to previous stringent control policy on property market promulgated by the PRC government. Despite the aftermath, the Statistics Report shows that the total investment in residential development in 2013 has increased by approximately 19.4% to RMB5.9 trillion. Further, according to the latest statistics from the National Bureau of Statistics of the PRC, the total investment in residential development during the period from January to September 2014 has reached approximately RMB4.7 trillion, representing an increase of approximately 14.6% as compared to the corresponding period in 2013. As such the Directors believe that the PRC property market is reviving and thus the Acquisition represents a prime opportunity for the Company to enter into the reviving property market in a timely and cost-effective manner. Although the Consideration represents a premium of approximately 70.0% to the audited adjusted consolidated net asset value of the Target Group as at 30 June 2014 being approximately RMB235.7 million (equivalent to approximately HK$296.9 million), taking into consideration (i) the Target Group is also engaged in primary land development projects in Liuzhou, which has provided and is expected to continue to provide revenue contribution to the Target Group; (ii) the track record of the Target Group in successfully acquiring all lands which it had conducted primary land development works in public auctions; (iii) the fact that the Target Group has completed primary land development of another 250 mu of land adjacent to Zhenghe City which the Directors consider that the Target Group enjoy advantages in acquiring such land in future public auction; and (iv) the consolidated net asset value of the Target Group only represented the value of the Target Group's properties on hand however excluded the value of any potential future development opportunities, the Directors consider that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FUTURE INTENTION

The Company does not have any current intention to change the composition of the board of Directors and senior management of the Company or the Target, nor any intention, arrangement, agreement, understanding, negotiation (concluded or otherwise) on (i) any disposal, termination or scaling down of the Group's existing businesses; or (ii) injection of any other new business to the Group apart from the Acquisition. There is also no intention to make any change in the Company's shareholding structure.

The board of directors of the Target will comprise of two representatives from the Purchaser and one representative from Liuzhou Huagui. Given that the Company intends to retain the existing management team of the Target Group after completion of the Acquisition to take care of the day-to-day management of the Target Group and one of the executive Directors, Ms. Luan Li, has relevant experience in the property market in the PRC (as she was a member of the senior management team of companies in Hong Kong and the PRC which were principally engaged in real estate investment and development business), the Company does not expect that there will be any interruption to the operations of the Target Group after completion of the Acquisition. The Company will consider recruiting candidates who possess the relevant industry experience to supplement the existing management of the Target Group when necessary.

FINANCIAL EFFECT OF THE ACQUISITION

Upon Completion, the Target Group will become non-wholly-owned subsidiaries of the Group and the financials results of the Target Group will be consolidated into the Group. The unaudited pro forma financial information of the Enlarged Group is prepared as if the Acquisition had been completed and all equity interest was acquired on 30 September 2014 for the pro forma consolidated asset and liabilities statement.

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Acquisition. The unaudited pro forma financial information of the Enlarged Group is set out in Appendix III to this circular.

Net assets

Set out in Appendix III to this circular is the unaudited pro forma financial information on the Enlarged Group which illustrates the effect of the Completion on the assets and liabilities of the Group, assuming the Acquisition had taken place on 30 September 2014.

As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to this circular, as at 30 September 2014, the total assets of the Enlarged Group will increase from approximately HK$200.7 million to HK$3,063.7 million, the total liabilities of the Enlarged Group will increase from approximately HK$1.9 million to HK$2,782.3 million and the net assets of the Enlarged Group will increase from approximately HK$198.8 million to approximately HK$281.4 million as a result of the Acquisition.

Earnings

Upon Completion, the Target Group will become non-wholly-owned subsidiaries of the Company and the net profit of them will be consolidated to the Enlarged Group. Therefore, it is expected that the earnings of the Enlarged Group will increase as a result of the Acquisition.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios (as calculated in accordance with Rule 14.07 of the Listing Rules) for the Acquisition are more than 100%, the Acquisition and the transactions contemplated under the Agreement constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and are subject to the approval by the Shareholders at the SGM by way of poll.

As stated in a letter from the Stock Exchange to the Company dated 22 July 2014, the Stock Exchange requested the Company to appoint a financial adviser acceptable to the Stock Exchange to conduct due diligence on the Acquisition in accordance with Practice Note 21 of the Listing Rules and to fulfill the duties and obligations equivalent to those of a sponsor for a new listing application under the Listing Rules. In this relation, the Company has appointed Octal Capital Limited to undertake such role. Having made reasonable due diligence inquiries, Octal Capital Limited has reasonable grounds to believe that this circular contains sufficient particulars and information to enable a reasonable person to form as a result thereof a valid and justifiable opinion of the Acquisition, the financial condition and profitability of the assets to be acquired under the Acquisition at the time of the issue of this circular.

SGM

The Company will convene the SGM for the Shareholders to consider and, if thought fit, approve by way of poll, the Agreement and the transactions contemplated thereunder. A notice convening the SGM to be held at Unit 3213, 32nd Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong on Friday, 23 January 2015 at 11:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular.

Whether or not you are able to attend and/or vote at the SGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information in relation to the Target Group contained in the following sections of this circular.

RECOMMENDATION

As no Shareholder is regarded to have material interests in the Agreement and the transactions contemplated thereunder, all Shareholders are eligible to vote on the relevant resolutions to be proposed at the SGM for approving the Agreement and the transactions contemplated thereunder.

The Directors are of the view that the terms of the Agreement are on normal commercial terms which are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and, recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

Your faithfully,
For and on behalf of the Board
Chaoyue Group Limited
Mr. Yuen Leong
Executive Director

RISKS RELATING TO THE BUSINESS OF THE TARGET GROUP

The Target Group's business is subject to governmental policies and regulations and particularly susceptible to measures and changes introduced in the property regions in which the Target Group operate

As a property developer in the PRC, the business of the Target Group is subject to extensive governmental regulations. The Target Group must comply with various requirements mandated by the PRC laws and regulations, including the policies and procedures established by local authorities. Policies and measures introduced or which may be introduced by the PRC government and local authorities may lead to changes in market condition and sentiment, including price instability and an imbalance between supply of, and demand for, properties in Liuzhou. The PRC government implement a series of regulations and policies on the property market to exert direct and indirect influence to control the supply of land for property development, raise the benchmark interest rates of commercial banks, place limitations for commercial banks to give out loans to property developers and mortgage loans to purchasers, impose additional restriction on foreign direct investment, increase taxes and levies on property sales, slow down inflation of property prices, and dampen property speculation.

A series of governmental policies and regulation measures on real estate market may tamper the Target Group's ability to finance, acquire land for new development, generate sufficient operating cash flows, and positive profit.

Further, the implementation of the laws and regulations introduced by the PRC government may lead to changes in market condition and sentiment, price instability and lack of demand in the properties market of Liuzhou. There is no assurance that the property market in Liuzhou will not decline significantly and there will be no additional measures implemented by the relevant PRC government and local authorities to curb the growth of the property market, or that there will not be material adverse changes in the PRC economy and property market as a result of the PRC government's policies. Any such changes could have a material and adverse effect on the revenue, business operation and profitability of the Target Group.

The success of the Target Group will be heavily dependent on the performance of the property market in the PRC, particularly in Liuzhou, Guangxi Zhuang Autonomous Region, the PRC

The Target Group currently operates only one property development project which is located in Liuzhou, Guangxi Zhuang Autonomous Region, the PRC. Therefore, the success of the Target Group will be heavily dependent on the performance of the property market in Liuzhou. The property market in Liuzhou may be affected by local, regional, national and global factors, including economic and financial condition, speculative activities in local markets, demand for and supply of properties, availability of alternative investment choices for property purchasers, inflation, government policies, interest rates and availability of capital. In addition, any widespread damage to properties in Liuzhou resulting from natural disasters, civil disorder, pollution, human negligence or other events may also affect the property project of the Target Group. These may have a material adverse impact on cash flows, financial condition and results of operations of the Target Group.

Given the existing resources of the Target Group, it is only capable to operate its existing property development project in Liuzhou. The Target Group intends to seek for opportunities in other locations in Liuzhou initially in order to achieve economy of scale and better use of resources. However, no specific investment opportunity has been identified as at the date of this circular. If the Target Group decides to expand its business span in other parts of the PRC, its ability to identify and acquire suitable developments sites at the lowest cost is subject to additional and uncontrollable factors, such as local rules and regulations, competitions, and lack of business connections and expertise, which the Target Group would not otherwise face in Liuzhou. Such factors would negatively and directly impact the Target Group's effort to expand its property development to elsewhere. If the Target Group fails its expansion plan, it would tamper its continuous growth prospects in the long term, and adversely affect its business strategies and financial performance as a whole.

The Target Group may not always be able to acquire land reserves which are suitable for property development

In order to have a steady stream of developed properties available for sale and continuous growth, the Target Group needs to replenish its land reserves from time to time. The ability of the Target Group to acquire land depends on a number of factors, such as general economic conditions, effectiveness in identifying and acquiring land parcels suitable for development and competition for such land parcels. In order to access potentially available land reserves, the Target Group is also engaged in primary land development which allows the Target Group to gain competitive advantages over other bidders in acquiring land in the tender process. However, there is no assurance that that the Target Group will be able to acquire the relevant land parcels, of which primary land development has been completed by the Target Group. Nevertheless, the Target Group will closely observe the timing of the public tender or sale of land parcel by the relevant land bureau and assess the possibility of obtaining further land reserve. If the Target Group fails to acquire sufficient land reserve that are suitable for property development in a timely fashion and at the lowest possible prices, then its long term prospects, business, financial conditions and operational results would be adversely affected.

The Target Group deploys a single sales and marketing agency to carry out the majority of its sales and marketing activities

The Target Group deploys an independent third party professional sales and marketing agency, 廣西嘉唯房地產營銷策劃有限公司 (Guangxi Jiawei Real Estate Marketing Planning Limited*) ("**Jiawei**"), to carry out the majority of its sales and marketing activities in relation to the Zhenghe City project and the Target Group maintains a minimal level of sales staff. The Target Group's ability to successfully reach the target audience and sell properties to potential customers is thus highly dependent on the continued service and performance of Jiawei. Jiawei provides sales strategies, formulate marketing schemes, and coordinate all sales and promotion activities of Zhenghe City. The Target Group selected Jiawei as its sole sales and marketing agency after evaluating the reputation, track performance records, quality of works, accreditations and the level of commissions of a number of sales agencies. In the event that the performance of Jiawei significantly worsens, or if it is in breach of its contractual obligations with the Target Group, the Target Group may need to replace Jiawei with another sales and marketing agency which may result material adverse effect on the operations and financial results of the Target Group.

The actual cost of property development may deviate from the estimated costs

To better control the cost of property development, the Target Group supervises and monitors the actual costs of each stage during property development process. However, the costs of property development are heavily depended on material and labor costs, and they have experienced fluctuation in recent years. Any unexpected price fluctuations in the commodity and labor markets, especially the cost of steel, cement and labor shortage, would materially impact the cost of property development. Further, any regulatory measures introduced by the PRC government would affect the cost of financing and the development costs. There will be adverse effect on the business, financial condition and operating performance of the Target Group if the actual development costs deviate materially from the initial estimations.

The Target Group may not have adequate financing to fund its future land acquisition and property development projects

Property development is capital intensive. The Target Group finances its property project primarily through the pre-sale sales proceeds, borrowings from financial institutions and internal resources. The ability of the Target Group to obtain adequate financing for land acquisition and property development is dependent on a number of factors, such as general economic condition, credit availability from financial institutions, as well as monetary policies in the PRC and PRC laws and regulations relating to the property sector. To curb the overheating of the property market, the PRC Government has enforced a number of policies that tightened the lending requirements on property developers. For example, the commercial banks are refrained from providing loans or any forms of funding to a real estate developer that is in absent of the State-owned Land Use Rights Certificate, Construction Land Planning Permit, Construction Works Planning Permit, Construction Commencement Permit, and at least 35% of the total project investment shall originate from the real estate developer's own capital. Commercial Banks and other financial institutions may tighten or even suspend their financing to property developers in the PRC in the light of austerity measures imposed by the PRC Government. Hence, the Target Group cannot guarantee to have sufficient funding from banks or other financial institutions at a reasonable cost or at all. As a result, the unsecured source of capital will increase the cost of capital and restrict the ability of the Target Group to develop new projects or even continue with the existing projects. In addition, the Target Group cannot guarantee that the PRC Government will not introduce further measures to control the property markets. Failing to secure adequate financing to fund its land acquisition and property development project, the Target Group will have a negative effect on its business, financial condition and results of operations.

The Target Group relied on third party contractors which may be adversely affected by their performance

The Target Group employs third-party contractors to carry out various works, including design, construction, installation of equipment, exterior and interior decoration, various engineering and other ancillary services. There is no assurance that any such third-party contractors will provide satisfactory services or the required level of quality or deliver its service on time. In addition, contractors may experience financial or other difficulties that may affect their ability to carry out the work for which they were contracted, thus delaying the completion of the property developments of the projects of the Target Group or resulting in additional costs for the Target Group. Any of these factors could adversely affect the revenues and reputation of the Target Group.

Volatility in the price of construction materials

The Target Group employs third-party contractors to provide various construction works for the property development projects. The contractors are responsible for procuring the necessary materials to complete the construction work. As a result, the financial performance of the Target Group will be affected by fluctuation in the price of construction materials. The cost of construction materials, which is generally included in payments to the construction contractors of the Target Group, constitutes the most substantial item among the construction costs of the Target Group, thus any rise in the cost of construction materials may result in higher fees charged by the construction contractors of the Target Group.

Given that the costs of the aforesaid construction materials have been fluctuating in the global market or in the PRC, it is challenging for the Target Group to maintain a consistent gross profit margin for the properties of the Target Group. In addition, the Target Group is responsible for procuring other construction materials and equipment, such as doors, elevators, window, stone materials, and interior and exterior decoration materials from the suppliers. Thus any increase in the price of such construction materials may lead to further cost increase and deteriorate the revenue and profitability of the Target Group if the Target Group is not be able to (i) source the same construction materials at competitive cost level or (ii) pass any or all of the increased costs on to the customers of the Target Group without affecting the demanded quantity.

Revenue may vary significantly from time to time

The Target Group is principally engaged in property development, thus the revenue of the Target Group is derived from sale of property. According to the relevant accounting policy, the Group recognizes revenue only upon completion and delivery of the property to purchasers; therefore, the results of operations could be largely depended on the construction progress and the final delivery time of the property of the Target Group. Furthermore, sales price of the properties may vary substantially from time to time and are largely determined by the local and nationwide economic conditions. Furthermore, fluctuations in the operating results may also cause by other factors such as fluctuations in expenses of land premium, development costs, administrative expenses, thereby affecting the revenue from selling the development projects of the Target Group. There is no assurance that the revenue of the Target Group could be maintained or even continue to growth in the future. In the event that there are delay in completion or delivery of the property developed by the Target Group, or the Target Group significantly changes the property selling price, the business, financial condition and results of operations of the Target Group may be materially and substantially affected.

Increase in interest rates

The Target Group relied on interest bearing debt as one of the important financing sources to fund its operations and all of the loans are Renminbi denominated, thus any changes in interest rate in the PRC will affect the costs of capital of the Target Group. For the three years ended December 31, 2013, the effective interest rate of the fixed rate borrowings ranged from 7.90% to 13.15%, 7.22% to 13.15% and 7.20% to 13.15%, respectively. Borrowings are one of the primary sources of funding for the Target Group's property development projects. As at 31 December 2011, 2012 and 2013 and 30 June 2014, borrowings of the Target Group amounted to approximately RMB938.0 million, RMB894.0 million, RMB1,103.0 million and RMB1,103.0 million respectively.

The increase in the effective interest rate on the bank borrowings was primarily due to an increase in the People's Bank of China benchmark rates and the tightened credit policies imposed by authorities to control overheating PRC property market. There is no assurance that the People's Bank of China will not further raise lending rates in the future, thereby increasing the financing costs of the Target Group. In the event that the People's Bank of China raises lending rates in the future, the business, financial condition or results of operations of the Target Group may be materially and adversely affected.

The Target Group may be subject to fines or penalties if the Target Group fails to comply with any applicable laws, rules or regulations

For the details of the historical non-compliance incidents, please refer to the section headed "Business of the Target Group – Internal Control" in this circular. The PRC Legal Adviser has obtained indication from the relevant authority that the pre-sale activities of the Target Group may not be in full compliance with the relevant rules and regulations of the PRC and the relevant authority may conduct investigation to check if such activities are in violation of the relevant applicable rules and regulations upon receipt of any complaint. In the event that the relevant authority confirms that such activities are violating the relevant applicable rules and regulations, the Target Group will be instructed to rectify and cease such activities. The relevant authority indicates that there will not be any penalty imposed on the Target Group once full rectification by the Target Group has been completed to the required standards. Although the Target Group is the process of putting in effect internal control measures to prevent occurrence of similar incidents in future, there is no assurance that the Target Group will have not any non-compliance incidents in the future. In the event that the Target Group breaches any applicable laws, rules or regulations in the future, the Target Group may be subject to fines or penalties arising from such non-compliance incidents, which may have a material adverse effect on the business, results of operations and financial condition of the Target Group.

Changes in PRC laws and regulations with regards to the pre-sale arrangement may adversely affect the business performance

Proceeds and cash flows from pre-sale of properties is an important source of funding to finance the Target Group's property development projects. Under current PRC laws and regulations, property developers must fulfill certain conditions before they can commence pre-sale of the relevant properties and must use pre-sale proceeds for the sole purpose of financing the property development. There is no assurance that the PRC government will not implement additional restrictions on property pre-sale, such as imposing more comprehensive procedures to obtain pre-sale permits or further restriction on the use of proceeds from the pre-sale. If any such measures become material, then it may adversely affect the cash flows and propel the Target Group to seek for alternative funding sources to meet the necessary capital to continue the project development.

Reliance on key management personnel

The success of the business of the Target Group, to a large extent, depends on the continued services of the existing key senior staffs of the Target Group, in particular the chairman and president, Mr. Mei and the vice-president, Mr. Xing, each of whom has more than ten years of real estate development experience in the PRC. As competition for experienced managerial talents and skillful personnel in the property development market is intense and the pool of qualified candidates is limited, the Target Group may not be able to retain the services of the senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future. If any of these key senior staffs cease to be involved in the management and operations of the Target Group or their full-time services be interrupted, there may be a material and adverse impact on the financial and operating performance of the Target Group. Besides, there can be no assurance that the Target Group will be able to retain their services in the future.

The Directors believe that the future success of the Target Group will, to a large extent, depend on the ability of the Target Group to attract, retain and motivate skillful and experienced professionals. In addition, the future expansion of the Target Group will require an increase in the number of relevant well-experienced staffs. However, there can be no assurance that the Target Group will be able to attract or retain such staff in the future. In the event that the Target Group fails to attract, retain and motivate skillful and experienced professionals and/or experiences an inadequate supply of staff, the operations and business growth of the Target Group may be adversely affected.

The Target Group may not have adequate insurance to cover all kinds of losses and claims in the operations

Real estate developers are not required under PRC laws and regulations to maintain insurance coverage in regard to their property development operations. Although the Target Group does not take out insurance against the personal injuries that may occur during the construction of the property projects, but the independent contractors are required to take out insurance against its workers. According to the relevant PRC laws and regulations, contractors and construction companies are responsible for safety control during the course of construction and are required to obtain accident insurance for their construction workers. As of the Latest Practicable Date, the Target Group has not experienced any material damage to the property developments nor have any material personal injury-related claims. However, in case of any losses, damages and liabilities that arise from the business operations, the Target Group may not sufficient insurance to cover such claims. If damages or liabilities incur during any of the property development stages, the Target Group may not have sufficient funding to cover or rectify such losses. Any capital outlays regarding to such circumstances would have material adverse impact on the Target Group's financial health and operating results.

The Target Group's property sales may be affected by the terms of mortgage loans or availability of credit

As large number of property purchasers rely on mortgage loans to fund their purchases, the approval rates and terms of the mortgage loans are crucial determinants to the property sales. As more scrutiny on mortgage applicants, larger down payments, and higher interest rates become prominent, the potential property purchasers' willingness to use mortgage as a source of financing will be materially and adversity affected, hence negatively impact their affordability. If mortgage financing for property purchasers becomes more difficult to obtain or if the costs of financing increase, then the potential customers who rely on mortgage financing may not be able to make the purchase, which in turn may materially and adversely affect the business, cash flows and results of operations.

The Target Group may be involved in disputes, administrative, legal and other proceedings arising from operations

Due to the nature of the real estate business, the Target Group may face, from time to time, disputes from various parties that involved in the construction, development, and sales of the properties. The risk of such disputes may arise from contractors, sales agency, suppliers, construction workers, relocating residences, purchasers, and legal authorities. As a result, these potential liability may lead to protests, suspension of operation, legal or other proceedings, and reputation damage of the Target Group. These legal proceedings and disputes may materially and adversely affect the business and operating results of the Target Group. In addition, the Target Group may have compliance issues with regulatory bodies in the course of the operations, which may subject to administrative proceedings and unfavorable orders that result in delays and liabilities to the development schedule. If the Target Group fail to comply with any applicable PRC laws or regulations, the business and results of operations and financial conditions may be adversely and materially affected.

The Target Group may be subject to penalties in respect of inter-enterprise loan

During the Track Record Period, the Target Group used its own funds to extend a loan to Hainan Zhenghe with interest at the rate of 13.15% per annum. Money lending was not within the scope of business of the Target Group and it did not possess the relevant licenses to carry out such business. Pursuant to the General Rules on Credit (《貸款通則》) effective since 1 August 1996, enterprises cannot conduct any loan financing activities among each other. In the event of the existence of any inter-enterprise loan agreements, a corporate entity is prohibited to provide loan to another corporate entity and if doing so such lending corporate entity may be subject to a maximum penalty of five times of the interest received from the borrower who is a corporate entity. In the event that the People's Bank of China imposes any penalties on the Target Group, there may be an adverse impact on the business and financial position of the Target Group.

The construction business and the property development business are subject to quality warranties under the statutory requirement

Pursuant to the Regulations on the Administration of Construction Projects Quality (建設工程質量管理條例), all property development companies in the PRC must provide certain quality warranties for the properties they have developed. The Target Group is required to provide these quality warranties to the purchasers under this statutory. The Target Group may sometimes receive quality warranties from the third-party contractors regarding the development projects. If a significant number of warranty claims are brought against the Target Group and they are not able to obtain reimbursement from its contractors for such claims in a timely manner or at all, then the Target Group would incur large expenses to settle such claims which could have a material and adverse effect on the business and financial conditions.

Management of growth may not be optimized

The ability of the Target Group to compete effectively and to manage future growth, if any, will depend on its ability to continue implementing and improve operational, financial and management information systems on a timely basis and to expand, train, motivate and manage its work force. The Target Group may not succeed despite making such efforts. In the event that the Target Group fails to effectively manage its expansion, the Target Group could cause expenses to grow and/or revenue to decline or grow more slowly than expected, and thus, the business, financial condition and results of operations of the Target Group may be materially and adversely affected.

Potential liability for customers default on their mortgage payments

In accordance to industry practice in the PRC, the Target Group is usually required by banks to guarantee its customers' mortgage loan in case of pre-sold properties. Typically, when the construction is completed and the mortgage registration documents are delivered to the relevant banks after the issue of building ownership certificates, the Target Group will be discharged of its obligation to provide guarantees to its customers' mortgage loan. The Target Group does not conduct any independent credit checks on its customers but primarily rely on the credit checks carried out by the mortgage banks. Given a purchaser defaults on the mortgage payment, the Target Group may be liable to repurchase the underlying property by paying off the mortgage or if the Group fail to do so, the mortgage banks may auction the underlying property to recover any additional amount outstanding from the Target Group as guarantor of the mortgage loan. There is no assurance that the level of such default rate will not continue to grow in the future. If substantial defaults occur in a depressed economic condition and the Target Group was called upon to honor its guarantees, the financial condition and results of operations of the Target Group will be materially and adversely affected.

Contractual and legal risks relating to the pre-sales of properties

Property development projects require substantial capital outlay prior to and during the construction period, and construction of a property project may take over a year before it generates positive cash flow through pre-sales or sales. Meanwhile, the progress and cost for a development project can be adversely affected by numerous factors, such as failure or delay in obtaining necessary approvals from government agencies for property development, shortages or increased costs of materials, equipment, contractors and skilled labor, change in government policies, change in market condition, labor disputes, construction accidents, natural catastrophes, adverse weather conditions, other problems and circumstances beyond control. The occurrence of the aforesaid factors could delay completion of the construction projects or delivery of the properties of the Target Group that may result in claims for losses and damages from purchasers, thereby adversely affecting the results of operations and financial position of the Target Group and may also cause damage to the reputation of the Target Group.

The Target Group may be unable to obtain necessary government approvals for property development

As strictly regulated by the PRC government, property developers must comply with all exiting relevant laws and regulations prior to commence any development projects by applying various licenses, permits, certificates and approvals. There is no assurance that the Target Group will not encounter any delays or any difficulties in fulfilling the conditions required by government agencies, or that the Target Group will not able to adapt the change in laws and regulations in property industry, thereby materially and adversely affecting the business, financial condition and results of operations of the Target Group.

The Target Group may be unable to obtain qualification certificates or renew existing qualification certificates

A property developer must obtain a qualification certificates and make an annual-inspection in order to engage in property development in the PRC. According to the regulation on real estate industry, a newly established developer must first apply for a provision qualification certificate which is valid for one year and can be extended for a maximum for two years. However, if a property developer fails to commence development project within one year, it is not allowed to extend its provisional qualification certificate. Meanwhile, for experienced property developers, they must apply for renewal of the qualification certificates once every three years in most cities, and subject to an annual verification by relevant governmental authorities. Besides, property developers in the PRC must also produce qualification certificate when applying for a pre-sale permit. There is no assurance that the qualification certificates of the Target Group will continue to be renewed or that formal qualification certificates for new project companies will be obtained in timely manner, or at all. Thus, if the Target Group fail to maintain or renew the qualification certificates, the business, financial condition and the results of operations of the Target Group could be materially and adversely affected.

There may by delay in the delivery of property ownership certificates to property owners

According to PRC law, property developers must meet various requirements within 90 days after delivery or such other time period provided in sales contracts for the customers to apply for property ownership certificates, including passing various governmental clearance, formalities and procedures. The Target Group have stipulated the delivery time in the sale contract so as to leave the Target Group with sufficient time to apply for property ownership certificates. However, in any event that incidents beyond control occurred, including time consuming inspections and approval processes at various government agencies, the delivery of property ownership certificates to property owners may delay, the Target Group may be required to make compensation for such delay under the existing PRC laws and regulations and the term of the sales contract. There is no assurance that such delay may not occur in the future, and in case of serious delay, the Target Group may be liable to compensate the property owner, thereby affecting the business and reputation of the Target Group.

The relevant PRC tax authorities may enforce the payment of LAT and may challenge the basis on which the LAT obligations of the Target Group was calculated

Under PRC tax laws and regulations, the properties developed by the Target Group for sale are subject to LAT which is collectible by the local tax authorities. All income from the sale or transfer of state-owned land use rights, buildings and their ancillary facilities in the PRC is subject to LAT at progressive rates of the appreciation value as defined by the relevant tax laws. Pursuant to the Provisional Regulations of the People's Republic of China on Land Appreciation Tax ("中華人民共和國土地增值稅暫行條例"), LAT shall be exempted for the sale of ordinary standard residences if the appreciation does not exceed 20% of the total deductible items. Deductible items include acquisition cost of land use rights, development cost of land, construction cost of new buildings and facilities or assessed value for used properties and buildings, taxes related to the transfer of real estate and other deductible items as stipulated by the Ministry of Finance. Pursuant to the Detailed Rules for the Implementation of Provisional Regulations of the People's Republic of China on Land Appreciation Tax ("中華人民共和國土地增值稅暫行條例實施細則"), an additional 20% of deductible expenses may be deducted in the calculation of the land appreciation amount for property developers. Deductible expenses include the sum paid for the acquisition of land use rights and costs for the development of land and the construction of new buildings and facilities. On 28 December 2006, the State Administration of Taxation issued a Notice on Issues Relevant to Administration of Settlement of Land Appreciation Tax of Real Estate Development Enterprises with the intention of strengthening the collection of LAT by providing that LAT should be settled in stages during a real estate development project and setting forth, among other things, methods of calculating LAT and a time frame for settlement.

According to the Notice on Several Issues on Land Appreciation Tax issued by the Ministry of Finance and the State Administration of Taxation (《財政部、國家稅務總局關於土地增值稅若干問題的通知》) and the Notice on Adjustment of Regulations on the Pre-levy of Land Appreciation Tax (Guidishuifa 2010 No. 18) (《關於調整土地增值稅預徵率的通知》) promulgated by Local Tax Bureau of Guangxi Zhuang Autonomous Region (Guidishuifa 2010 NO.18) (《廣西壯族自治區地方稅務局關於調整土地增值稅預徵率的通知》(桂地稅發[2010]18號)), the applicable rates of prepayment of LAT for the Company were 2-3% for non-residential properties and 3-5% for shops and other commercial properties respectively since 1 March 2010.

The Directors believe the Target Group has made sufficient provisions based on the estimate of the management of the Target Group of the amount of applicable LAT payable in accordance with the requirements set forth in the relevant PRC tax laws and regulations, but only prepaid a portion of such provisions each year as required by the local tax authorities.

However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain projects of the Target Group have not finalised their land appreciation tax calculations and payments with any local tax authority in the PRC. Accordingly, significant estimate is required in determining the amount of land appreciation and its related income tax provisions. The Target Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and the related income tax provisions in the periods in which such tax is finalised with local tax authority. As at 31 December 2011, the Target Group had prepaid LAT of approximately RMB14.8 million. As at December 31, 2012 and 2013 and June 30, 2014, the Target Group's tax payable in relation to LAT were approximately RMB5.0 million, RMB19.7 million and RMB19.7 million respectively. In the event that LAT eventually collected by the PRC tax authorities exceeds the amount the Target Group provided for, the net profits after tax of the Target Group will be adversely affected.

RISKS RELATING TO THE PROPERTY INDUSTRY

Curtail overheating of and overinvestment in the PRC property market

PRC's accession to the WTO in 2001 has further sped up reform of the PRC economy, leading to astonishing economic growth and increasing property investments in recent years. In response to the concern over the increase in property investments, the PRC government has adopted various measures and policies to curtail or slow down the property investments, including:

- requiring property developers to finance 35%, rather than 20% of the total capital outlay of any property development projects with their internal resources;
- halting land supply for villa construction and restricting land supply for high-end residential property construction;
- rising minimum down-payment and tightening regulations governing mortgage lending to property purchaser;
- limiting the financing from banks to property developers that hold a large amount of idle land and vacant commodity properties.

The restrictive measures and regulation regarding property industry may limit the access to capital resources, reduce market demand for the products and increase the operating costs in complying with such measures and regulation. There is no assurance that no additional measures will be imposed by the PRC government to further slow down the property market in the PRC which may materially and adversely affecting the business operations of the Target Group.

Intensified competition

Given the increasing property developers, including oversea developers, in Liuzhou where the Target Group has operations, the competition among developers intensified, which may lead to an increase in land premium and raw materials costs, shortage of quality construction contractors, further delays in issuance of government approvals, and higher costs to attract or retain talented employees. Thus, if the Target Group fails to compete effectively, the business operations and financial condition of the Target Group will suffer.

RISKS RELATING TO THE PRC

Political, economic and social environment

The PRC is in the process of transforming its economy from a planned economy into a more market-oriented economy. Although the Directors believe these reforms will have a positive effect on the PRC's overall long term development, it is uncertain as to whether the PRC government will make further changes to its laws or regulations, introduce additional tax measures, impose restrictions on currency exchange and remittance, and change tax rates or customs duties in the future. In case of occurrence of such changes, the business operation of the Target Group may be adversely affected.

Uncertainty in interpretation of PRC law and regulation

Since all of the businesses of the Target Group are located in the PRC, the Target Group is subject to PRC laws and regulations. The PRC legal system is a civil law system which is based on written statutes, and prior court decisions can only be used as a reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view of developing a comprehensive system of commercial law, including laws relating to property ownership and development, and because of the limited volume of published cases and the non-blinding nature of prior court decision, interpretation of PRC laws and regulations involves a degree of uncertainty. Subject to the application or case presented to such government agency and on the government agency itself, the Target Group may receive less favorable interpretations of laws and regulations than competitors. In addition, any litigation in PRC may be protracted and result in substantial costs and diversion of resources and management attention.

Outbreak of any epidemics may adversely affect the business operation of the Target Group

The business of the Target Group could be adversely affected by outbreak of any epidemics such as avian flu, Severe Acute Respiratory Syndrome (SARS) or Ebola virus disease. A recurrence of SARS or any epidemics, depending on their scale, may cause difference degree of damage or disruption to the property development and sales and marketing, which in turn may adversely affect the business operation of the Target Group.

RISKS RELATING TO THIS CIRCULAR

This circular contains forward-looking statements

This circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- the business strategies and plans to execute these strategies;
- the operations and business prospects, including development plans for the existing and new businesses;
- projects under construction or planning;
- the financial condition;
- availability of bank loans and other forms of financing;
- the ability to reduce costs;
- the dividend policy;
- the future developments trends, conditions and competitive environment in the industry;
- the effect of the global financial markets and economic crisis;
- changes or volatility in interest rates, foreign exchange rates and overall market changes;
- the regulatory environment for the industry in general; and
- the general economic trend of the PRC and general economic conditions.

The words "anticipate", "believe", "consider", "could", "estimate", "expect", "going forward", "intend", "may", "ought to", "plan", "potential", "project", "seek", "will", "would", and similar expressions and the negative of these words, as they relate to the Company or the Target Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the current views of the Directors with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this circular. Investors are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in the section headed "Risk factors relating to the Target Group", many of which are beyond the Company's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this circular should not be regarded as representations by the Company or the Directors that its plans or objectives will be achieved. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, the financial condition of the Company or the Target Group may be materially and adversely affected and actual outcomes may differ materially from those described in this circular as anticipated, believed or expected.

Subject to the requirements of the Listing Rules, the Company do not intend to publicly update or otherwise revise the forward-looking statements in this circular, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this circular might not occur in the way the Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this circular are qualified by reference to this cautionary statement.

THE DTZ INDUSTRY REPORT

The Company has commissioned DTZ Debenham Tie Leung Limited ("**DTZ**"), an independent third party and an experienced consultant in the PRC real estate industry, to prepare an industry report as to the real estate markets in China and the city in which the Target Group currently operates. The Company will pay a total fee of HK$230,000 for the report.

DTZ has prepared the report based on its market research, discussions with professionals in the real estate industry, information provided by the relevant government departments and its industry knowledge.

DTZ is a reputable real estate advisory company with over 27,000 staff located in 208 offices in 52 countries providing local industry advisory services.

OVERVIEW OF THE ECONOMY IN CHINA

Analysis of major economic indices

Under the influence of global financial crisis, China's economy continued to maintain stable development from 2009 to 2013. From 2009 to 2011, the growth of China's GDP continued to remain above 9% in which it realized a rapid growth of 10.4% in 2010. Within this period, GDP per capita also had a rapid growth in which the growth rate of GDP per capita was over 17% in 2010 and 2011. Affected by factors like macro-economic policies and persistently high inflation rate, the growth rate decreased to 7.7% in 2012 and 2013. In 2013, GDP per capita reached RMB41,908, representing an increase of 8.97% compared with last year. The following table sets forth the major economic indices of China:

	2009	2010	2011	2012	2013	Compound annual growth rate ("CAGR")
GDP (RMB in hundred million)	340,903	401,513	473,104	518,942	568,845	13.66%
GDP per capita (RMB)	25,608	30,015	35,198	38,459	41,908	13.10%
Per capita urban disposable income (RMB)	17,175	19,109	21,810	24,565	26,955	11.93%
Population (ten thousand people)	133,450	134,091	134,735	135,404	136,072	0.49%
Urbanization ratio	48%	50%	51%	53%	54%	2.99%

Source: The 2014 China Statistical Yearbook and The National Bureau of Statistics

The National Urbanization Policy

Over the past 10 years, China's urbanization rate increased by 1% to 1.5% annually, reaching 52.57% in 2012. For 1% increase, it implies that about 13 million people have entered into the city, bringing about large demand for the city's housing and consumption in China. According to the "National New-type Urbanisation Plan (2014-2020)" unveiled by the State Council in China, China's urbanization rate and its standard will be improving steadily in the future. The urbanization rate of China's urban population is expected to reach 60% in 2020.

OVERVIEW OF THE REAL ESTATE MARKET IN CHINA

Analysis of real estate development and investment-related indices

A number of China's real estate market indices had a double-digit growth in 2013. Pursuant to the "PRC National Economy and Social Development Statistics Report for the year of 2013", China's real estate investment amounted to RMB8,601.3 billion in 2013, representing an increase of 19.8% from that of the year before with the CAGR reaching 24.1%. In 2010 and 2011, the CAGR rapidly reached 33.2% and 27.9%. Due to the impact of factors like macro-economic policies, lagging real estate investment and real estate cycle, the growth rate decreased to 16.2% in 2012 and slightly increased to 19.8% in 2013. The following table sets forth the major indices of the real estate market in China:

	2009	**2010**	**2011**	**2012**	**2013**	**CAGR**
Real estate investment (RMB in hundred million)	36,242	48,259	61,797	71,804	86,013	24.1%
Investment in fixed assets (RMB in hundred million)	224,599	251,684	311,485	374,695	447,074	18.8%
Proportion of investment in fixed assets	16.1%	16.2%	19.8%	19.2%	19.2%	4.5%
Investment in residential property below 90 sq. m. (RMB in hundred million)	8,351	10,665	13,637	16,789	19,446	23.5%

Source: The 2014 China Statistical Yearbook and The National Bureau of Statistics

Among the investment in real estate from 2009 to 2013, investment in residential property below 90 sq. m. grew significantly. The CAGR reached 23.5% from 2009 to 2013, being roughly the same as the growth rate of the total amount of real estate development and investment.

Analysis of real estate sales-related indices

From 2009 to 2013, the selling price of commodity housing in China's real estate market rose steadily, amounted to RMB6,237/sq. m. in 2013. Based on the high growth rate in 2009, the growth rate of commodity housing sales area began to decline in 2010 but increased again in 2013. Pursuant to the "PRC National Economy and Social Development Statistics Report for the year of 2013", in 2013, the total sales value of commodity housing amounted to RMB8,142.8 billion in China's real estate market, representing an increase of 26.33% from that of the year before and achieving the five-year CAGR of 16.4%. The selling price of commodity housing amounted to RMB6,237/sq. m. in 2013, with the five-year CAGR being 7.43%. Affected by factors like macro-economic policies and real estate cycle, the growth rate of commodity housing sales area decreased significantly from 2010 to 2012 and it rebounded to 17.29% in 2013. The following table sets forth the major indices on the sales of real estate market in China:

	2009	**2010**	**2011**	**2012**	**2013**	**CAGR**
Total sales value of commodity housing (RMB in hundred million)	44,355	52,721	58,589	64,456	81,428	16.4%
Average selling price (RMB/sq. m.)	4,681	5,032	5,357	5,791	6,237	7.4%
Total sales area of commodity housing ('0000 sq. m.)	94,755	104,765	109,367	111,304	130,551	8.3%
Selling price of commercial property (RMB/sq. m.)	6,871	7,747	8,488	9,020	9,776	9.2%

Source: The 2014 China Statistical Yearbook and The National Bureau of Statistics

For commercial property, the selling price reached RMB9,776/sq. m. in 2013, representing an increase of 8.38% from that of the year before with a CAGR being 9.21%.

For individual property type's residential property's sales area and sales value accounted for the largest proportion in 2013, representing 88.64% and 83.13% respectively. Since the prices of office property and commercial property were higher than that of residential property, the proportion of sales value was slightly higher than that of sales area. In addition, the CAGR of office property' sales area and sales value reached 27.9% and 35.1% respectively in 2013, being the year's fastest-growing item among all property types. The high growth rate of sales indices showed that office property had the most significant growth rate in commercial property market in 2013. The total gross floor area held for sale was 492.95 million sq. m. in 2013, of which the residential property's gross floor area held for sale was 324.03 million sq. m., representing an increase of 37.2% from that of the year before. Residential property's sales area and sales volume only increased by 17.5% and 26.6% compared with the year before. Based on the sales growth in 2013, the stock of residential property in China was increasing.

OVERVIEW OF ECONOMY IN LIUZHOU

Analysis of macroeconomic background of Liuzhou

Overview

Liuzhou is located in the north-central Guangxi Zhuang Autonomous Region. The city occupies a total area of 18,617 square kilometers, of which urban area amounts to 1,016.75 square kilometers. Administrative divisions of Liuzhou include four municipal districts (Chengzhong District, Yufeng District, Liunan District and Liubei District), four counties (Liujiang County, Liucheng County, Luzhai County and Rong'an County) and two autonomous counties (Rongshui Miao Autonomous County and Sanjiang Dong Autonomous County). In addition, Liuzhou has established the following economic administrative districts, including Liuzhou High-tech Industrial Development Zone (National), Liudong New District (Liuzhou Motor City) and Yanghe New District (Yanghe Industrial Park), of which total urban area amounts to 658.31 sq. m.. Rongshui Miao Autonomous County is the largest county with an area of 4,624.2 sq. m..

According to the "Liuzhou National Economy and Social Development Statistics Report for the year of 2013", the city registered a total population of 3.7235 million, an annual birth population of 45,900, a birth rate of 12.3‰, a death record of 18,300, a population mortality rate of 4.9‰ and a natural population growth rate of 7.4‰.

Industrial economic output of Liuzhou accounts for about a quarter of that of Guangxi. Automobiles, machinery and metallurgy are the pillars of modern industrial system of Liuzhou, which is one of the most important industrial cities in Southern China. Liuzhou currently holds four vehicle manufacturers, which are Saic Motor, Faw, Dongfeng Auto and China Heavy Duty Truck Group. Liuzhou is the only prefecture-level city which has a wide range of vehicle manufacturers. Liuzhou is able to produce mini buses, trucks, cars, multi-purpose buses, medium and heavy-duty trucks and special vehicles.

Major economic indices

Despite the impact of global economic slowdown and financial crisis, economic development of Liuzhou continued to grow rapidly in 2009 and 2010, reaching over 15% of annual growth rate and then remaining steady. As at 2013, annual regional Gross Domestic Product amounted to RMB201.005 billion, representing an increase of 10.0% from that of the year before and reaching 18.15% of nominal CAGR from 2009 to 2013. The following table sets forth the major economic indices of Liuzhou:

	2009	**2010**	**2011**	**2012**	**2013**	**CAGR**
GDP (RMB in hundred million)	1,031.6	1,315.3	1,579.7	1,846.0	2,010.0	18.15%
GDP per capita (RMB)	27,899	35,074	41,603	48,462	53,982	17.94%
Per capita urban disposable income (RMB)	16,017	17,766	19,615	22,181	24,355	11.05%
Investment in fixed assets (RMB in hundred million)	681.9	1,005.1	1,305.6	1,683	2,009	31.03%
Real estate investment and development (RMB in hundred million)	120.1	165.4	199.2	230.1	245.9	19.62%
Total retail sales of consumer goods (RMB in hundred million)	401	480	569	662	758	17.27%
Urbanization ratio	50.5%	51.3%	52.7%	53.1%	57.3%	3.22%

Source: The 2014 China Statistical Yearbook and The National Bureau of Statistics

The steady growth of fixed asset investment changed the cityscape of Liuzhou. Income and consumption levels of urban residents also underwent significant improvement. In 2013, per capita disposable income of urban residents of Liuzhou was RMB24,355 (national figure averaged at RMB26,955). After considering price factors, the actual growth rate was 9.8%, achieving a CAGR of 11.04% between 2009 and 2013. During 2009 to 2013, total retail sales of consumer goods in Liuzhou grew steadily, achieving a CAGR of 17.27%.

The Liuzhou Motor City and the Liudong New District

Guangxi Liuzhou Motor City (Liudong New District) is located in the Northeast of Liuzhou, adjacent to Liuzhou old town which is separated by a river. The planned area is about 203 square kilometers. Liudong New District is one of the three new urban areas for major development in Guangxi. It is also a major development strategy of Liuzhou's "One Project" and implementation of "recreating a new Liuzhou".

In February 2007, Liudong New District was formally established, gradually integrating the high-tech zone of Liuzhou, Liuzhou Yanghe Industrial District and New Industrial District. Liudong New District also managed Luorong Town and Luobu Town. In September 2010, approved by the State Council, the Liuzhou High-tech Zone was upgraded from provincial level to national high-tech zone. In the same year, the autonomous regional party committee and the government decided to rely on Liudong New District for the construction of Guangxi Liuzhou Motor City. In 2012, the base of 400,000 cars of SGMW was successfully completed and commissioned. The new base of Dongfeng Liuzhou Motor Co., Ltd. was constructed, with over 200 enterprises settling in Liuzhou.

Liudong New District Planning Bureau stated that the authority had the following development goals for Guangxi Liuzhou Motor City from 2015 to 2030:

- By 2015, producing one million vehicles annually (including cars, commercial vehicles and new energy vehicles, etc.) and achieving production scale of RMB60 billion regional GDP, RMB150 billion industrial output value, RMB9 billion revenue and 250,000 residing population.

- By 2020, achieving RMB120 billion regional GDP, RMB250 billion industrial output value, RMB18 billion revenue and 500,000 residing population.

- By 2030, the new district will achieve RMB300 billion regional GDP, RMB600 billion industrial output value and one million residing population.

By 2030, Liudong New District Motor City is expected to have one million permanent workforce which will directly increase future residential, office, commercial and business demand in the area.

Overview of the real estate market in Liuzhou

Major indices of the real estate market in Liuzhou

According to the information of the Statistical Yearbook released by The Liuzhou Bureau of Statistics, investment in real estate development of Liuzhou increased from RMB12.009 billion in 2009 to RMB24.585 billion in 2013. The CAGR was 19.62%. Total floor area of commodity housing completed increased from 2.2946 million sq. m. in 2009 to 2.656 million sq. m. in 2013. The CAGR was 3.72%. The sales area of commodity housing increased from 2.6778 million sq. m. in 2009 to 2.8042 million sq. m. in 2013. The CAGR was 1.16%. The following table sets forth the major indices of the real estate market in Liuzhou from 2009 to 2013:

	2009	**2010**	**2011**	**2012**	**2013**	**CAGR**
Real estate investment (RMB in hundred million)	120.09	165.42	199.17	230.27	245.85	19.62%
Construction area of commodity housing ('0000 sq. m.)	1,238.88	1,443.07	1,725.01	1,796.71	1,935.94	11.81%
Total floor area of commodity housing completed ('0000 sq. m.)	229.46	112.52	316.77	237.92	265.60	3.72%
Sales area of commodity housing ('0000 sq. m.)	267.78	291.89	308.37	349.45	280.42	1.16%
Of which sales area of existing properties ('0000 sq. m.)	34.95	26.32	33.42	32.80	–	–
Of which pre-sold area of properties under development ('0000 sq. m.)	232.83	265.57	274.95	316.65	–	–
Average selling price of commodity housing (RMB/sq. m.)	3,313.17	3,881.60	4,200.47	4,743.17	5,320.95	12.57%

Source: The Liuzhou Bureau of Statistics

Policies and regulations related to real estate market in Liuzhou

Relaxation of second home loan policies

On 27 July 2014, at the Regional Interim Economic Work Conference, Guangxi issued the "Opinion on good performance in the second half of the year and striving to achieve steady annual growth (《關於做好下半年經濟工作努力實現全年穩增長目標的意見》)". Guangxi had

38 specific and operational measures in eight areas. Among them, in order to promote healthy and stable development of the real estate industry, it proposed to implement differentiated housing credit policies, policies on down payment of purchase of first self-owned ordinary residential property and interest rate policies to ensure mortgage supply of first self-owned ordinary residential property, reduce the cost of purchase of first-time buyers, differentiate between property speculation and demand for improvement in housing, relax the second home loan policies appropriately and promote rational consumption of housing.

Promoting citizenship of peasants

In 2014, the Guangxi Zhuang Autonomous Region issued the "Certain Opinion on Innovating and Strengthening the Work of Farmers (《關於創新和加強農民公工作的若干意見》)". It clearly put forward conditions to improve the living standard of migrant workers, intake migrant workers who meet the conditions into urban housing security system, gradually intake migrant workers who establish a stable labor relationship into housing fund system as well as adjust and improve user policies of extraction of housing fund to support property purchase and leasing of migrant workers.

Land, labor and construction costs in Liuzhou

Land costs

According to the statistical analysis released by The Liuzhou Bureau of Land Resources, from 2011 to 2013 land premium increased from RMB7.13 billion in 2011 to RMB13.51 billion in 2013. The CAGR was 37.67%. The accommodation value increased from RMB655 per sq. m. in 2011 to RMB883 per sq. m. in 2013. The CAGR was 16.15%.

	2011	**2012**	**2013**	**CAGR**
Number of auctioned lands	167	184	195	8.06%
Land premium (RMB in ten thousand)	712,884	854,911	1,351,188	37.67%
Site area (sq. m.)	4,939,606	7,681,181	7,002,567	19.06%
Planned gross floor area (sq. m.)	10,892,006	15,439,843	15,303,601	18.53%
Average accommodation value (RMB/sq. m.)	655	554	883	16.15%

Source: The Liuzhou Bureau of Land Resources, DTZ Valuation and Advisory Services

Construction and material costs

Based on the 30 capital cities of the provinces monitored by the Ministry of Housing of the PRC, making reference to construction material costs in Nanning (capital city of Guangxi Province), in Liuzhou there has been an upward trend in costs since 2009. The costs of high-rise residential property, small high-rise residential property and multi-storey residential property in the first half of 2014 were RMB1,800 per sq. m., RMB1,500 per sq. m. and RMB1,200 per sq. m. respectively.

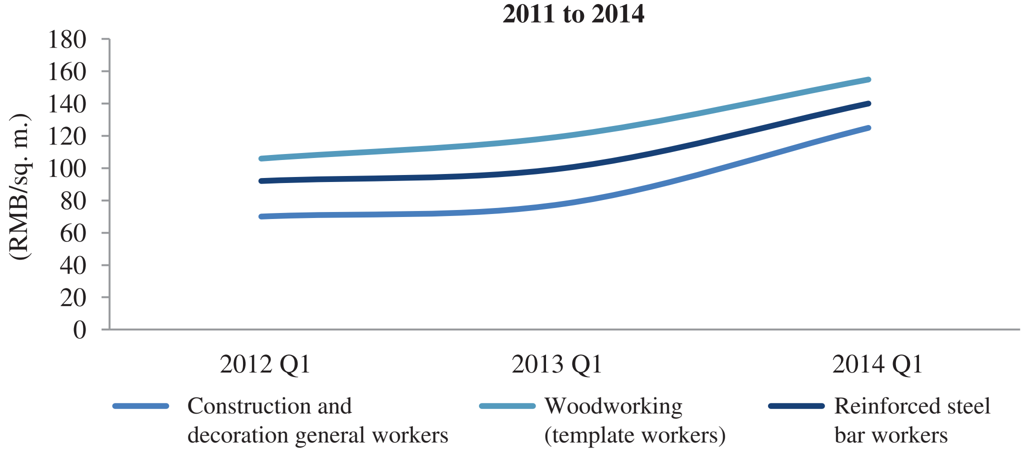
Construction Material Costs	First half of 2009	Second half of 2009	First half of 2010	Second half of 2010	First half of 2011	Second half of 2011	First half of 2012	Second half of 2012	First half of 2013	First half of 2014
High-rise residential property (RMB/sq. m.)	1,250	1,395	1,450	1,490	1,510	1,509	1,525	1,121	1,750	1,800
Small high-rise residential property (RMB/sq. m.)	1,130	1,290	1,280	1,330	1,350	1,342	1,443	1,416	1,490	1,500
Multi-storey residential property (RMB/sq. m.)	835	805	880	980	1,240	1,227	1,356	1,339	1,170	1,200

Source: China Engineering Cost Information Website of the Ministry of Housing

Various types of labor costs

According to the 30 capital cities monitored by the Ministry of Housing of the PRC, making reference to various types of labor costs in Nanning (capital city of Guangxi Province), in Liuzhou for the average daily wages of construction and decoration general workers, woodworking (template workers) and reinforced steel bar workers, there has been an upward trend in costs since the first quarter of 2012 to the first quarter of 2014.

Various types of labor cost trends of Nanning in Guangxi Province from 2011 to 2014



Source: China Engineering Cost Information Website of the Ministry of Housing

THE LIUZHOU PROPERTY MARKET COMPETITIVE LANDSCAPE

Residential properties

According to the Statistical Yearbooks issued by The Liuzhou Bureau of Statistics over the years, the completed area of residential properties in Liuzhou has increased from 1,882,300 sq. m. in 2009 to 1,995,200 sq. m. in 2013, with a CAGR of 1.47%. The sales area of residential properties has increased from 2,494,400 sq. m. in 2009 to 2,579,400 sq. m. in 2013, with a CAGR of 0.84%.

The specific indicators of residential properties are as follows:

	2009	**2010**	**2011**	**2012**	**2013**	**CAGR**
Construction area of residential properties ('0000 sq. m.)	982.21	1,128.01	1,317.52	1,359.16	1,411.66	9.49%
Of which new construction area ('0000 sq. m.)	415.41	385.82	239.04	303.48	–	–
Completed area of residential properties ('0000 sq. m.)	188.23	95.30	260.37	191.92	199.52	1.47%
Sales area of residential properties ('0000 sq. m.)	249.44	273.14	291.59	322.23	257.94	0.84%
Of which sales area of existing houses ('0000 sq. m.)	31.07	21.01	30.94	28.75	–	–
Of which pre-sold area of properties under development ('0000 sq. m.)	218.37	252.13	260.65	293.49	–	–
Average price of residential properties (RMB/sq. m.)	3,052.84	3,561.54	3,939.09	4,292.90	4,912.00	12.63%

Source: The Liuzhou Bureau of Statistics

At present, the major development area of Liuzhou residential market is concentrated in the urban area, while the residential markets of counties and towns are relatively small. The urban residential market is divided into five parts, namely Chengzhong District, Liubei District, Liunan District, Yufeng District and Liudong New District, of which Chengzhong District, Liunan District and Yufeng District account for the larger trading volumes. In terms of the traded gross floor area in 2013, Chengzhong District accounted for 33.9% and Liunan District and Yufeng District accounted for 23.2% and 22.4% respectively. The following table sets forth the traded areas in Liuzhou from 2010 to 2013 (in sq. m.):

Year	Chengzhong District	Liubei District	Liunan District	Yufeng District	Liudong New District
2010	681,943	178,407	335,328	426,260	25,756.2
2011	556,483	159,809	362,795	429,537	82,951.3
2012	872,627	297,512	448,189	315,890	96,167.8
2013	685,699	277,231	470,169	453,649	133,759.0

Source: DTZ Valuation and Advisory Services

Liudong New District is a new development and construction area. As the infrastructure and supporting facilities are gradually improving, various properties are gradually delivered and the residential products are becoming recognized by the market, its trading volume will be increased.

According to DTZ's market investigation, the analysis of housing markets of Liuzhou districts are as follows:

District	Features	Major properties	The average selling price
Chengzhong District	The major district in real estate market of Liuzhou, with established communal facilities, properties concentrated, brand developers gathering and active trading.	China Resources Triumphal Arch, Wanda Plaza, Evergrande Emerald Dragon Court, Dongjun, Caihongcheng	China Resources Triumphal Arch: RMB7,500/sq. m. Wanda Plaza: RMB8,500/sq.m.
Liubei District	Traditional industrial area, with mainly old residential properties and poor and messy overall environment.	CRED Shengli Community, Chanson e Mansion, Lvshui Yunjian, Jindu Huating	CRED Shengli Community: RMB6,000/sq. m. Chanson e Mansion: RMB6,500/sq. m.

District	Features	Major properties	The average selling price
Liunan District	Important industrial and ancillary area, with more workers and many properties of high demand.	Jin'efudi, Beside the River, Jinlvzhou Cuiyuan, Zhanqian Xinyinxiang	Jin'efudi: RMB7,700/sq. m. Beside the River: RMB7,300/sq. m.
Yufeng District	Old town, with rich mountain views resources, scarce land and real estate in short supply.	Yongyi Shanyucheng, Tonghe Jiajing, Wangtai Dragon City Palace, Damei Tiandi	Yongyi Shanyucheng: RMB7,200/sq. m. Tonghe Jiajing: RMB6,800/sq. m.
Liudong New District (Zhenghe City)	Benefit from the favorable policy of eastward development in the city, regional planning and development prospects being recognized.	Guangtou City of Totems, Guanya International Starcity, Dafu Bishuishanzhuang	Guangtou City of Totems: RMB5,000/sq. m. Guangya International Starcity: RMB6,100/sq. m.

Source: DTZ Valuation and Advisory Services

From the table above, the housing price range of Liuzhou is between RMB5,000/sq. m. and RMB9,000/sq. m.. Three National Top 100 Enterprises, namely Wanda, Evergrande and China Resources have projects development in Chengzhong District and the district has the highest housing price of all districts in Liuzhou. Properties in Liudong New District are currently experiencing price depression. However, with overall urban development and the gradually advancement of projects, Liudong New District has a positive future prospect.

Villas

Limited by the economic level of Liuzhou, Liuzhou lacks in pure villa supply. Most villas are mixed with high-end residential properties, where small amounts of villa properties set up in high-end residential quarters at relatively low prices. With the development of economy in Liuzhou, the villa industry begins to grow gradually.

The sales of villa products in Liuzhou are relatively slow. However, the products marketed in early years were sold out after several years because of the limited supply. The villa products currently on sale are mainly Damei Tiandi and Phoenix River. Damei Tiandi is located at the banks of Dalongtan Forest Park, only three kilometers from the city center. The project is at the quiet area within downtown, surrounded by mountains and lakes, with a superior natural environment and established communal facilities for living. The Phoenix River

Project is located in the original ecology forest spa resort area. It is a modern resort quarter, combined with the ecological environment of Phoenix River. The project is planned to include a golf course, marina club, agro-ecological park and five-star hotels. At present the project has introduced some villas and serviced apartments, but the infrastructure is not completed.

Office properties

According to the Statistical Yearbooks issued by The Liuzhou Bureau of Statistics over the years, the completed area of office properties in Liuzhou has increased from 11,088 sq. m. in 2009 to 18,574 sq. m. in 2013, with a CAGR of 13.77%. The sales area of office properties has decreased from 75,636 sq. m. in 2009 to 68,312 sq. m. in 2013, with a CAGR of-2.51%.

The specific indicators of office properties are as follows:

	2009	**2010**	**2011**	**2012**	**2013**	**CAGR**
Construction area of office properties (sq. m.)	302,464	377,461	655,360	642,027	732,551	24.75%
Of which new construction area (sq. m.)	119,196	98,830	315,673	123,383	16,372	–
Completed area of office properties (sq. m.)	11,088	300	0	18,272	18,574	13.77%
Sales area of office properties ('0000 sq. m.)	75,636	41,512	26,581	3,035	68,312	-2.51%
Of which sales area of existing offices (sq. m.)	1,172	8,370	0	645	–	–
Of which pre-sold area of properties under development (sq. m.)	74,464	33,142	26,581	2,390	–	–
Average price of office properties (RMB/sq. m.)	6,324	9,628	10,547	12,952	12,377	18.28%

Source: The Liuzhou Bureau of Statistics, DTZ Valuation and Advisory Services

At present, the market development of Liuzhou office properties market is mainly in Chengzhong District. Currently the supplies and transactions of Liuzhou office properties market are also concentrated in Chengzhong District. The following table sets forth the distribution of supplies and transactions of office properties in Liuzhou in 2013:

	Chengzhong District	Liubei District	Liunan District	Yufeng District	Liudong New District	Total
Supply area (sq. m.)	22,312	–	–	21,677	25,280	69,269
Supply units (unit)	171	–	–	239	418	828
Transaction area (sq. m.)	36,399	20,662	3,902	7,349	–	68,312
Transaction units (unit)	395	203	36	144	–	778
Average transaction price (RMB/sq. m.)	13,101	13,482	5,641	9,257	–	12,377
Transaction amount (RMB'0000)	47,687	27,858	2,201	6,803	–	84,549

Source: DTZ Valuation and Advisory Services

In 2013, there were no new supply of office properties in Liubei District and Liunan District, but there maintained certain transactions because of inventory sales. As a new district, Liudong New District has a serious lack of surrounding business environment and supporting facilities. The new office properties in that district have not yet been recognized by the market, so there was no transaction. However, that district has become one of the major supply markets of office properties in 2013. It is believed that Liudong New District will be the major development area of office properties, with the regional economic development and urban construction, gradually improving supporting facilities and stronger business atmosphere.

Currently the major office properties market in Liuzhou is concentrated in Chengzhong District and was divided into River East Zone and Non-River East Zone with Liu River as the boundary. The analysis of prices of major office properties in these two zones are shown in the following table:

District	Major properties	Average selling price *(RMB/sq. m.)*	Rent *(RMB/sq. m. per month)*
Chengzhong District (River East Zone)	Jiuzhou International	High level 21,000	130
	Wanda Plaza	Expected to be 13,000 to 15,000	–
	Jinrong Center	16,000	–
	Sunshine 100 City Plaza	–	60
Chengzhong District (Non-River East Zone)	Liuzhou Diwang Fortune Center	17,000 to 18,000	150-180
	Mingshuo Technology Commercial Building	15,000	–

Source: DTZ Valuation and Advisory Services

As can be seen from the table above, the average selling price of office properties in Liuzhou Chengzhong District is around RMB15,000/sq. m.. Rents vary because of the different qualities of office properties. The selling prices of office properties in other districts are lower than those in Chengzhong District.

In general, the office properties market in Liuzhou is still at the initial stage and the overall volume is still small. At present, the new standard office properties are mainly in Chengzhong District, especially in River East Zone. With the urban development of Liuzhou, the rapid expansion of the second and the tertiary industries, more and more enterprises stationed in Liuzhou and gradually increasing market demand of office properties, office properties in premier location will be favored. However, the office properties in Liuzhou are mainly for sale. Office properties with unified ownership for leasing are scarce. Besides, the problems of unified investment and management issues of bulk sale office properties remain to be solved.

Commercial properties

According to the Statistical Yearbooks issued by The Liuzhou Bureau of Statistics over the years, the completed area of commercial properties in Liuzhou has increased from 264,418 sq. m. in 2009 to 319,803 sq. m. in 2013, with a CAGR of 4.87%. The sales area of commercial properties has increased from 94,040 sq. m. in 2009 to 120,394 sq. m. in 2013, with a CAGR of 6.37%.

The specific indicators of commercial properties are as follows:

	2009	**2010**	**2011**	**2012**	**2013**	**CAGR**
Construction area of commercial properties (sq. m.)	1,206,940	1,358,116	1,392,822	1,614,550	1,896,456	11.96%
Of which new construction area (sq. m.)	535,215	466,025	222,768	291,512	409,467	–
Completed area of commercial properties (sq. m.)	264,418	118,764	180,021	153,229	319,803	4.87%
Sales area of commercial properties (’0000 sq. m.)	94,040	123,574	120,170	196,843	120,394	6.37%
Of which sales area of existing properties (sq. m.)	33,770	33,107	22,892	25,315	–	–
Of which pre-sold area of properties under development (sq. m.)	60,270	90,467	97,278	171,528	–	–
Average price of commercial properties (RMB/sq. m.)	7,768	9,127	9,302	11,756	19,362	25.65%

Source: The Liuzhou Bureau of Statistics

At present, the major commercial area of Liuzhou is mainly in Chengzhong District. Currently the supplies and transactions of Liuzhou commercial properties market are also concentrated in Chengzhong District and Yufeng District. The following table sets forth the distribution of supplies and transactions of commercial properties in Liuzhou in 2013:

	Chengzhong District	Liubei District	Liunan District	Yufeng District	Liudong New District	Total
Supply area (sq. m.)	54,398	17,063	45,139	89,176	3,320	209,096
Supply units (unit)	826	305	615	459	57	2,262
Transaction area (sq. m.)	93,578	14,046	2,063	10,707	_	120,394
Transaction units (unit)	551	217	36	229	_	1,033
Average transaction price (RMB/sq. m.)	18,775	24,092	20,348	18,094	_	19,362
Transaction amount (RMB'0000)	175,690	33,841	4,198	19,373	_	233,102

Source: DTZ Valuation and Advisory Services

In 2013, as the regions of the highest residential density and commercial aggregation in Liuzhou, Yufeng District and Chengzhong District ranked the first and the second respectively in terms of supply area. In terms of transaction, Liubei District accounted for the first in transaction area and average transaction price in the same year. Liudong New District was still at the initial stage as a new district. Liudong New District had a serious lack of surrounding business atmosphere and supporting facilities. The new office properties in that district have not yet been recognized by the market, so there was no transaction . It is expected that the supply, transaction and average selling price in Chengzhong District will be significantly increased with the completion of city complex such as, Wanda Plaza and China Resources Triumphal Arch.

Currently the major commercial properties market in Liuzhou is concentrated in Chengzhong District and Yufeng District and was divided into Wuxing Street Zone and Gubu Street Zone with Liu River as the boundary. The analysis of prices of major office properties in these two zones are shown in the following table:

District	**Major properties**	**Average selling price** *(RMB/sq. m.)*	**Rent** *(RMB/sq. m. per month)*
Wuxing Street Zone (North of Liu River)	With Wuxing pedestrian street as the principal axis, the commercial radius covers about 1 km. Typical commercial buildings include Five Star Commercial Mall, Xinghe Commercial Building, Jinyunlai Building and Xinghe Building.	Street shops on the first floor, about 80,000 to 100,000 Shops on the second floor, about 20,000 to 40,000	1F:200-500 2F:100-200
Gubu Street Zone (South of Liu River)	The traditional old town commercial area in Liuzhou of mainly commercial podium at lower levels. Typical commercial buildings include Gubu Street International Plaza, Yintai City, Gubu Commercial Building.	Shops on the first floor, about 30,000 to 60,000	1F:180-400
Hedong New District	Mainly large shopping malls, including Hang Lung Mall, Dream Island, Wanda Plaza (will open in 2015) and China Resources MIXC (will open in 2017).	–	–

Source: DTZ Valuation and Advisory Services

From the table above, because of the newer urban landscape and more reasonable planning, the average selling price of commercial properties in Liuzhou Wuxing Street Zone is slightly higher than that of Gubu Street Zone. Rents of commercial properties have a high sensitivity to location factors, so there are apparent gaps among different cases in these two sectors.

In general, the commercial properties market in Liuzhou is still concentrated in old town and the business forms are mainly commercial podium at lower levels, pedestrian street and underground mall. The commercial markets in Hedong District and Liudong New District are at the initial stage, the overall volume is still small and the commercial atmosphere is still in cultivation period. New business forms begin to appear, such as large shopping mall and city complex, represented by Wanda Plaza and China Resources MIXC, which will open in 2015 and 2017 respectively. It is expected to attract certain customers and, to some extent, change the consumption habits of the people in Liuzhou.

Four-star and above hotels

This following competitive market analysis is based on the research on four domestic and international hotels, which best reflect the factors that should be considered in the competitive markets of four and five star hotels in Liuzhou.

Liuzhou selected hotel industry competitors

No.	Hotel	Opening year	Number of rooms
1	Liuzhou Radisson Hotel	2011	257
2	Liuzhou Hotel	1952 (Redecorated in 2012)	279
3	Liuzhou Liugang Hotel	2011	130
4	Liuzhou East Ramada Plaza Hotel	2014	393
		Total	1,059

Source: DTZ Valuation and Advisory Services

Performance of occupancy rate and average room rate in the competitive market in the third quarter of 2014

	Occupancy rate	Average daily rate
2014Q3	45.44%	460.68

Source: DTZ Valuation and Advisory Services

According to the statistics in the third quarter of 2014 issued by Liuzhou Tourism Bureau, the total number of rooms in selected competitive market is 1,059, with an occupancy rate of 45.44% and the average daily rate is RMB460.68. Liuzhou Radisson Hotel was the highest both in occupancy rates and average room rate, showing a strong competitive advantage. Liuzhou East Ramada Plaza Hotel is newly opened in 2014. Because of lack in both market reputation and promotion activities, the occupancy rate and average room rate of Ramada Plaza Hotel are relatively low but it is expected to be gradually increased in the future.

Future supplies

The following tables depict the estimated future supplies in the Liuzhou hotel market:

New supplies in the competitive market

Hotel	**Location**	**Number of rooms**
Jiuzhou International Hotel	Guizhong Avenue, Hedong New District	316
Diwang International Fortune Center Hotel	Interchange of Guangchang Road and Bayi Road, Chengzhong District	350
Liuzhou Wanda Realm Hotel	Southeast to the interchange of Donghuan Road and Wenxing Road, Chengzhong District	285

Source: DTZ Valuation and Advisory Services

Estimated pipelines of high-end hotels in Liuzhou from 2014 to 2018

	2014	**2015**	**2016**	**2017**	**2018**
New supply:					
Jiuzhou International Hotel	0	316	0	0	0
Diwang International Fortune Center Hotel	0	0	350	0	0
Liuzhou Wanda Realm Hotel	0	0	0	285	0
New supply during the year	0	316	350	285	0
Total market supply	1,059	1,375	1,725	2,010	2,010
Percentage of change	0%	29.84%	25.45%	16.52%	0%

Source: DTZ Valuation and Advisory Services

SUMMARY OF THE PRC LAWS RELATING TO THE REAL ESTATE INDUSTRY

I. The development of the real estate industry

(1) The establishment and acquisition of a real estate development enterprise

A. General requirements for establishing a real estate development enterprise

According to the Law of the Administration of Urban Real Estate of the People's Republic of China (《中華人民共和國城市房地產管理法》) ("the Law of the Administration of Urban Real Estate") promulgated by the Standing Committee of the National People's Congress on 5 July 1994 and amended on 30 August 2007 and 27 August 2009, a real estate development enterprise is defined as an enterprise which is engaged in property development and operation for the purpose of making profits. Pursuant to the Regulations on Administration of Urban Real Estate Development and Operation (《城市房地產開發經營管理條例》) ("the Regulations on Administration of Development and Operation") promulgated and implemented by the State Council on 20 July 1998 and amended on 8 January 2011, the following are the requirements of an enterprise to be engaged in property development:

1. With a registered capital of more than RMB1 million; and

2. With 4 or more full-time technicians with qualifications in property development and the professional of construction and engineering and 2 or more full-time accountants with relevant qualifications.

According to the requirements of the Regulations on Administration of Development and Operation, the People's Government of a province, autonomous region or municipality directly under the Central Government can impose more stringent requirements on the registered capital and professional technicians of a real estate development enterprise based on the local and actual circumstances.

Pursuant to the Regulations on Administration of Development and Operation, an application and registration process shall be required and made with the office of administration for industry and commerce of the People's Government above the county level for setting up a real estate development company. The real estate development company shall also file its necessary incorporation documents with the competent authorities for real estate development in the area where the registration authority is located within 30 days from the receipt of the business license.

B. The acquisition of the shareholding in a domestic real estate enterprise by a foreign-invested enterprise

Pursuant to the Interim Provisions on Investment Made by Foreign-Invested Enterprises in China (《關於外商投資企業境內投資的暫行規定》) effective from 1 September 2000, if a foreign-invested enterprise purchase the shareholding of the investors in the investee which is engaged in the fields of the encouraged or permitted category, the investee shall deliver the materials listed in Clause 7 of this provision to the original corporate registration authority, and apply for the registration of alteration pursuant to the relevant requirements in the Regulations on the Administration of Company Registration (《公司登記管理條例》). In the case of an investee which is engaged in the businesses of the restricted category, upon the procedures made by the foreign-invested enterprise according to the Clause 9 and 10 of this provision, the investee shall apply, with the approval obtained from the provincial competent approval authorities, for the registration of alteration to the original corporate registration authority pursuant to the relevant requirements of the Regulations on the Administration of Company Registration.

Pursuant to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄) (the "Old Catalogue 1") promulgated by the Ministry of Commerce (商務部) ("MOFCOM") and National Development and Reform Commission (國家發展和改革委員會) ("NDRC") on 30 November 2004 and effective from 1 January 2005, 1) the development and construction of the general residential units falls within the category of industries in which the foreign investment is encouraged; 2) the development of the whole land lot (limited to joint ventures and cooperative joint ventures) and the construction and operation of high-end hotels, villas, premium office buildings, international conference and exhibition centres and theme parks falls withing the category of industries in which foreign investment is subject to restrictions; and 3) other property development projects falls within the category of industries in which foreign investment is permitted.

Pursuant to the Foreign Investment Industrial Guidance Catalogue (amended in 2007) (the "Old Catalogue 2") promulgated by the National Development and Reform Commission and the Ministry of Commerce on 31 October 2007 and effective from 1 December 2007, the encouraged items were removed from the Old Catalogue 1 and the following items are included as the restricted items:

1. whole land lot development exclusively by joint ventures or cooperative joint ventures;

2. the construction and operation of high-end hotels, villas, premium office buildings and international conference and exhibition centres;

3. property transactions in the secondary market and real estate intermediaries or brokerage agencies.

According to the Old Catalogue 2, while the whole land lot development and development of the aforesaid three items by a wholly-owned real estate company established by foreign enterprise are prohibited, other property development falls within the category of industry in which foreign investment is permitted.

Pursuant to the Foreign Investment Industrial Guidance Catalogue (amended in 2011) (《外商投資產業指導目錄(2011年修訂)》) (the "New Catalogue") promulgated on 24 December 2011 and effective from 30 January 2012 by the National Development and Reform Commission and the Ministry of Commerce, by comparing to the Old Catalogue 2, the construction and operation of villas is no longer belongs to the category which is subject to the restrictions as stated in the Old Catalogue 2, it falls within the category of industry in which foreign investment is not permitted in the New Catalogue.

(2) Qualifications of a Real Estate Developer

Under the Regulation for Administration of Development and Operation, a real estate developer must record its establishment to the governing real estate development authorities in the location of the registration authority within 30 days after receiving its Business License. The real estate development authorities shall examine applications for classification of a real estate developer's qualification by considering its assets, professional personnel and industrial achievements. A real estate developer shall only engage in property development projects in compliance with its approved qualification.

Under the Provisions on Administration of Qualifications of Real Estate Developers (《房地產開發企業資質管理規定》) (the "Provisions on Administration of Qualifications")) promulgated by the Ministry of Construction and implemented on 29 March 2000, a real estate developer shall apply for registration of its qualifications according to the Provisions on Administration of Qualifications. An enterprise may not engage in the development and sale of real estate without a qualification classification certificate for real estate development.

In accordance with the Provisions on Administration of Qualifications, qualifications of a Real Estate Developers are classified into four classes according to their respective status and conditions: class 1, class 2, class 3 and class 4. Different classes of qualification of Real Estate Developers should be examined and approved by corresponding authorities. The class 1 qualifications shall be subject to preliminary examination by the construction authority under the government of the relevant province, autonomous region or municipality directly under the central government and then final approval of the construction authority under the State Council. Procedures for approval of developers of class 2 or lower qualifications shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality directly under the central government. A developer that passes the qualification examination will be issued a qualification certificate of the relevant class by the qualification examination authority.

For a newly established Real Estate Developers, after it reports its establishment to the Real Estate Development authority, the latter shall issue a Provisional Qualification Certificate (《暫定資質證書》) to the eligible developer within 30 days. The Provisional Qualification Certificate shall be effective for 1 year from its issuance while the Real Estate Development authority may extend the validity to a period of no longer than 2 years considering the actual business situation of the enterprise. The Real Estate Developers shall apply for qualification classification by the Real Estate Development authority within 1 month before expiry of the Provisional Qualification Certificate.

Under the Provisions on Administration of Qualifications, a developer of any qualification classification may only engage in the development and sale of the property within its approved scope of business and may not engage in business which falls outside the approved scope of its qualification classification. A class 1 Real Estate developer may undertake a property development project anywhere in the Country without any limit on the scale of property project. A Real Estate developer of class 2 or lower may undertake a project with a gross floor area of less than 250,000 square meters and the specific scopes of business shall be as formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality. A developer of any qualification classification may only engage in the development and sale of the property within its approved scope of business and may not engage in business which falls outside the approved scope of its qualification classification.

Under the Provisions on Administration of Qualifications, the qualification of a Real Estate developer shall be inspected annually. The construction authority under the State Council or its authorised institution is responsible for the annual inspection of a class 1 Real Estate developer's qualification. Procedures for annual qualification inspection with developers of class 2 or lower qualifications shall be formulated by the construction authority under the people's government of the relevant province, autonomous region or municipality.

(3) Development of Real Estate Project

A Introduction

Under the Decision on Reform of the Investment System of the State Council (《國務院關於投資體制改革的決定》) promulgated and effective on 16 July 2004, any project that does not use governmental funds will not require the implementation of an approval system in order to differentiate the implementation of the endorsement system and registration system according to practical circumstances. Of which, as to major and restricted projects, the government will only provide endorsements as to whether such projects are of public interests. Other projects, regardless of the scale, will only require registration, while the foreign enterprise investment prospects, market entry requirement, funding management within the project will be a matter of decision from the government.

Under the Circular of The People's Government of Guangxi Zhuang Autonomous Region on Publishing the Certain Implementation Measures on Carrying out the Development of the Vast Western Regions Policy by the State Council) (《廣西壯族自治區人民政府關於印發貫徹實施國務院西部大開發政策措施若干規定的通知》) issued on 31 December 2001 and effective on 1 January 2001, regarding any real estate development project that does not require contributions from central governmental funds or autonomous region governmental funds and is encouraged by the national industry policy, consistent with the development planning of the autonomous region and falls into its approval authority, including offices and small residential communities, the competent authority of the autonomous region shall withdraw from the approving procedure.

B Obtaining the project land

Under the prevailing PRC Constitution (《中華人民共和國憲法》), all land within the PRC are either State-owned or collectively-owned. No entity or individuals may misappropriate, buy and sell or illegally transfer land to other by other means, however, the right to use of land may be transferred in accordance with the law.

Under the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》) amended on 28 August 2004, any entity and individual engaging in construction and requiring the use of land shall lawfully apply for the use of state-owned land, except for the use of land collectively owned by villagers from collective economic units upon lawful approval for constructing village and township enterprises and building villagers' residence, or the use of land collectively owned by villagers upon lawful approval for constructing public facilities and public welfare construction for village and township.

Under the Law of the Administration of Urban Real Estate (《城市房地產管理法》) amended on 27 August 2009, the land for real estate development can be obtained either through the grant of state-owned land use rights and allocation of land use rights. However, under the Law of the Administration of Urban Real Estate of the Peoples Republic of China (《中華人民共和國城市房地產管理法》), only the following types of land can be obtained through the allocation of land use rights: (1) land for use by government organs and for military use; (2) land for the use by urban infrastructure and public unities; (3) land for energy, communications and water conservancy and other infrastructure projects supported by the State; and (4) land for other use as permitted by the laws and administrative measures.

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

The Interim Regulations on Granting and Transfer provides that the maximum term of grant of the land use right for the purpose below as follows:

(1) land for residence: 70 years;

(2) land for industry: 50 years;

(3) land for education, science, culture, public health and sports: 50 years;

(4) land for commerce, tourism and entertainment: 40 years;

(5) land for comprehensive utilisation for other purposes: 50 years.

Under the Property Law of the People's Republic of China (《中華人民共和國物權法》) (the "Property Law") which was come to effective on 1 October 2007, the term of the land use right for the construction for residential purposes shall be automatically renewed upon expiration. The term of land use right for construction non-residential purposes shall be renewed according to the provisions in the laws. Where there are stipulations about the ownership of houses and other real estate on the aforesaid land, such stipulations shall prevail; if there is no such stipulation or the stipulations are not explicit, the ownership shall be determined according to the provisions in the laws and administrative regulations.

Under the Regulations on the Assignment of State-owned Land-Use Rights Through Competitive Bidding, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》) promulgated by the Ministry of Land and Resources on 9 May 2002 and amended on 28 September 2007, land for business purposes, such as industrial and commercial use, tourism, entertainment and commodity housing development and a land parcel with two or more potential users shall be assigned by means of competitive bidding, public auction or listing-for-sale. Competitive bidding of stated-owned land use rights means where the land resource administration authority at the town and country level (the "grantor") issues a bidding announcement, inviting individuals, legal persons or other organisations (whether specified or otherwise) to participate in tender for the stated-owned land-use rights of a particular parcel of land, the land user for such stated-owned land-use rights of the parcel of land will be determined according to the results of the biddings. Auction for stated-owned land-use rights is where the grantor issues an auction announcement, and the bidders can at specified time and location openly bid for a parcel of land. The land user for such stated-owned land-use rights of the parcel of land will be determined according to the results of the auction. Listing-for-sale for the stated-owned land-use rights is where the grantor issues a listing-for-sale announcement, and in accordance with the announcement, the land grant conditions will be listed in a specified land grant exchange within a specified period, bidders' payment applications will be accepted and updated accordingly and the land user for such stated-owned land-use rights of the parcel of land will be granted according to the bidder's payment applications at the end of such listing period.

Under the Notice on Continuing the Review of the Implementation of the Grant of Land Use Right for Commercial Uses by Invitation of Bids, Auction or Listing (《關於繼續開展經營性土地使用權招標拍賣掛牌出讓情況執法監察工作的通知》) issued by the Ministry of Land and Resources and the Ministry of Supervision on 31 March 2004 provided that the Grant of Land Use Right for Commercial Uses cannot be granted by agreement due to inherited problems after 31 August 2004.

According to the Notice on Relevant Issues Concerning the Strengthening of Examination and Approval of Land Use in Urban Construction (《關於加強城市建設用地審查報批工作有關問題的通知》) promulgated by the Ministry of Land and Resources on 4 September 2003, from the day of issuance of the Notice, the grant of land use rights for luxurious commodity houses shall be stringently controlled, and applications of land use rights for villas are to be stopped. On 30 May 2006, the Ministry of Land and Resources issued the Urgent Notice of Further Strengthening the Administration of Land. (《關於當前進一步從嚴土地管理的緊急通知》). The Notice re-stated that land for real estate development must be assigned by competitive bidding, public auction or listing-for-sale; the rules prohibiting development projects for villas should be strictly enforced; and land supply and relevant procedures of land use for villas ceased to have effect from the date of the Notice.

Under the Urgent Notice of Further Strengthening the Administration of Land (《關於當前進一步從嚴土地管理的緊急通知》), the land administrative authority should rigidly execute the Model Text of the State-owned Land-Use Rights Assignment Contract (《國有土地使用權出讓合同示範文本》) and Model Text of the State-owned Land-Use Rights Assignment Supplementary Agreement (for Trial Implementation) (《國有土地使用權出讓合同補充協議示範文本(試行)》)" jointly promulgated by the Ministry of Land and Resources and the SAIC. The documents of the land assignment should ascertain the requirements of planning, construction and land use such as the restriction of the dwelling size, plot ratio, and the time limit for the commencement and completion of construction. All these should be set forth in the Land-Use Rights Assignment Contract. Under the

Circular of the State Council on Strengthening Land Control (國務院關於加強土地調控有關問題的通知》), which requires to establish a system for uniformly publicizing the minimum rate standards of industrial land grant to uniformly formulate and publicize the minimum rate standards of industrial land grant in all localities in accordance to various factors, such as class of the land, the regional policy on land utilization by the State. The minimum rate standards of industrial land grant shall not be less than the sum of the cost of obtaining the land, the preliminary cost of land development and the related expenses collected as required. The industrial land must be transferred by way of tender, auction or listing at a price not less than the minimum rates as publicized. Any sale of industrial land, or any form of subsidy or return, at a price lower than the set minimum shall be deemed illegal grant of the State-owned land use right. The relevant officials shall be liable for the aforesaid illegal acts according to the laws.

On 23 December 2006, the Ministry of Land and Resources issued Circular on the Issuance and Implementation of the National Standards for the Minimum Transfer Prices of Land for Industrial Purposes (《關於發佈實施＜全國工業用地出讓最低價標準＞的通知》), which stipulates that industrial land must be assigned by competitive bidding, public auction or listing-for-sale. The grant threshold and the successful bid in respect of such industrial land shall not be less than the corresponding minimum rate standards for the class where such industrial land falls into.

Under the Property Law (《物權法》) promulgated on 1 October 2007, land for business purposes, such as industrial and commercial use, tourism, entertainment and commodity housing development and a land parcel with two or more potential users shall be assigned by means of bidding, such as competitive bidding and public auction. Under the Regulations on the Assignment of State-owned Land-Use Rights Through Competitive Bidding, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》) promulgated by the Ministry of Land and Resources on 1 November 2007, land for business purposes, such as industrial and commercial use, tourism, entertainment and commodity housing development and a land parcel with two or more potential users shall be assigned by means of competitive bidding, public auction or listing-for-sale and provided a detailed procedures.

According to the Notice on Issues Related to Strengthening the Land for Real Estate Supply and Supervision (Guotuzifa 2010 No. 34) (《關於加強房地產用地供應和監管有關問題的通知》(國土資發[2010]34號)) promulgated by the Ministry of Land and Resource on 8 March 2010, the minimum price at which land may be granted must not less than 70% of the standard land grant fee and the deposit for bidding land use right shall not be less than 20% of the base prices. The real estate developers are required to execute the land grant contract within 10 working days upon the successful bidding and make the down payment of at least 50% of the total land grant consideration within one month with the remaining balance to be duly paid as stipulated in the contract and no later than one year from the execution of the contract. The land grant contract shall definitely stipulate the land area, use, plot ratio, construction density, unit size area and ratio, deposit, delivery time and method, payment time and method, commencement and completion time for construction and specific determining standards, and breach liability handling. Contracts shall not be signed if any of the above terms is not included; grantors shall be held liable where contracts are signed in violation of regulations. Supply of lands shall be terminated without any refund where contracts are not timely signed by the grantees. Lands shall be retracted where the grant prices are not paid after the signing of the contracts.

C Development of a real estate project

(a) Commencement of development with respect to a real estate project and the idle land

Under the Law of the Administration of Urban Real Estate (《城市房地產管理法》), those who have obtained the land use rights by assignment must develop the land in accordance with the use and period of commencement as prescribed by the contract for the land use right assignment. Those who fail to commence development of the land after one year from the construction commencement date stipulated in the grant contract may be charged an idle land fee of up to 20% of the land premium, and those who fail to commence development after two years may be deprived of land use right without compensation, except where the delay in commencement is due to force majeure, actions of governments or relevant government departments, or preliminary work necessary for the commencement of development.

According to the Measures on Disposing Idle Land (《閒置土地處置辦法》) promulgated and implemented by the Ministry of Land and Resources on 28 April 1999, a parcel of land can be defined as idle land under any of the following circumstances:

1. after obtaining the land use rights, the development and construction of the land has not begun within the time limit for commencement of the development as stipulated without the consent of the people's government that originally approved the use of the land;

2. the Contract on Lease of the Right to Use State-Owned Land (《國有土地有償使用合同》) or the Approval Letter on Land Used for Construction (《建設用地批准書》) does not prescribe the date of starting the development and construction, and the development and construction of the land has not begun at the expiry of 1 year from the day when the Contract on Lease of the Right to Use State-owned Land (《國有土地有償使用合同》) became effective or when the administrative department of land issued the Approval Letter on Land Used for Construction (《建設用地批准書》);

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

4. other circumstances prescribed by laws and administrative regulations.

The land administration authorities of the People's Government at municipality or county-level shall, with regard to an identified piece of idle land, give notice to the land user and draft a proposal on disposing the idle land, including, but not limited to, extending the time period for development and construction (provided that it shall be no longer than one year), changing the use of the land, arranging for temporary use and ascertaining the new land user by competitive bidding, public auction or listing-for-sale. Upon obtaining the approval of the People's Government that originally approved the land use, the proposal on disposal shall then be implemented by the land administration authorities of the People's Government at municipality or county-level. With respect to land which the land use right is obtained by grant within the scope of city planning, if the construction work has not yet started after 1 year since the commencement date agreed in the grant contract, a fine for idle land which is equivalent to less than 20% of the land use right grant premium may be imposed on the land user. If the construction work has not been commenced after 2 years from the agreed commencement date, the land use rights can be retracted by the State without any compensation. However, the above sanctions shall not apply when the delay of the commencement of construction is caused by force majeure or acts of the government or relevant authorities or indispensable preliminary work before the commencement of construction.

According to the Measures on Disposing Idle Land (amended in 2012) (閒置土地處置辦法(2012修訂)) promulgated by MLR on 22 May 2012 and effective from 1 July 2012, an idle land refers to (1) the state-owned construction land which the land use right holder of such land fails to commence the development of the state-owned construction land within one year after the construction commencement date as agreed or required in the contract of compensated use of state-owned construction land or the land allocation decision; (2) the state-owned construction land which the area of the developed construction land is less than one third of the total area to be developed and constructed, or the invested amount is less than 25% of the total investment, and the development and construction of the state-owned construction land has been suspended for over one year. The delay in commencing the construction of the idle land which is not caused by the acts of the government or relevant authorities will be dealt with the following means:

1. In the case of an idle land where the construction work has not commenced for 1 full year, the competent department of land and resources at city or county level shall, upon the approval of the People's Government at the same level, issue the Letter of Collection of Idle Land Fee (徵繳土地閒置費決定書) to the land use right holder of the state-owned construction land and charge idle land fee at 20% of the cost of land grant or allocation. The idle land fee shall not be included in the production cost;

2. In the case of an idle land where the construction work has not commenced for 2 full year, the competent department of land and resources at city or county level shall, upon the approval of the People's Government with approval authority, issue the Letter of Recovering the Land Use Right of State-owned Construction Land (收回國有建設用地使用權決定書) to the land use right holder of the state-owned construction land and recover the land use right of such land without compensation. If any mortgage is created on the idle land, a copy thereof shall be sent to each mortgagee thereof.

On 3 January 2008, as required in the Notice on Promoting the Economization and Intensive Use of Land (關於促進節約集約用地的通知) issued by the State Council, if a piece of land has been idle for two full years and may be recovered without compensation as statutorily required, such land shall be recovered without compensation and rearranged for any other uses; if the land does not meet the statutory conditions for recovery, it must be timely dealt with and fully used through change in land use, replacement by parity value, temporary usage, incorporation into government reserves or any other ways. If a piece of land has been idle for over one year but less than two years, an idle land fee must be collected at 20% of the cost of land grant or allocation. The idle land, particularly idle land for property use, is subject to the land appreciation premium.

Pursuant to the Notice of General Office of the State Council on Further Promoting the Adjustment and Control of Real Estate Market (國務院辦公廳關於進一步做好房地產市場調控工作有關問題的通知) (the "Notice [2011] No. 1") promulgated by the General Office of the State Council on 26 January 2011, the government shall timely forfeit the land for property purpose which fails to obtain the permit to commence the construction for more than two years and a fine equivalent to less than 20% of the land grant premium shall be imposed on the land user.

(b) Planning on property projects

Pursuant to the Urban and Rural Planning Law of the People's Republic of China (中華人民共和國城鄉規劃法) (the "Urban and Rural Planning Law") promulgated on 28 October 2007 and effective from 1 January 2008, no application for opinions on site selection is required for construction projects which obtain the state-owned land use right by grant. Regarding these construction projects, the real estate development enterprise shall, after entering into the contract of the grant of the state-owned land use right, obtain the planning permit of the land for construction use from the competent authority of urban and rural planning of the city or county. If buildings, structures, roads, lines and other constructions are to be constructed within the planning area of a city or a town, real estate development enterprises shall apply to the competent authority of urban and rural planning of the city or county for the construction project planning permit.

On 29 May 2006, the General Office of the State Council issued an opinion developed by nine ministries including the Ministry of Construction on the Notice on the Opinions on Adjusting the Housing Supply Structure and Stabilising the Housing Prices (關於調整住房供應結構穩定住房價格意見的通知). The notice requires that any new commodity housing projects approved or constructed since 1 June 2006 with a unit gross floor area (套型建築面積) of less than 90 square meters per unit (including affordable housing) shall account for 70% or above of the total area for development and construction. Municipalities directly under the Central Government, cities under separate state planning and provincial capitals may deviate from such ratio under special circumstances upon approval from the Ministry of Construction. If the projects which have been previously approved but have not obtained construction permits fail to satisfy the above requirements, they must adjust their planning according to the requirements.

Pursuant to the Measures on Administration of Plot Ratio of Construction Land (建設用地容積率管理辦法) promulgated by the MOHURD on 17 February 2012 and effective from 1 March 2012, the Measures on Administration of Plot Ratio of Construction Land applies to the land provided by ways of allocation or grant within the planned area of a city or a county. The competent authority of urban and rural planning at municipal and or county level shall provide planning conditions including plot ratio, as a part of the land grant contract. As for a parcel of land of which plot ratio or other planning conditions have not been determined, its state-owned land use right is not allowed to be granted. Any construction entity or individual is not allowed to arbitrarily change the determined plot ratio, once the land use right is granted or allocated, unless the relevant conditions and procedures comply with the provisions of the Measures on Administration of Plot Ratio of Construction Land. Any entity or individual should comply with the plot ratio indicators determined according to the regulatory detailed planning approved legally and should not adjust the same randomly. The necessary adjustment shall be subject to the provisions under the Measures on Administration of Plot Ratio of Construction Land. The competent authorities of urban and rural planning above county level shall strictly examine whether the construction complies with the plot ratio requirements determined according to the regulatory detailed planning in the course of the verification of the construction. If the construction is unverified or proven that it fails to meet the plot ratio requirement, the completion and inspection of the construction units will not proceed. The projects which are unable to commence the construction on schedule due to the application for the adjustment on the plot ratio by construction units or individuals are subject to the relevant requirements of the disposal of the idle land.

(c) Construction of the property projects

Pursuant to the Construction Law of the PRC (中華人民共和國建築法) effective from 1 March 1998 and amended on 22 April 2011 and the Measures for Administration of Granting Permission for Commencement of Construction Works (建築工程施工許可管理辦法) promulgated by the Ministry of Construction on 15 October 1999, and as amended on 4 July 2001, 22 April 2011 and 25 June 2014 respectively, prior to the commencement of construction, the real estate developer shall apply for a permit for construction from the competent authorities of construction of the People's Government above the county level where the construction locates in accordance with the relevant regulations of the country. Applicants should satisfy the following conditions to apply for a permit for commencement of works:

1. The approval procedures for the construction land has been completed;

2. The planning permit has been obtained for the construction in the planning area of the city;

3. The construction site has met the basic requirements for the commencement of construction, and the progress of any necessary demolition has fulfilled the requirements for the commencement of construction;

4. The construction company has been ascertained;

5. The construction blueprint and technical information necessary for the construction has been obtained and the construction and design documents have undergone examination according to the regulations;

6. Specific measures has been developed to ensure the quality and safety of the construction;

7. Supervisors have been commissioned for those constructions that are required to do so in accordance with the regulation;

8. The capital necessary for construction has been secured;

9. Other circumstances prescribed by laws and administrative regulations.

Developers shall work with construction companies, inspection units, design units and construction monitoring units which are engaged in construction activities to prepare the contracts in relation to construction, inspection, design and monitoring. Construction companies, inspection units, design units and construction monitoring units shall possess the necessary qualifications and competency.

(d) Completion of the property projects

According to the Regulations on the Administration of Construction Projects Quality (建設工程質量管理條例) promulgated by State Council on 30 January 2000, the Interim Provisions on Inspection Upon Completion of Buildings and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收暫行規定) promulgated by the Ministry of Construction on 30 June 2000 and abrogated on 2 December 2013 and the Measures for Reporting Details Regarding Acceptance Examination Upon Completion of Construction Work and Municipal Infrastructure (房屋建築和市政基礎設施工程竣工驗收規定) promulgated by the Ministry of Housing and Urban-Rural Development and effective on 2 December 2013, the construction units (the real estate development enterprises) are responsible for arranging the completion and inspection for the design, construction and construction monitoring units after the property project has completed the contents under the design of the construction and the agreed terms of the contract and fulfill other conditions. Upon completion and acceptance, the construction units shall timely submit the completion and inspection report.

According to the Provisions on the Acceptance Examination Upon the Construction and Municipal Infrastructure (房屋建築工程和市政基礎設施工程竣工驗收備案管理辦法) promulgated by the Ministry of Construction in April 2000 and amended on 19 October 2009, the construction units (the real estate development enterprises) shall confirm the acceptance by signing the Completion and Inspection Certified Reports (竣工驗收備案表) upon the delivery of the full and complete documents to the relevant authority within 15 days from the passing of acceptance.

According to the Urban and Rural Planning Law, authorities of urban and rural planning above county level shall verify whether the construction complies with the planning requirements according to the regulations prescribed by the State Council. If the construction is unverified or proven that it fails to meet the planning requirements, the completion and inspection of the construction units will not proceed. The construction unit shall deliver the relevant completion and inspection information to the competent authorities of urban and rural planning within 6 months from the completion and inspection.

(4) Real Estate Administration

Pursuant to the Regulations on Property Administration (《物業管理條例》) promulgated by the State Council in June 2003, as amended on 26 August 2007 and the Measures for Administration of Property Management Enterprise Qualification (《物業服務企業資質管理辦法》) as amended by the Ministry of Construction on 26 November 2007, a property management enterprise shall undergo an assessment of its qualifications by the qualification approval authority. A qualification certificate evidencing relevant qualification rating will be issued by the authority to an enterprise which passes such qualification assessment. No enterprise may engage in property management without undergoing such qualification assessment conducted by the authority and obtaining a qualification certificate.

The amended Regulations on Property Administration (《物業管理條例》) expand the rights of property owners during the course of property development in various ways:

First, property owners are given the final say on renovation and reconstruction plans (including car-parking spaces, elevators, storage rooms and pipes). Previously, developers and property management companies had the right to make most of the said decisions.

Second, property owners are given more authority concerning owners' voting rights. Previously owners' voting rights at the first owners' meeting were decided by the local government after considering the construction area, number of units and other factors. Pursuant to the new Regulations on Property Administration (《物業管理條例》), the voting rights are decided at the discretion of owners.

Third, the amendments change the quorum requirement for owners' meetings. Previously, (i) quorum for an owners' meeting required the presence of owners collectively holding more than half of the entire voting rights, and (ii) decisions at an owners' meeting were adopted by the affirmative vote of owners holding more than either half of the voting rights held by the owners presented at the owners' meeting or two-thirds of the voting rights held by all owners, depending on the nature of the matter. Currently, (i) quorum for an owners' meeting requires the presence of owners collectively occupying more than half of the total construction areas, and (ii) decisions at an owners' meeting will be adopted by the affirmative vote of more than either half or two-thirds of the owners occupying more than half or two-thirds of the total construction areas, depending on the nature of the matter.

Fourth, the new Regulations on Property Administration (《物業管理條例》) state that owners are bound by the decisions passed at owners' meetings and by owners' committees. However, if the decision at an owners' meeting or by an owners' committee infringes upon the legal rights of an owner, such affected owner can apply for the rescission of the decision through the courts, as provided by the new Regulations on Property Administration (《物業管理條例》).

(5) Transfer and Sale of Real Estate

A. Transfer of Real Estate

According to the Law of the Administration of Urban Real Estate and the Provisions on Administration of Transfer of Urban Real Estate (《城市房地產轉讓管理規定》) promulgated by the Ministry of Construction on 7 August 1995, as amended on 15 August 2001, a real estate owner may sell, bequeath or otherwise legally transfer real estate to another person or legal entity. During the transfer of a real estate, the ownership thereof and the land use rights to the site on which the real estate is situated are transferred simultaneously. The parties to a transfer shall enter into a transfer contract in writing and register the transfer with the real estate administration authority in the place where the real estate is located within 90 days after the execution of the transfer contract.

Where the land use rights were originally obtained by grant, the real estate may only be transferred on the condition that:

1. The land use rights grant premium has been paid as agreed in the grant contract in full and a land use rights certificate has been obtained; and

2. Investment and development has been carried out under the grant contract and in the case of a housing construction project, development representing more than 25% of the total investment has been completed.

Where the land use rights were originally obtained by grant, the useful lives of such land use rights upon transfer of the real estate shall be the remaining portion of the original useful lives agreed in the land use rights grant contract after deducting the time already used by the former land users. Upon transfer of the real estate, in the event that the transferee intends to change the usage of the land agreed in the original grant contract, a modification agreement of the land use rights grant contract or a new land use rights grant contract shall be signed with the consent of the original transferor and the competent planning administration authority under the government of the relevant city and county in order to, inter alia, adjust the land use rights grant premium accordingly.

Where the land use rights were originally obtained by allocation, transfer of the real estate shall be submitted to the government vested with power for approval, as required by the State Council. Upon such approval, unless otherwise provided by relevant statutes of the State, the transferee shall complete the formalities for the grant of the land use rights and pay the grant premium accordingly.

B. Sale of commodity houses

Under the Measures for Administration of Sale of commodity houses (《商品房銷售管理辦法》) promulgated on 4 April 2001 and implemented on 1 June 2001 by the Ministry of Construction, sales of commodity houses include both pre-completion sales (pre-sale) and post-completion sales.

i. Permit for Pre-sale of Commodity Houses

According to the Regulations on Administration of Development and Operation (《開發經營管理條例》) and the Measures for Administration of Pre-sale of commodity houses (《城市商品房預售管理辦法》) (the "Pre-sale Measures" (《預售辦法》)) promulgated by the Ministry of Construction on 15 November 1994, as amended on 15 August 2001 and 20 July 2004 respectively, the pre-sale of commodity houses shall be conducted under a licensing system. A developer intending to sell a commodity house before its completion shall make necessary pre-sale registration with the real estate development authority of the relevant city or county to obtain a Permit for Pre-sale of Commodity Houses. A commodity house may be sold before completion only if:

1. The grant premium in respect of such land use rights has been paid in full and a land use rights certificate has been obtained;

2. A Construction Works Planning Permit and a Construction Permit have been obtained;

3. The funds invested in the development of the commodity houses put to pre-sale reached 25% or more of the total project investment and the schedule of works and the completion and delivery dates have been ascertained; and

4. The pre-sale has been registered and a Permit for Pre-sale of Commodity Houses has been obtained.

According to the Pre-sale Measures (《預售辦法》) and the Law of the Administration of Urban Real Estate (《城市房地產管理法》), proceeds of commodity houses pre-sale can only be used to fund the real estate development of the relevant projects.

Under the Regulations on Administration of Urban Real Estate Development and Operation (《城市房地產開發經營管理條例》) promulgated and implemented by the State Council on 20 July 1998, where a developer conducts unauthorised pre-sale of commodity houses without compliance with the said regulations, the real state authority under the government at or above county level shall order such developer to stop its illegal act and confiscate its illegal gains and can impose a fine less than 1% of the prepayment it received.

Under the Regulations on Administration of Urban Real Estate Development and Operation in Guangxi Zhuang Autonomous Region (《廣西壯族自治區城市房地產開發經營管理條例》) (amended in 2004) passed on 31 July 2004 and implemented on 1 August 2004, where a developer, in violation of the said regulations, conducts unauthorised pre-sale of commodity houses without a Permit for Pre-sale of commodity houses, the relevant competent development authority shall order such developer to stop the pre-sale and confiscate its illegal gains and can impose a fine ranging between 2‰ and 10‰ of its pre-sale proceeds of commodity houses.

The Notice on the Problem of Further Regulation of Real Estate Market and Improvement of the Pre-sale System of commodity houses (《關於進一步加強房地產市場監管完善商品住房預售制度有關問題的通知》) promulgated by the MOHURD on 13 April 2010 provided, *inter alia*, that:

1. For a project without the pre-sale permit, the real estate developer shall not conduct any pre-sale, nor charge the purchasers any fees in the nature of deposit or prepayment in forms of subscription, reservation, registration according to assigned serial number and issue of VIP card, nor organize any sales exhibition. For a project with the pre-sale permit, the real estate developer shall make one-off announcement on the total number of houses available for pre-sale, together with the unit selling price within 10 days, and sell the houses strictly at such expressly marked price. A real estate developer shall neither sell the houses of which it has preserved the title to any third party prior to the initial title registration, nor pre-sell any commodity houses by sale back at cost or sale and leaseback arrangement, nor enter into any false transaction;

2. The smallest scale set by a pre-sale permit shall not be smaller than an entire building, and no pre-sale permit shall be obtained in respect of a floor or a unit;

3. A real estate developer shall sell commodity houses according to the pre-sale plan for commodity houses. Any significant alteration of the pre-sale plan shall be reported to the competent authority and made public;

4. A real-name system shall be strictly implemented in the sale of commodity houses, and the names of purchasers shall not be changed without permission. A pre-sale shall be rescinded if the purchaser fails to enter into a pre-sale contract within the time limit after subscription, and the house upon rescission shall be offered to the public for sale;

5. The conditions of delivery and use of commodity houses include: the construction has been completed and accepted as qualified after inspection and reported to the local competent authority; the affiliated basic facilities and infrastructures have been ready for use; the installation of household heat metering devices for residences in northern areas satisfies the design requirements; the policy of housing quality guaranty and housing use instruction has been carried out; the subject to assume responsibilities for commodity house quality has been ascertained; and the front-end property management has been finalised. Real estate developers shall present relevant evidences of the above to the purchasers upon delivery of the commodity houses for use; and

6. A real estate developer in violation of laws and regulations shall be ordered to make rectifications within a time limit, with such record included in the real estate credit file, and its online contracting activities in respect of commodity houses can be suspended; those who refuse to rectify shall be imposed serious punishment to the extent of cancellation of the qualification as developers and such information shall be reported to relevant land, tax, finance and industry and commerce authorities so as to limit their activities such as land acquisition and financial credit.

ii. Conditions of post-completion sales of commodity houses

Under the Measures for Administration of Sale of commodity houses (《商品房銷售管理辦法》), the post-completion sales of commodity houses shall be subject to the following conditions:

1. The real estate developers who offer to sell commodity houses shall have a corporate legal person's business license and a qualification certificate of a real estate developer;

2. A land use rights certificate or an approval of land use has been obtained;

3. A Construction Works Planning Permit and a Construction Permit have been obtained;

4. The commodity houses have been completed and accepted as qualified after inspection;

5. The relocation of the original residents has been well finalised;

6. The affiliated basic facilities for water, power, heating, gas and communication have been available for use, and other affiliated basic facilities and infrastructures have been available for use or the schedule of construction and delivery date have been ascertained; and

7. The property management plan has been finalised.

A real estate developer shall file the real estate development project manual and such evidences in compliance with conditions of post-completion sale of commodity houses to the competent real estate development authority for record prior to the commencement of post-completion sale of commodity houses.

iii. Other provisions on commodity house transactions

According to the Regulations on Administration of Development and Operation (《開發經營管理條例》) and the Pre-sale Measures (《預售辦法》), in the case of pre-sale of commodity houses, the developer shall sign a pre-sale contract with the purchaser, and register such pre-sales with the relevant real estate administrative authorities within 30 days after the contract date.

Pursuant to the Circular of the General Office of the State Council on Forwarding the Opinions of the Ministry of Construction and other Departments on Stabilising House Prices (《國務院辦公廳轉發建設部等部門關於做好穩定住房價格工作意見的通知》) dated 9 May 2005, a purchaser of a pre-sold commodity house is prohibited from further transfer prior to the completion of construction and a property ownership certificate being obtained by such purchaser. Where the name of the applicant for real estate ownership is different from the name of the purchaser shown in the pre-sale contract, the registration authority of real estate administration shall not register the application of such real estate ownership. A real-name system has been implemented for each house purchase and an immediate online filing system for pre-sale contracts of commodity houses has also been introduced and implemented.

Under the Provisions on Sales of Commodity Houses at Expressly Marked Price (《商品房銷售明碼標價規定》) promulgated by the National Development and Reform Commission on 16 March 2011 and came into effect from 1 May 2011, real estate developers and intermediary agencies (collectively, "the Sellers and the Agencies") shall, during the period of selling newly built commodity houses, publish and indicate the prices of the commodity houses and other closely related costs thereof as well as the pricing standards and other variables. The Sellers and the Agencies shall mark the price of each property unit and sell properties at such expressly marked price as much as possible. For real estate development projects that have obtained the pre-sale permits or permits for the sales of development projects, the Sellers and the Agencies shall publish the price and relevant costs as required within a specified time frame and sell the properties strictly at such marked price. The Sellers and the Agencies shall neither sell the houses at a price higher than the marked price nor charge certain fees they haven not specified or disclosed. Further, intermediary agencies shall, during the period of selling second-hand commodity houses, also mark the price clearly and conduct sales under the terms of the said provisions. In the event that the Sellers and the Agencies do not expressly mark the price or publish their charges, or commit fraud in price-marking or pricing, or publish false prices, the local regulatory authorities at or above county level shall be entitled to penalize the Sellers and the Agencies accordingly.

(6) Warranty and Maintenance of Houses

Under the Construction Law of the People's Republic of China (《中華人民共和國建築法》), the Measures for Administration of Sale of commodity houses (《商品房銷售管理辦法》), the Rules on the Implementation of the System on Housing Quality Guarantee and the Housing Usage Specification of Commodity Housing (《商品住宅實行住宅質量保證書和住宅使用說明書制度的規定》) promulgated by the Ministry of Construction on 20 May 1998 and the Regulations on the Administration of Construction Projects Quality (《建設工程質量管理條例》) promulgated by the State Council on 30 January 2000, when a real estate developer delivers newly built residential houses, it shall provide the Residence Usage Specification and Residence Quality Guarantee. The Residence Quality Guarantee is a legal document stipulating the warranty and maintenance obligations a real estate developer shall assume for the sold residential houses. Meanwhile, a supplementary agreement to the Commodity House Purchase Contract can be entered into.

According to the Measures on the Warranty and Maintenance of Property Construction Projects (《房屋建築工程質量保修辦法》) promulgated by the Ministry of Construction on 30 June 2000 and other laws and regulations, under normal conditions, the warranty period of different parts of a construction project should not be less than:

(1) the reasonable useful lives as stipulated by the project designing document for the groundwork foundation and main body structure project;

(2) five years for the waterproof project of the surface, the toilet and rooms with waterproof requirements and the leakage prevention work of the external walls;

(3) two heating periods/cooling periods for the heating and cooling system;

(4) two years for the electrical and gas pipeline, water supply pipe and drainpipe and equipment installation; and

(5) two years for the fitting-out works.

The warranty and maintenance period of other parts may be determined by parties at their discretion.

(7) Mortgages of Real Estate

Under the Law of the Administration of Urban Real Estate (《城市房地產管理法》), the Security Law of the People's Republic of China (《中華人民共和國擔保法》) promulgated by Standing Committee of the National People's Congress on 30 June 1995 and implemented on 1 October 1995, and the Measures on the Administration of Mortgages of Urban Real Estate (《城市房地產抵押管理辦法》) promulgated by the Ministry of Construction in May 1997, as amended on 15 August 2001, where a mortgage is created on a property ownership legally obtained, a mortgage shall be simultaneously created on the land use rights of the land on which such property is situated. Where the land use rights of a State-owned land acquired by means of grant is mortgaged, all the buildings thereon shall also be mortgaged at the same time. The land use rights of a town or village enterprise cannot be mortgaged separately. Where the buildings, including plants, of a town or village enterprise are mortgaged, the land use rights of such land as occupied by the buildings shall also be mortgaged at the same time. The mortgager and the mortgagee shall enter into a mortgage contract in writing. Within 30 days after the date of a real estate mortgage contract, the parties to the mortgage shall register the mortgage with the real estate administration authority at the place where the real estate is situated. A real estate mortgage contract shall come into effect on the date of such registration. If a mortgage is created on the real estate in respect of which a property ownership certificate has been legally obtained, the registration authority shall make an entry under the "third party rights" item on the original Property Ownership Certificate to be kept by the mortgager and issue a Certificate of Third Party Rights of Property to the mortgagee. If a mortgage is created on the commodity house put to pre-sale or under construction, the registration authority shall record the same on the mortgage contract. If construction of a mortgaged real estate is completed during the term of such mortgage, the parties involved shall re-register the mortgage after a certificate evidencing the ownership of the real estate concerned has been obtained by the mortgager.

In the event that the debtor doesn't perform its obligations, the creditor is entitled to be compensated in priority by a discount of the mortgaged real estate or the proceeds of auction or selling off such property under the provisions of the Security Law of the People's Republic of China (《中華人民共和國擔保法》).

Pursuant to the Property Law of the People's Republic of China (《中華人民共和國物權法》), where a mortgage is created on a building, a mortgage shall be simultaneously created on the land use rights of the land for construction on which such building is situated, or vice versa. Whereas the mortgagor does not follow the aforesaid provisions, the properties that have not been mortgaged shall be deemed to be mortgaged simultaneously. Where a mortgage is created on buildings and other fixtures on the piece of land, the land use rights of the land for construction, or buildings under construction, registration shall be made in respect of such mortgage and such mortgage right shall be valid upon registration.

(8) Leases of Housing

Under the Law of the Administration of Urban Real Estate (《城市房地產管理法》), in the case of a house leasing, the lessor and the lessee shall sign a lease contract in writing, stating the agreed lease term, usage, price and modification responsibilities as well as other rights and obligation of the parties, and register with the real estate administration authority.

Under the Measures for Administration of Leases of Commodity Houses (《商品房屋租賃管理辦法》) promulgated by the Ministry of Housing and Urban-Rural Development on 1 December 2010 and enforced on 1 February 2011, within 30 days after the date of the housing lease contract, the parties shall go through the housing lease registration and filing process with the competent construction (real estate) authority under the government of the municipality, city or county where the housing is located.

II. Primary Land Development

According to the Measures for Land Reserve Administration (Guo Tu Zi Fa [2007] No. 277) (《土地儲備管理辦法》(國土資發[2007]277 號)) promulgated by the Ministry of Land and Resources, the Ministry of Finance and the People's Bank of China on 19 November 2007, land reserve represents land legally obtained by land and resource management authority under the government at city or county level for preliminary development and land supplies, with the aim of regulating the land market and promoting reasonable land utilisation. The Land reserve authority shall undertake the specific implementation of land reserve matters. As provided under clause 3, the land reserve authority shall be a public institution established upon the approval of the government at city or county level with an independent legal person qualification, subordinated under the land and resource management authority and responsible for all the land reserve matters under the local jurisdiction. As further provided under clause 16, for land included in the land reserve, the land reserve authority, upon the approval of the government at city or county level, is entitled to preliminarily develop, protect, manage, temporarily utilise the reserved land and conduct financing activities for land reserve and its preliminary development. Under the provisions of clause 19, where the preliminary development involves infrastructure construction such as road development, supply of water, power and gas, drainage, telecommunications, lighting, landscaping and land leveling, the construction companies shall be selected through public tender according to applicable laws and regulations.

According to the Notice of the Ministry of Finance on the Issue of Land Reserve Fund Auditing (Trial) (Cai Kuai [2008] No. 10) (財政部關於印發《土地儲備資金會計核算辦法(試行)》的通知(財會[2008]10號)) promulgated on 19 August 2008 and implemented on 1 January 2009 by the Ministry of Finance, the breakdown of land development expenses includes the fee for conducting preliminary land development as required after collection, acquisition, pre-emption or recovery of land, including the preliminary land development expenses and the expenditure associated with preliminary land development as specified by the Ministry of Finance, covering infrastructure construction expenses such as road development, supply of water, power and gas, drainage, telecommunications, lighting, landscaping and land leveling, as a result of the grant of land.

According to the Notice of the Ministry of Land and Reserve, the Ministry of Finance, the People's Bank of China and the China Banking Regulatory Commission on Strengthening Land Reserve and Financing Management (Guo Tu Zi Fa [2012] No. 162) (《國土資源部、財政部、中國人民銀行、中國銀行業監督管理委員會關於加強土地儲備與融資管理的通知》(國土資發[2012]162號)), the competent authority of the Ministry of Land and Reserve shall be responsible for the overall management of land reserve and the establishment of land reserve authority register. The land reserve authority shall organize and commence the preliminary development for reserved land to secure sufficient supply of "vacant sites" for the government. In the event that infrastructure construction involves road development, supply of water, power and gas, drainage, telecommunications, lighting, landscaping and land leveling, the project design, construction and supervision companies shall be selected through public tender and are not allowed to proceed with project construction through subordinated institution. Any subordinated or associated institution engaging in project construction shall be dissociated with the land reserve authority. During the construction period of preliminary development, the land reserve authority shall be responsible for supervision and management. Acceptance checks shall also be organized and performed upon the completion of construction pursuant to the relevant construction acceptance checks requirements. The management and protection as well as temporary utilisation of reserved land can be managed either by internal organizations established by the land reserve authority or by management companies selected through public tender.

Pursuant to the Regulations on the Expropriation of and Compensation for Housing on State-owned Land (《國有土地上房屋徵收與補償條例》) promulgated by the State Council on 21 January 2011 and became effective on the same day, the government at the municipal or county level shall be responsible for, and entitled to, set up housing expropriation departments to organize and carry out the expropriation of and compensation for housing in the local jurisdiction. The amount of compensation for the housing being expropriated shall not be less than the market price of housing similar to the housing being expropriated on the announcement date of the housing expropriation decision. The housing being expropriated shall be appraised by a real estate appraisal institution with relevant qualification according to applicable housing expropriation appraisal measures. A party that objects to the appraisal value of the housing being expropriated may request the real estate appraisal institution to review the appraisal result. A party that objects to the review result may apply to the real estate appraisal expert committee for authentication of the appraisal value. The measures for housing expropriation appraisal shell be prepared by the competent housing and urban-rural construction authority of the State Council after seeking public advice. The party with housing being expropriated may choose monetary compensation, or may choose to exchange the property rights of the housing. If the party with housing being expropriated choose to exchange the property rights of the housing, the government at the municipal or county level shall provide the housing to be used for the exchange of property rights, and calculate and settle the difference between the value of the housing being expropriated and the value of the housing used for the exchange of the property rights. If an individual's housing is expropriated due to the renovation of the old urban district and such individual chooses to exchange for the property rights of the housing in the area being renovated, the government at municipal or county level that made the housing expropriation decision shall provide the housing in or near the area being renovated, and calculate and settle the difference between the value of the housing being expropriated and the value of the housing used for the exchange of the property rights.

III. Construction Safety

Pursuant to the Law of Production Safety the People's Republic of China (《中華人民共和國安全生產法》) promulgated by the Standing Committee of the National People's Congress on November 2002, as amended on 27 August 2009 and 31 August 2014 respectively, the authorities responsible for the supervision and management of safe production shall act strictly according to conditions and procedures of safe production as required by relevant laws and regulation and national or industrial standards during the course of review and approval (including approval, authorization, permissions, registration, certification and issue of licenses, similarly hereinafter) and acceptance check of matters concerning production safety under the provisions of relevant laws and regulations; and any construction work failing to meet the conditions of safe production as required by relevant laws and regulation and national or industrial standards shall not be approved or accepted as qualified after inspection. The production and operation entities shall implement legally-enacted national or industrial standards for the purpose of production safety and provide education and training to employees regarding production safety so as to ensure that employees have necessary knowledge of production safety, get familiar with relevant rules and regulations for production safety as well as rules for safe operation, and master the skills for safe operation in their own positions.

Under the Construction Law of the People's Republic of China (《中華人民共和國建築法》) promulgated by the Standing Committee of the National People's Congress on 1 November 1997 and latest revised on 22 April 2011, the construction contractor assumes responsibility for the safety of the construction site. The main contractor will take overall responsibility for the construction, and the subcontractors shall report to, and act under the production safety management of the construction site by, the main contractor.

In the Guidance of the Ministry of Construction on Strengthening the Insurance of Accidental Injury in Construction Work (《建設部關於加強建築意外傷害保險工作的指導意見》) issued by the Ministry of Housing and Urban-Rural Development on 23 May 2003, the Ministry of Housing and Urban-Rural Development further emphasizes the importance of the insurance of accidental injuries during construction work and provides specific guidance in this aspect. In addition to work-related insurance, the construction enterprises shall also buy personal accident insurance for on-site staff engaging in construction and management under the provisions set out in the Regulations on Production Safety Management of Construction Project (Order of State Council No. 393) (《建設工程安全生產管理條例》(國務院令第393號)). The premium of personal accident insurance shall be assumed by the construct companies or the main contractor (if any). The coverage period of personal accident insurance starts from the commencement date of the construction works and ends at the completion date of the construction works which have been accepted as qualified after inspection.

IV. Restrictions on the Grant of Real Estate Development Loans and Individual Housing Purchase Loans by Banks

(1) Real Estate Development Loans

The Circular on Further Strengthening the Administration of Real Estate Credit Business (《關於進一步加強房地產信貸業務管理的通知》) issued and implemented by the People's Bank of China in June 2003, aiming to tighten the grant of bank loans to real estate business, provides as follows:

- The real estate development loans shall be granted to real estate developers with real estate development qualifications and high credit ratings and without overdue payment for construction. Loans shall firstly support those projects targeting at mid- to lower-income households, whereas those projects for the construction of large-sized, large floor area, high-end commodity houses or villas shall be imposed appropriate restrictions. For real estate developers with highly vacant commodity houses and high debt ratio, strict approval procedures shall be applied for their new real estate development loans and their activities shall be under particular supervision and control;

- Commercial banks shall not grant loans in any form to projects without a Land Use Rights Certificate, Construction Land Planning Permit, Construction Works Planning Permit and Construction Permit; and

- For a real estate developer applying for bank loans, its own capital (i.e. the rights of ownership) shall not be less than 30% of the total investment of the relevant development project. The real estate loans released by commercial banks could only be used to finance the real estate projects in the local areas but not elsewhere. Commercial banks shall not release loans to real estate developers for the purpose of the repayment of land premium.

Pursuant to the Guidance on Risk Management of Real Estate Loans of Commercial Banks (《商業銀行房地產貸款風險管理指引》) issued by China Banking Regulatory Commission (hereinafter referred to as "CBRC") on 30 August 2004, commercial banks shall not grant loans in any form to projects without a State-owned Land Use Rights Certificate, Construction Land Planning Permit, Construction Works Planning Permit and Construction Works Construction Permit. Under the Notice on Adjusting Capital Proportion of Fixed Assets Investment Project of Certain Industries (《關於調整部分行業固定資產投資項目資本金比例的通知》) issued by the State Council on 26 April 2004, the capital proportion of real estate projects (excluding economically affordable housing projects) has been increased from 20% or above to 35% or above. Accordingly, any real estate developer applying real estate development loans shall have invested at least 35% of the funds required for development. And in dealing with applications for real estate development loans, each commercial bank shall apply strict approval mechanism.

Under the Notice on the Opinions on Adjusting the Housing Supply Structure and Stabilising the Housing Prices (《關於調整住房供應結構穩定住房價格意見的通知》) promulgated by the State Council on 24 May 2006, commercial banks shall not release loans to the real estate developers who fail to meet the conditions of loans, for example, having a project capital less than 35%. For developers with many idle lands and vacant commodity houses, the commercial banks shall, in light of the principle of prudential operations, be stricter in controlling the renewal of loans or any form of revolving credit. The commercial banks shall not accept any commodity house that has been idle for three or more years as collateral for loans.

Under the Notice on Financially Promoting the Land Saving and Efficient Use (《關於金融促進節約集約用地的通知》) promulgated by the People's Bank of China and CBRC on 29 July 2008, no loans shall be granted to real estate developers for the purpose of the repayment of land premium. For secured loans for land reserve, legal land use rights certificates shall be obtained and the loan mortgage shall not exceed 70% of the appraised value of the collateral, and the term of loan shall be no more than two years in principle; loans shall be extended prudently and the renewal of loans or revolving credit shall be controlled strictly for real estate projects, as identified by the land and resources authority, that delay the commencement date of development specified in the land grant contract more than one year, have been completed less than one third of the intended total development areas or invested less than one fourth of the intended total project investment; and no real estate development loans or kinds of loans secured by lands for construction of relevant projects (including asset preservation business) shall be granted to real estate projects, as identified by the land and resources authority, with land idle for more than two years.

In accordance with the Notice of the State Council on Adjusting the Capital Ratios for Fixed Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》) promulgated by the State Council on 25 May 2009, the minimum capital proportion for low-income housing projects and normal commercial housing projects is 20%, and the minimum capital proportion for other types of real estate development projects is 30%. In rendering credit supports and services, the financial institutions shall perform independent loans review to prevent from financial risks. Depending on the actual conditions of the borrowers and the projects, the financial institutions shall perform comprehensive review and evaluation in terms of the truth of capital, investment proceeds and loan risks by reference of the capital proportion required by the State and decide whether or not to extend loans and, if do, the amount and proportion of loans at discretion.

(2) Individual Housing Purchase Loans

The Circular on Further Strengthening the Administration of Real Estate Credit Business (《關於進一步加強房地產信貸業務管理的通知》) issued and implemented by the People's Bank of China in June 2003 makes the following provisions on the grant of individual housing purchase loans by commercial banks:

- Commercial banks may only provide individual housing loans to individuals who purchase houses of which the main structures have been capped. Where a borrower applies for individual housing loans for his first residential unit, the down payment remains to be 20%; for individuals who purchase two or more residential units, the percentage of the down payment shall be increased; and

- Where a borrower applies for mortgaged loan of individual commodity house, the Mortgage loan to value Ratio shall not exceed 60%, the term of loan shall not be more than 10 years and such commodity house shall be duly completed and inspected.

Under the Circular on Facilitating Sustainable and Health Development of Real Estate Market (《關於促進房地產市場持續健康發展的通知》) issued by the State Council on 12 August 2003, the government has adopted a series of measures to control the property market, including, but not limited to, strengthening the construction and management of low-cost and affordable housing, increasing the supply of ordinary commodity houses and controlling the construction of high-end commodity houses. In addition, the government also implemented a series of measures relating to the grant of housing development loans, including, but not limited to, putting more effort in the collection of Housing Provident Fund and extension of loans, improving the guarantee mechanism of individual housing loans and strengthening the monitor of property loans. It is expected that the circular will have a positive effect on the development of the PRC property market in the long run by facilitating the continuous and healthy growth of the property market.

According to the Notice of the People's Bank of China on the Adjustment of Commercial Bank Housing Credit Policies and the Interest Rate of Excess Reserve Deposit (《中國人民銀行關於調整商業銀行住房信貸政策和超額準備金存款利率的通知》) promulgated by the People's Bank of China on 16 March 2005 and enforced on 17 March 2005, in the cities and areas where the housing price grows too quickly, the down payment of individual housing loans increases from 20% to 30%. The commercial banks are entitled to determine the specific cities or areas pending adjustment at discretion according to the price-rise conditions of real estate in different cities or areas as published by the relevant national authority.

The Supplementary Notice on Strengthening the Administration of Commercial Real Estate Credit Facilities (《關於加強商業性房地產信貸管理的補充通知》) issued on 27 September 2007 and supplemented on 5 December 2007 by the People's Bank of China and CBRC provides that:

- The minimum down payment for any purchase of first self-use residential unit with a GFA of less than 90 sq.m. is 20% of the purchase price of the property. The minimum down payment for any purchase of first self-use residential unit with a GFA of 90 square meters or more is 30% of the purchase price of the property; and

- If a family member (including the purchaser and his/her spouse and their children under the age of 18) has financed the purchase of a residential unit with bank loans, any other member of the family that purchases another residential unit will be regarded as a second-time property purchaser.

The Notice on Firmly Curbing Precipitous Rise of Certain Urban Housing Prices (《關於堅決遏制部分城市房價過快上漲的通知》) promulgated by the State Council on 17 April 2010 provides for the implementation of a more strict housing loan policy, including:

- Purchasers of a first self-use residential unit for a family (including the borrower, his/her spouse and their minor children, similarly hereinafter) with a GFA of more than 90 square meters must make down payments of no less than 30% of the purchase price;

- Purchasers of a second residential unit for a family must make down payments of no less than 50% of the purchase price and the interest rate of loans shall not be less than 1.1 times of the prevailing benchmark interest rate; and

- The minimum down payment and the applied interest rate of loans must be increased significantly for purchasers of a third residential unit, depending on the decisions made by each commercial bank independently under the principle of risk management.

Under the Notice of Regulating the Criteria for Determining a Second Residential Household Property concerning Commercial Individual Housing Loans" (《關於規範商業性個人住房貸款中第二套住房認定標準的通知》) jointly promulgated by the Ministry of Housing and Urban-Rural Development, the People's Bank of China and CBRC on 26 May 2010, among other things, the requirements on down payments and interest rates of mortgages on a second residential unit shall also apply to non-local residents who cannot provide local tax certificates or social security certificates evidencing corresponding payment records for more than one year, regardless of whether there is any residential unit under the name of a member of their family at the time of application.

Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting the Business Tax Policy on Individual Housing Transfer (《財政部、國家稅務總局關於調整個人住房轉讓營業稅政策的通知》) promulgated by the Ministry of Commerce and the State Administration of Taxation on 27 January 2011:

- If an individual sells a house that was purchased less than five years ago, business tax will be levied on the full amount of such sales proceeds;

- If an individual sells a non-ordinary house that was purchased not less than five years ago, business tax will be levied on the balance of the sales proceeds after ducting the purchase price of the house; and

- If an individual sells an ordinary house that was purchased not less than five years ago, business tax will be exempted.

As provided by the Notice [2011] No. 1, all local governments and the ministries and commissions under the State Council must comply with the following requirements:

- If an individual transfers a house that was purchased less than five years ago, tax will be levied on the full amount of such sales proceeds;

- If a family utilising a mortgage to purchase a second residential unit, the down payment shall not be less than 60%, and the interest rate of such mortgage shall not be less than 1.1 times of the prevailing benchmark interest rate;

- The local governments shall increase effective land supply, and earnestly implement the requirement that the land supply for affordable housing, shantytown renovation and small and medium-sized ordinary commodity housing must not be less than 70% of the total housing land supply;

- A local resident household having one residential unit, or a non-local resident household being able to provide the local tax certificate or social security certificate evidencing corresponding payment records for a certain number of years, may only be allowed to purchase one more unit (including the newly built and the second-hand) in principle; and

- A local resident household having two or more residential units, or a non-local resident household having one or more residential units or unable to provide the tax certificate or social security certificate evidencing corresponding payment records for a certain number of years, shall be suspended from purchasing any residential unit in the local jurisdiction.

In accordance with the Notice on Further Regulating the Administration of Housing Purchase by Overseas Entities and Individuals (《關於進一步規範境外機構和個人購房管理的通知》) promulgated by the Ministry of Housing and Urban-Rural Development and the State Administration of Foreign Exchange on 4 November 2010, unless otherwise provided by laws and regulations, an overseas individual may only purchase one residential unit, and an overseas entity establishing domestic branches or representative offices may only purchase non-residential units in the city of registration for business purposes.

Under the Notice on Continuing to Promote the Adjustment and Control of the Real Estate Market (《關於繼續做好房地產市場調控工作的通知》) promulgated by the General Office of the State Council on 26 February 2013:

- All the municipalities directly under the central government, the municipalities with independent planning status, and the provincial capital cities (excluding Lhasa) must formulate local targets for price controls on newly built commodity houses (excluding the affordable low-cost housing, similarly hereinafter) for the current year based on the principle of stabilizing the current market price and an announcement of which shall be made to the public in the first quarter;

- The housing purchase restrictions must be imposed to the entire administrative area of the city in question and cover all the newly built commodity houses and second-hand houses;

- Non-local resident households owning one or more residential units and non-local resident households that cannot continuously provide the local tax certificates or the social security certificates evidencing the corresponding payment records for a certain period of time shall be suspended from purchasing any residential unit in the local jurisdiction;

- For those cities with excessive growth in housing prices, the local branches of the PBOC may further increase the down payment ratios and interest rates for loans to purchase second residential units in accordance with the price control targets and policies related to the newly built commodity houses formulated by the corresponding local governments; and

- The gains generated from the sale of a self-owned residential unit shall be subject to individual income tax of 20%, provided the original value of such residential unit can be verified through historical information such as tax filings and housing registration.

According to the Circular on Further Providing Effective Housing Financial Services (《關於進一步做好住房金融服務工作的通知》) issued by the People's Bank of China and China Banking Regulatory Commission on 29 September 2014, which stated that:

- Banks and financial institutions are encouraged to proactively support the projects of shantytown reconstruction and the construction of indemnificatory housing which meet credit assessment criteria in accordance with the principle of manageable risks and financial sustainability. The term of load granted to public housing and shantytown reconstruction shall be extended up to 25 years. The measure is able to support the shantytown reconstruction by levering the advantage of development of financing. Any construction arrangement of resettlement housing in shantytown, public housing and ordinary commodity housing organized by the local government should be included in the scope of development finance support and enhance the fund utilization.

- The minimum down payment of first home buyer for own use with mortgage loan is 30% and the loan interest rate floor is 70% of the benchmark interest rate and the measures of which should be individually implemented by the banks and financial institutions in accordance to the risk on their own. In the case of the family which has already owned a house and settled corresponding home purchase loans and wishes to improve the living condition by re-applying for loans to purchase ordinary commodity housing, the loan policy for the first-time buyer should be applied by the banks and financial institutions. In the cities where the "home purchase restriction" has been cancelled or has not been implemented, for the family which has already owned two or more houses and settled corresponding home purchase loans and applies for home purchase loans, the banks and financial institutions should take due and careful considerations on such application based on factors such as borrower's solvency and credit status and specify the proportion of down payment and loan interest rates. Banks and financial institutions can grant housing loans to non-local residents who meet credit assessment criteria in accordance to the local urban development planning.

According to the Circular on Issues Concerning the Regulation of the Policies on Personal Housing Provident Fund Loan (Jianjin [2014] No. 148) (《關於發展住房公積金個人住房貸款業務的通知》(建金[2014]148號)) issued and implemented by Ministry of Housing and Urban-Rural Development, Ministry of Finance and the People's Bank of China on 9 October 2014, which stated that:

- Workers who made full contributions to the provident fund for consecutive 6 months or above can apply for personal housing provident fund loan. Once a worker had made his contributions to the housing provident fund in other place(s) and made contributions at the existing place for less than 6 months, the allowed period of making contributions shall be counted in aggregate according to the deposit proof issued by the related Housing Fund Management Center where such contributions was previously made. Housing provident fund loans is provided for the target of those first-time buyers for their respective own use and buyers who wish to improve the living conditions by purchase of second flats. Housing provident fund administration centre shall not grant housing provident fund loan to any worker who has purchased his third or more flats.

- In those cities where individual housing provident fund loans of less than 85% are granted, the housing provident fund management committee shall properly increase the loan amount for first-time buyers for own-use and put more efforts to support workers who made contributions to the provident fund in accordance with the local housing prices and per capita living area, etc.

- Provinces, autonomous regions and municipalities directly under the Central Government have to implement the mutual accreditation and the transfer connection between different regions in the payment and deposit of the personal housing provident fund. Staff and workers can pay and deposit the personal housing provident fund from where they work, purchase house for self-occupation from where the household is located, and apply for the personal housing provident fund loan at a housing provident fund centre in the same place with the proof of payment and deposit issued by a housing provident fund centre in their work area.

V. Insurance

No mandatory provisions in the PRC laws, regulations and government rules require a real estate developer to purchase insurance policies for its real estate development projects. However, any of the PRC commercial banks may require a real estate developer to purchase insurance if the commercial bank intends to grant a development loan to such real estate developer. According to the Measures for Administration of the Grant of Real Estate Loan by the Bank of China (Trial) (《中國銀行房地產貸款管理辦法(試行)》) promulgated by the Bank of China on 21 May 1998, the borrower applied for a development loan shall purchase designated insurance as required by the lender from the insurance company prior to the signing of the loan agreement. The insurance period shall not be shorter than the term of borrowing and the insurance amount shall not be less than the amount of principal and interests of loan. The policy shall not attach any restrictive condition that may impair the lender's interests and shall state expressly that the lender is the primary beneficiary of the said insurance. All the expenses incurred therefrom shall be borne by the borrower.

VI. Major Taxes Applicable to Real Estate Developers

(A) Enterprise Income Tax

According to the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) enacted by the National People's Congress on 16 March 2007 and enforced from 1 January 2008, an uniform income tax rate of 25% will be applied towards foreign investment and foreign enterprises which have set up institutions or facilities in the PRC as well as the PRC enterprises.

(B) Business Tax

Pursuant to the Provisional Regulations of the People's Republic of China on Business Tax (《中華人民共和國營業稅暫行條例》) promulgated on 13 December 1993 and implemented on 1 January 1994 by the State Council, as amended on 10 November 2008 and implemented on 1 January 2009, and the Detailed Implementation Rules on the Provisional Regulations of the People's Republic of China on Business Tax (《中華人民共和國營業稅暫行條例實施細則》) issued and implemented by the Ministry of Finance on 25 December 1993, as amended on 15 December 2008 and implemented on 1 January 2009 and further amended on 28 October 2011 and implemented on 1 November 2011, the tax rate of the sale of real estate is 5%.

(C) Land Appreciation Tax

As provided by the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》) (the "Land Appreciation Tax Provisional Regulations") promulgated on 13 December 1993 and amended on 8 January 2011, and the Detailed Implementation Rules on the Provisional Regulations of the People's Republic of China on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例實施細則》) (the "Land Appreciation Tax Detailed Implementation Rules") promulgated and implemented on 27 January 1995, any appreciation gain from a transfer of real estate shall be subject to land appreciation tax. Land appreciation tax shall be charged at four levels of progressive rates: 30% for the appreciation amount not exceeding 50% of the sum of deductible items; 40% for the appreciation amount exceeding 50% but not exceeding 100% of the sum of deductible items; 50% for the appreciation amount exceeding 100% but not exceeding 200% of the sum of deductible items; and 60% for the appreciation amount exceeding 200% of the sum of deductible items. The related deductible items aforesaid include the following:

1. amount paid for obtaining the land use rights;

2. costs and expenses incurred from the development of land;

3. costs and expenses of new buildings and ancillary facilities, or estimated prices of old buildings and constructions;

4. related tax payable for transfer of real estate; and

5. other deductible items as specified by the Ministry of Finance.

After the issuance of the Land Appreciation Tax Provisional Regulations and the Land Appreciation Tax Detailed Implementation Rules, due to the longer history of real estate development and transfer, many districts where such regulations and rules having been implemented, however, did not force the real estate developers to declare and pay land appreciation tax. Therefore, the Ministry of Finance, the State Administration of Taxation, the Ministry of Construction and the Ministry of Land and Resources had separately and jointly issued several notices to restate the following: after the grant documents are signed, the taxpayers should make tax payment registration and declaration in the local tax authorities where the real estate is located, and pay land appreciation tax in accordance with such amount as calculated and within such period as required by the tax authority. For those who fail to acquire proof of payment or exemption from land appreciation tax from the competent tax authorities, the real estate administration authority shall not process the relevant title change procedures, and shall not issue the real estate title certificate.

On 2 March 2006, the Ministry of Finance and the State Administration of Taxation issued the Notice on Several Issues on Land Appreciation Tax (《關於土地增值稅若干問題的通知》) to clarify the relevant issues regarding land appreciation tax as follows:

a) *Tax collection and exemption issues in the sale of ordinary standard residential houses built by taxpayers and in the transfer of ordinary residential houses by individual residents*

The notice sets out the standards for ordinary standard residential houses. Where developers construct both sorts of ordinary residential houses and other commodity houses, the appreciation amount of land value shall be verified respectively. No adjustment shall be retrospectively made in respect of such ordinary standard residential houses, upon application made to the local tax authority where the real estate is located prior to the date of issuance of this notice for tax exemption, as determined to be exempted from land appreciation tax by the tax authority in accordance with the original standards for ordinary standard residential houses formulated by the governments of each province, autonomous region and municipality directly under the Central Government.

b) *Issues of pre-levy and settlement of land appreciation tax*

- All regions shall decide the pre-levy rate in a scientific and reasonable manner, and make adjustment in due time according to the value-added level of the local real estate industry as well as the market development level and on the basis of the specific housing categories, namely, ordinary standard residential houses, non-ordinary standard residential houses and commodity houses. After a project is completed, the relevant settlement shall be handled in a timely manner, with any overpayment being refunded and any underpayment being made up.

- As to those failing to make payment in advance within the required term of pre-levy, an overdue fine shall be imposed from the day following the expiration of the term of pre-levy according to the relevant provisions of the Tax Collection and Administration Law of PRC (《中華人民共和國稅收徵收管理法》) (implemented in 1 January 1993 and amended on 28 February 1995, 1 May 2001 and 29 June 2013) as well as its detailed rules for implementation (implemented in March 1993 and amended on 7 September 2001, 9 November 2012 and 18 July 2013).

- As to any real estate project that has been completed and has gone through the acceptance procedure, where the GFA of the transferred real estate represents 85% or more of the total salable GFA, the tax authority may require the relevant taxpayer to conduct the settlement of land appreciation tax on the transferred real estate according to the matching principles regarding the proportion between the income generated from the transfer of real estate and the amount of deductible items. The specific method of settlement shall be prescribed by the local tax authority of each province, autonomous region, municipality directly under the Central Government and municipalities with independent planning status.

- Tax collection and exemption issues for investment or association by means of real estate. The regulations on provisional exemption of land appreciation tax shall not be applicable to either of the following cases: an investment or association made with land (real estate) as consideration if the enterprise being invested or associated engages in real estate development; and the transfer of real estate to the enterprise that a real estate developer invests or associates with by the commodity houses it constructed.

The Notice on the Administration of the Settlement of Land Appreciation Tax of Real Estate Developers (《國家税務總局關於房地產開發企業土地增值税清算管理有關問題的通知》) promulgated by the State Administration of Taxation on 28 December 2006 and came into effect on 1 February 2007, a real estate developer shall settle and clear the land appreciation tax payment of its development projects that meet certain criteria with the tax authorities in accordance with the applicable land appreciation tax rates. The land appreciation tax shall be settled for projects approved by the relevant competent authorities; and for the projects developed in phases, the land appreciation tax shall be settled in stages. Land appreciation tax must be settled if (1) the real estate development project has completed construction and been sold out; (2) the real estate developer transfers the entire unfinished development project; or (3) the land use rights with respect to the project is transferred directly. In addition, the relevant tax authorities may require the developers to settle the land appreciation tax in any of the following cases: (1) for completed real estate development projects, the transferred GFA represents more than 85% of total salable GFA, or such proportion is no more than 85%, but the remaining salable GFA has been leased out or used by the developer; (2) the project has not been sold out for more than three years after obtaining the sale or pre-sale permit; (3) the developer applies for cancellation of the tax registration without settling the relevant land appreciation tax; or (4) such other conditions as specifically stipulated by the tax authorities.

The aforesaid notice also indicated that in any of the following circumstances, the tax authorities shall levy land appreciation tax on the real estate developer as per the rate no less than the pre-levy rate with reference to the land appreciation tax-bearing conditions of local enterprises with a similar development scale and income level: (1) an account book has not been maintained as required by law or administrative regulation; (2)

the account book was destroyed illegally or the real estate developer refuses to provide any tax payment references; (3) even though an account book is maintained, the accounts are in a state of mess or the cost materials, income vouchers and cost vouchers are damaged and incomplete, making it difficult to determine the income of transfer or the amount of deductible items; (4) no land appreciation tax settlement has been made within the prescribed period, and still the same notwithstanding ordered by the relevant tax authorities to make such tax settlement within a time limit; (5) the basis for tax calculation as declared is obviously low without justifiable cause. Each local provincial tax authority can formulate its own implementation measures according to the aforesaid notice and local situation.

Pursuant to the Rules on the Administration of the Settlement of Land Appreciation Tax (《土地增值稅清算管理規程》) promulgated by the State Administration of Taxation on 12 May 2009, if a taxpayer is found to have satisfied the conditions of verified tax collection during the settlement of land appreciation tax, a land appreciation tax shall be levied on such taxpayer for its real estate projects in a manner of verified collection. As for the projects developed in phases, the settlement method for each phase shall be consistent.

According to the Notice on Adjustment of Regulations on the Pre-levy of Land Appreciation Tax (Guidishuifa 2010 No. 18) (《關於調整土地增值稅預徵率的通知》) promulgated by Local Tax Bureau of Guangxi Zhuang Autonomous Region on 22 February 2010, suspension of pre-levy of land appreciation tax is applied to the low-rental housing and affordable housing developed by the real estate developer. The real estate developer who develops real estate other than ordinary residential housing is subject to a pre-levy of land appreciation tax rate of 2-3%. The real estate developer who develops retail shops and other real estate is subject to a pre-levy of land appreciation tax rate of 3-5%. A pre-levy of land appreciation tax rate of 5-12% is applied to the transferring of land use right by mandatory auction.

Under the Notice on Strengthening the Collection and Administration of Land Appreciation Tax (《關於加強土地增值稅徵管工作的通知》) promulgated by the State Administration of Taxation on 25 May 2010:

(1) To give full play to the adjusting role of land appreciation tax at the pre-levy stage, all tax authorities shall adjust the current pre-levy rates. Except for the affordable low-cost housing, the minimum pre-levy rates shall be 2% for the eastern provinces, 1.5% for the central and the north-eastern provinces, and 1% for the western provinces. Different pre-levy rates applicable to different types of real estates shall be duly determined in all regions (division of regions shall be governed by relevant documents of the State Council).

(2) In order to regulate the verification work, the verified levy rate shall not be less than 5% in principle. All provincial tax authorities shall distinguish different verified levy rates applicable to different types of real estates depending on the local conditions.

(D) Deed tax

Pursuant to the Provisional Regulations of the People's Republic of China on Deed Tax (《中華人民共和國契稅暫行條例》) promulgated on 7 July 1997 and implemented on 1 October 1997 by the State Council, the transferee, whether an entity or an individual, of the title to a land or a house in the PRC shall be the obliged taxpayer for deed tax. The deed tax rate ranges from 3% to 5%. Depending on the local conditions, the governments of provinces, autonomous regions and municipalities directly under the central government may determine the applicable local tax rates, subject to the aforesaid range, and report to the Ministry of Finance and the State Administration of Taxation for record.

On 29 September 2010, the Ministry of Finance, the State Administration of Taxation and the MOHURD jointly issued the Notice on the Adjustment of Deed Tax for Real Estate Transactions and Individual Income Tax Preferential Policies (《關於調整房地產交易環節契稅、個人所得稅優惠政策的通知》), pursuant to which:

1. Where an individual purchases an ordinary house which would be the only house of the family (including the purchaser and his/her spouse and their minor children, similarly hereinafter), the applicable deed tax shall be deducted by 50%; where an individual purchases an ordinary house with an floor area of no more than 90 sq.m. which would be the only house of the family, the applicable deed tax may be decreased to 1%;

2. The above-mentioned preferential policy does not apply where the ordinary house purchased by such individual does not meet the above requirements;

3. No deduction of individual income tax shall apply where the taxpayer purchases another house within one year after he/she sells his/her own house.

(E) Urban land use tax

Pursuant to the Provisional Regulations of the People's Republic of China on Urban Land Use Tax (《中華人民共和國城鎮土地使用稅暫行條例》) promulgated by the State Council on 27 September 1988, as amended on 31 December 2006, 8 January 2011 and 7 December 2013 respectively, the urban land use tax is levied according to the area of relevant land. The annual tax on every square meter of urban land shall range between RMB0.6 and RMB30 and be collected according to the tax amount determined by the local tax authority.

(F) Buildings Tax

Under the Provisional Regulations of the People's Republic of China on Building Tax (《中華人民共和國房產稅暫行條例》) promulgated by the State Council on 15 September 1986, as amended on 8 January 2011, building tax shall be levied at a rate of 1.2% if calculated on the basis of the residual value of real estates, and 12% if calculated on the basis of the real estate rents. Any individual-owned real estates for non-commercial purposes is exempted from building tax.

(G) Stamp duty

Under the Provisional Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花稅暫行條例》) promulgated by the State Council on 6 August 1988, as amended on 8 January 2011, stamp duty shall be levied on the transfer of title, including the transfer of property ownership, at 0.05% of the amount stated therein; for permits of rights, including the real estate ownership certificates and land use rights certificates, stamp duty of RMB5 shall apply on an item basis.

(H) Municipal maintenance tax and Education surcharge

Under the Provisional Regulations of the People's Republic of China on Municipal Maintenance Tax (《中華人民共和國城市維護建設稅暫行條例》) promulgated by the State Council on 8 February 1985, as amended on 8 January 2011, any taxpayer, whether an entity or an individual, of consumption tax, value-added tax or business tax shall be subject to municipal maintenance tax. The tax rate shall be 7% for a taxpayer domiciled in an urban area, 5% for a taxpayer domiciled in a county or a town, and 1% for a taxpayer domiciled in none of the urban area or county or town.

Under the Provisional Provisions on Imposition of Education Surcharge (《徵收教育費附加的暫行規定》) promulgated by the State Council on 28 April 1986, as amended on 7 June 1990, 20 August 2005 and 8 January 2011, any taxpayer, whether an entity or an individual, of consumption tax, value-added tax or business tax shall be subject to an education surcharge, unless such obliged taxpayer is instead required to pay a rural area education surcharge as provided by the Notice of the State Council on Raising Funds for Schools in Rural Areas (《國務院關於籌措農村學校辦學經費的通知》) promulgated on 13 December 1984. Education surcharge is calculated and levied at a rate of 2% on the actual amount of consumption tax, value-added tax and business tax paid by the taxpayer before 1 October 2005. After 1 October 2005, education surcharge shall be calculated and levied at a rate of 3% on the actual amount of consumption tax, value-added tax and business tax paid by the taxpayer.

On 18 October 2010, the State Council promulgated the Notice on the Unification of Systems of Municipal Maintenance Tax and Educational Surcharge Imposed Upon Domestic-Invested Enterprises, Foreign-Invested Enterprises and Individuals (關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知), pursuant to which, effective from 1 December 2010, the systems of municipal maintenance tax and educational surcharge imposed upon domestic-invested enterprises, foreign-invested enterprises and individuals will be unified. Municipal maintenance tax and educational surcharge shall also be imposed upon foreign-invested enterprises, foreign enterprises and foreign individuals.

(I) Tax on Adjustment of Fixed Asset Investment Orientation

Under the Provisional Regulations of the People's Republic of China on Tax on Adjustment of Fixed Asset Investment Orientation (中華人民共和國固定資產投資方向調節稅暫行條例) promulgated by the State Council in April 1991, a tax rate of 5% will apply to the general residential housing (including commodity housing). The Provisional Regulations of the People's Republic of China on Tax on Adjustment of Fixed Asset Investment Orientation was annulled on 1 January 2013.

VII. Environmental Protection

Pursuant to the Regulations on Administration of Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated and implemented by the State Council on 29 November 1998:

- A construction unit shall submit the environmental impact report, the environmental impact statement or the environmental impact registration form of the construction project to the competent environmental protection administrative authorities for approval during the phase of feasibility study of such project. And the competent environmental protection administrative authorities shall make a decision on approval or disapproval and give a notice in writing to the construction unit within 60, 30 and 15 days after receiving the environmental impact report, the environmental impact statement or the environmental impact registration form of the construction project, respectively.

- Upon the completion of the construction project, the construction unit shall make an application to the competent environmental protection administrative authorities responsible for the examination and approval of the environmental impact report, the environmental impact statement or the environmental impact registration form of such construction project for the inspection and acceptance of the environmental protection facilities as required supplementary to such project. The inspection and acceptance of the environmental protection facilities and the main part of such project shall be conducted simultaneously.

In accordance with the Measures for the Administration of Environmental Protection Inspection and Acceptance of Construction Projects (《建設項目竣工環境保護驗收管理辦法》) promulgated by the State Environmental Protection Administration (canceled) on 27 December 2011, as amended on 22 December 2010, the environmental protection inspection and acceptance of construction projects refers to the activity performed by the competent environmental protection administrative authorities to assess whether a construction project, upon completion, meets the requirements of environmental protection, based on the monitoring and investigation results of the environmental protection inspection and acceptance and by means of on-site inspection and otherwise, as provided by the aforesaid Measures. The scope of the environmental protection inspection and acceptance of construction projects includes: (i) all the environmental protection facilities related to the construction projects, including works, equipment, fixtures, monitoring tools and other ecological protection facilities constructed or provided for the purpose of pollution prevention and environmental protection; and (ii) any other environmental protection measures adopted as provided by the environmental impact report (statement) and the design documents of the relevant projects.

According to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) promulgated by the Standing Committee of the NPC on 26 December 1989, as amended on 24 April 2014, units that cause environmental pollution and other public nuisances shall adopt effective measures to avoid and control such pollution and damage to the environment. Pollution prevention facilities of construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation on the condition that the related pollution prevention facilities have been examined and approved by the environmental protection authority. Enterprises and institutions discharging pollutants shall report to and register with the relevant authorities in accordance with the provisions of the environmental protection authority under the State Council.

According to the Law of the People's Republic of China on Environment Impact Assessment (《中華人民共和國環境影響評價法》) promulgated by the Standing Committee of the NPC on 28 October 2002 and enforced on 1 September 2003, the central government of the PRC has set up a system to assess the environmental impact of construction projects, and classify and administer the environmental impact assessment in accordance with the degree of environmental impact. As to a construction project that may result in a material impact on the environment, an environmental impact report setting out a comprehensive assessment on the potential environmental impact is required; in the event of a slight impact, an environmental impact statement analyzing or assessing the particular potential environmental impact is required; and in the event of a minimal impact, no environmental impact assessment is required, but an environmental impact registration form shall be filed. The relevant environmental impact assessment documents must be approved by the relevant PRC authority before the construction commences.

The Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》) and Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution (《中華人民共和國固體廢物污染環境防治法》) regulate the prevention, control, supervision and administration of the emission of air pollutants and the treatment of sewage, noise and solid waste.

VIII. Labour

All companies in the PRC are subject to the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) (the "Labour Law"), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) (the "Labour Contract Law") and the Regulations on Implementing the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》), as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time regarding the Target Group's operations in the PRC. The Labour Contract Law, which became effective on 1 January 2008, imposes stricter requirements than previously required under the PRC Laws in terms of signing labour contracts with employees, stipulating probation and violation penalties, terminating labour contracts, paying remuneration and economic compensation, arranging labour dispatch as well as social security premiums. The Labour Contract Law was further amended on 28 December 2012, and such amendments became effective on 1 July 2013.

According to the Labour Law and the Labour Contract Law, companies in the PRC must enter into labour contracts to establish labour relationship with the employees. Companies must pay wages no less than the local minimum wage standards to such employees. Companies are also required to establish labour safety and sanitation systems strictly abide by the PRC rules and standards, and provide relevant training to the employees.

IX. Social Insurance Regulations and Housing Provident Fund Regulations

The PRC social insurance system is mainly governed by the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) (the "Social Insurance Law"), the Interim Measures Concerning the Maternity Insurance of Enterprises Employees (《企業職工生育保險試行辦法》), the Provisional Regulations on the Collection of Social Insurance Fees (《社會保險費徵繳暫行條例》), the Provisional Measures for the Administration of Social Insurance Registration (《社會保險登記管理暫行辦法》) and the Regulations on Work-Related Injury Insurance (《工傷保險條例》). The Social Insurance Law was promulgated on 28 October 2010 and came into effect on 1 July 2011. According to the aforesaid laws and regulations, employers in the PRC shall conduct registration of social insurance with the relevant competent authorities, and make contributions to the five basic types of social insurance for their employees, namely, basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. According to the Administrative Regulations on Housing Provident Funds (《住房公積金管理條例》) promulgated by the State Council, with effect from 3 April 1999 and as amended on 24 March 2002, all business entities (including foreign investment enterprises) are required to register with the local administrative center of housing provident funds, and maintain housing fund accounts with designated banks thereafter for the payment of the related funds for their employees.

OVERVIEW

The Target Group is principally engaged in property development in Liuzhou, Guangxi Zhuang Autonomous Region, the PRC. The Target Group focuses on developing and selling high quality and large-scale residential and commercial properties in Liuzhou, Guangxi Zhuang Autonomous Region. Liuzhou is the second largest city of the Guangxi Zhuang Autonomous Region and the largest eco-industrial city that accounts for approximately one quarter of the total industrial proportion in Guangxi Zhuang Autonomous Region. In addition to the property development business of large-scale complex property projects, the Target Group is also engaged in primary land development projects, i.e. preliminary development work necessary to prepare the land for sale at public auctions. The Target Group currently develops a single property project, namely Zhenghe City (正和城), comprising multiple phases which offers a wide range of properties, including townhouses, commercial buildings, office buildings, hotels and high rise apartments, some of which have equipped with ancillary facilities such as club houses and gardens.

Zhenghe City currently comprises of two phases. The Target Group successfully bid from the local government parcels of land in Liuzhou in 2010 and 2011 with the site area being approximately 231,696.9 sq. m. (the "**Phase I Project**"). According to the development plan of the Phase I Project, the Target Group would construct a stack of residential and commercial properties with GFA of approximately 500,000 sq. m. The Phase I Project comprises of three development zones, namely, zone A, zone B and zone C. As at the Latest Practicable Date, based on information provided by the Target Group, the Target Group has completed zone B, and majority parts of zone A, where an aggregate GFA of approximately 137,343.5 sq. m. were completed and the Target Group has sold GFA of approximately 108,777.5 sq. m. and received proceeds of approximately RMB993 million.

As at 30 June 2014, the Target Group has paid a cumulative investment sum of approximately RMB946.1 million for the Phase I Project. It is expected that the Phase I Project will be completed in 2017 and the total investment cost for the Phase I Project would amount to approximately RMB1,294.6 million.

The Target Group successfully bid another parcels of land adjacent to the aforesaid site with total site area of approximately 141,217.5 sq. m. in 2012 (the "**Phase II Project**"). According to the development plan of the Phase II Project, the Target Group would construct another stack of residential and commercial properties with a total GFA of approximately 580,000 sq. m. The Phase II Project comprises of three development zones, namely, zone D, zone E and zone F. It is expected that the Phase II Project will be completed in 2018 and the total investment cost for the Phase II Project would amount to approximately RMB2 billion.

During the three years ended 31 December 2013 and the six months ended 30 June 2014, the revenue of the Target Group was derived primarily from the property development business, particularly residential properties in the Phase I Project. During the three years ended 31 December 2013 and the six months ended 30 June 2014, the total GFA of the properties sold were approximately nil, 38,303.8 sq. m., 56,734.9 sq. m., and 13,738.7 sq. m. respectively, which generated turnover of nil, approximately RMB276.0 million, RMB333.2 million, and RMB73.8 million respectively, representing all of the Target Group's total revenue before operating taxes.

COMPETITIVE STRENGTHS

The Target Group has accumulated land reserve at competitive costs

The Target Group believes land acquisition at competitive costs is of utmost importance to ongoing business development. In 2012, 2013 and the six months ended 30 June 2013 and 2014, the average land acquisition cost per sq.m. delivered of the Target Group represented 8.6%, 10.7%, 9.0% and 11.6%, respectively, of the average selling price for the respective periods.

In the past, the Target Group has primarily acquired land through engaging in the primary land development with the partner Liuzhou Dongcheng at early stage that the Directors believe are compatible with local government policies or other local interests. In particular, the land acquisition strategies of the Target include: (i) leveraging the "Zhenghe" brand to develop properties that meet the needs of the local communities; (ii) early involvement in areas encouraged by the local government; and (iii) leveraging on the track record in developing quality property projects to acquire further land in the same geographical area. The Directors believe that such early involvement has enabled the Target Group to gain valuable insights into the relevant land in terms of growth potential, costs and development plans of local governments.

The Directors believe that the proven track record of the Target Group's land acquisition strategies will enable the Target Group to execute similar strategies to acquire land at competitive costs for future development. The table below summarises the average land acquisition costs during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2011	2012	2013	2013	2014
Land cost (RMB'000)	–	22,487	33,496	21,144	8,103
GFA delivered (sq. m.)	–	38,303.8	56,734.9	35,694.4	13,738.7
Average land cost per sq. m. delivered (RMB)	–	587.1	590.4	592.4	589.8
ASP (RMB)	–	6,795.3	5,537.4	6,599.4	5,065.0
Average land cost per sq. m. delivered as a percentage of ASP	–	8.6%	10.7%	9.0%	11.6%

The Target Group has competitive advantages over other property developers, as bidders, in acquiring land in the tender process

Pursuant to the Regulations on the Assignment of State-owned Land-Use Rights Through Competitive Bidding, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》) promulgated by the Ministry of Land and Resources on 9 May 2002 and amended on 28 September 2007, land use rights for commercial use, tourism, entertainment and commodity residential properties in the PRC can only be granted by the government through public tender, auction or listing-for-sale. In addition to the property development business, the Target Group's scope of business includes primary land development projects, i.e. preliminary development work necessary to prepare the land for sale at public auctions. During the process of primary land development, the developers are able to obtain an in-depth understanding of the condition of the land and other related matters, and demonstrate to the local government the development and financial strengths of the developers. As a result, primary land developers generally have competitive advantages over other bidders in acquiring land in the tender process.

The strategic location of the Target Group's properties

The slogan "Develop Towards the East" displays the latest development effort implemented by the Liuzhou government to start building the Eastern part of the city. The Liudong New District, where the Target Group's property project Zhenghe City is located, is planned to be the most concentrated and key developing district in Liuzhou for the next 5 years. This will drive the local economy, enhance surrounding infrastructures, and help improving the overall surrounding living environment. The Liudong New District is also planned to be the largest automotive town in the Guangxi in the coming years, as many automobile manufacturing companies have been building or relocating their factories and exhibition stores in that area. As a result of such migration of auto-factories, the Target Group's property will enjoy a greater customer base in the coming years. In addition, the location of Zhenghe City is in an ecological area, where the Liujiang River, Liuzhou Garden Expo venue and Sanmenjiang National Forest Park are all in close proximity. The upcoming development plans of the Liudong New District are expected to help the Target Group to attract more potential buyers and customers, thereby positively impacting the Group's revenue and profitability. Members of the senior management of the Target Group are of the view that the booming economic growth, fast urbanization and industrialization, favorable local real estate policy which the "limited purchase" is not imposed in Liuzhou, and increasing disposable income among middle-class will be the key drivers of the Target Group's business growth.

The Target Group has acquired land reserves in Liuzhou to support future developments of Zhenghe City

The Directors believe that the sufficiency of land reserve is one of the essential factors in determining the success of the Target Group. The Target Group has substantial experience in primary land development and in developing large-scale mixed use complex projects which collectively improve the local living and commercial environment. As a result, such projects are well-received by the local communities, which enables the Target Group to have relatively easy access to land reserves from the local government authorities. In 2012, The Target Group successfully bid another parcels of land adjacent to the aforesaid site with a total site area of approximately 140,000 sq. m for which the Group obtained the land use right certificate, and an aggregate planned GFA held for future development of Phase II Project of approximately 580,000 sq. m.

The Target Group has recruited management team with strong execution skillsets and extensive industry experience

The Directors consider that the strong execution skillsets of management team have been crucial in implementing business strategies and attaining current market position. The management team of the Target Group has an average of 10 years of industry experience in the real estate market of Liuzhou. Mr. Mei and Mr. Xing has served the Target Group since its incorporation in 2010 which facilitates the promotion of common corporate values and operating philosophy. Other members of the management team of the Target Group comprises professionals with expertise in a wide range of fields, including real estate development, engineering, finance, project investment, operations and marketing and sales. Throughout the years, the Target Group has endeavoured to recruit and train employees who could potentially contribute to the growth of the Target Group. Please refer to the paragraph headed "Existing Management and Employees of the Target Group" for the detailed biography of the management of the Target Group.

STRATEGIES

The Target Group is devoted to become the leading property developer in Guangxi Zhuang Autonomous Region, the PRC. To achieve this goal, the Target Group intends to implement the following strategies:

Continue to develop large-scale mixed-use residential and commercial complex properties

As urbanization and industrialization continue to expand in China, the Directors believe that new investment and development zones will continue to present great property development opportunities especially in large second-tier Chinese cities. The large-scale mixed-use residential and commercial complex property development enables the Target Group to secure premiere pricing and generate higher profit margins.

To expand its land reserve

The Target Group will continue to follow and implement its prudent land acquisition principle. To determine a potential property development project, the Target Group will carry out thorough and in-depth research and analysis on the return of each project in accordance with the economic and property development in Liuzhou or elsewhere. It is the current intention of the Target Group to continue developing the lands adjacent to the Zhenghe City and it is also anticipated that the Target Group will be proactively involved in the tendering and bidding process of such lands in the future to secure lands for the further development of Zhenghe City.

To continue to expand marketing and sales channels

The Target Group will continue to leverage its strong brand image and location advantage to strengthen its relationship with large institutional customers such as automobile manufactory companies to increase bulk sales of residential properties or sales of office buildings. The Directors believe that such bulk sales will enable the Target Group to accelerate payment collection, promote long term customer retentions and reduce marketing expenses and increase operational efficiency.

Continue to recruit, retain and motivate a talented workforce

The Directors believe that employees of the Target Group are invaluable assets. In order to sustain business growth and expansion, the Target Group aims to attract and recruit employees with a wide range of expertise including real estate development, project planning, design, finance and marketing and sales. The Target Group emphasizes continuing development of quality staff and congruence of interests between staff and the Target Group.

OVERVIEW OF THE TARGET'S PROPERTY DEVELOPMENT PROJECT

Zhenghe City (正和城)

Zhenghe City is a large-scale mixed-use residential and commercial complex property project, located in the Liudong New District of Liuzhou, Guangxi Zhuang Autonomous Region, the PRC. The project is in close proximity to the Liujiang River, the Liuzhou International Convention and Exhibition Center, the Liuzhou Garden Expo venue, the Sanmenjiang National Forest Park and the Guangxi Liuzhou Automobile City. The Target Group is the sole developer of the Zhenghe City project.

The following map illustrates the geographic location of Zhenghe City in Liuzhou:

The following map illustrates the neighbourhood of Zhenghe City in Liudong New District:

Set out below is the development schedule of the Phase I Project and the Phase II Project:

The Phase I Project

Date	Events	
2010	–	Land acquisition
	–	Commencement of construction work in zone A
2011	–	Land acquisition
	–	Commencement of pre-sale of properties in zone A
	–	Commencement of construction work in zone B
	–	Commencement of pre-sale of properties in zone B
2012	–	Acceptance certificate of completion of work for certain properties in zone A obtained
2013	–	Acceptance certificate of completion of work for certain properties in zone B obtained
	–	Commencement of construction work in zone C
2014	–	Commencement of pre-sale of properties in zone C
2016E	–	Acceptance certificate of completion of work for properties in Zone C obtained

The Phase II Project

Date	Events	
2012	–	Land acquisition
	–	Commencement of construction work in zone D
2013	–	Acceptance certificate of completion of work for certain properties in zone D obtained
2014	–	Commencement of pre-sale of properties in zone D
	–	Commencement of construction work in zone E
2015E	–	Commencement of construction work in zone F
	–	Commencement of pre-sale of properties in zone E
	–	Commencement of pre-sale of properties in zone F
2017E	–	Acceptance certificate of completion of work for properties in zone E obtained
2018E	–	Acceptance certificate of completion of work for properties in zone F obtained

Note: "E" denotes expected timing for relevant events set out above to occur.

As at the Latest Practicable Date, the directors of the Target confirm that the development progress of the Phase I Project and the Phase II Project is in line with the schedule as disclosed above.

As at the Latest Practicable Date, the Zhenghe City project has a total of six property zones in various stages of development. The projects are classified into three categories as the followings:

- **Completed property development.** It refers to a property development project that has either accredited with the completed construction works certified report or has obtained the completion certificate or the certified report issued by the relevant government authorities upon completion.

- **Property under development.** It refers to a property development project that the Target Group has commenced the preparatory work after receiving the relevant construction permits from the relevant government authorities.

- **Properties held for future development.** It refers to a property development project that has not yet received any relevant construction permits, but the Target Group has obtained the relevant land use rights certificates.

The following table illustrates the information of the Target's (i) completed property development; (ii) properties under development; and (iii) properties for future development as at 30 September 2014 for which the Target Group has obtained the land-use rights certificates:

					Completed		Under development		Future development
Project	Site area *(sq.m.)*	Actual/estimated construction commencement date	Actual/ estimated completion date	Actual/ estimated pre-sale commencement date	GFA completed *(sq.m.)*	Saleable GFA unsold *(sq.m.)*	GFA under development *(sq.m.)*	Saleable GFA *(sq.m.)*	Planned GFA *(sq.m.)*
Zhenghe City									
Phase I	231,696.9	1-7-2010	1-12-2016	31-10-2011	137,343.5	15,018.9	214,489.9	214,489.9	–
Zone A	75,970.0	1-7-2010	25-8-2015	20-4-2012	81,085.7	4,648.1	–	–	–
Zone B	94,255.5	1-6-2011	28-4-2015	31-10-2011	56,257.8	10,370.8	78,491.6	78,491.6	–
Zone C	61,471.4	10-7-2013	1-12-2016	15-7-2014	–	–	135,997.9	135,997.9	–
Phase II	141,217.5	1-7-2012	10-3-2018	17-2-2014	23,532.6	–	39,190.1	39,190.1	386,775.6
Zone D	70,488.3	1-7-2012	10-11-2017	17-2-2014	23,532.6	–	39,190.1	39,190.1	–
Zone E	30,345.7	1-10-2014	30-11-2017	30-7-2015	–	–	–	–	147,195.5
Zone F	40,383.5	1-1-2015	10-3-2018	20-12-2015	–	–	–	–	239,580.1

The Zhenghe City project is a mixed-use complex project which consists of both residential and commercial properties:

- Residential properties include high-rise and mid-rise apartments, villas, townhouses and standalone houses;

- Commercial properties include commercial and office buildings, shopping markets, retail outlets and hotels.

Residential properties

The Zhenghe City project consists of the following types of residential properties:

- High-rise apartment buildings: buildings higher than 18 stories and with the GFA per unit ranging from 47.48 to 137.06 sq. m. and most of which are residential and commercial complexes;

- Mid-rise apartments buildings: buildings that are in between 10 and 18 stories and with the GFA per unit ranging from 122.46 to 244.56 sq. m.;

- Townhouses: low-rise buildings that are connected by 2 to 4 units with the GFA per unit ranging from 241.66 to 597.68 sq. m.;

- Villas and standalone houses: units with the GFA per unit ranging from 246.99 to 407.73 sq. m.

Commercial properties

The Zhenghe City project consists of the following types of commercial properties:

- Commercial and office buildings: buildings in multiple stories with the GFA per unit ranging from 56 to 120 sq.m.;

- Retail outlets and commercial areas: retail outlets and commercial areas located on the first to the fifth floor of the residential and commercial complexes with GFA per unit ranging from 50 sq.m. to 200 sq.m.;

- Shopping market: a market of approximately 28,262 sq.m. primarily for grocery stores and supermarkets;

- Hotel: a five-star hotel with serviced apartments.

Development zones

The Zhenghe City project is classified into two phases and six development zones. The following paragraphs details each of the development zones of the Zhenghe City project:

Phase I Project

Zone A

Property type:

High-rise apartment buildings with retail outlets, multi-layer garden houses, villas, townhouses, shopping markets, ancillary clubhouses, car parking spaces

Construction details:	
Site area	75,970.0 sq. m.
Completed GFA	81,085.7 sq. m.
Total GFA sold and pre-sold	64,617.1 sq. m.
GFA available for sale, lease or use	69,265.2 sq. m.
Construction period:	
Residential buildings commencement	July 2010
Residential buildings completion	December 2014
Commercial buildings commencement	August 2011
Commercial buildings estimated completion	August 2015
Pre-sale commencement date or date of pre-sale permit	April 2012
Attributable interest to Target Group	100%

Zone B

Property type:

High-rise apartment buildings with retail outlets, villas, townhouses, ancillary clubhouses, car parking spaces

Construction details:

Site area	94,255.5 sq. m.
Completed GFA	56,257.8 sq. m.
Total GFA sold and pre-sold	94,140.9 sq. m.
GFA available for sale, lease or use	104,511.7 sq. m.

Construction period:

Residential buildings commencement	June 2011
Residential buildings completion	May 2014
Commercial buildings commencement	June 2012
Commercial buildings completion	November 2014
Pre-sale commencement date or date of pre-sale permit	October 2011
Attributable interest to Target Group	100%

Zone C

Property type:

Residential and commercial complexes, office buildings, retail outlets, car parking spaces

Construction details:

Site area	61,471.4 sq. m.
Completed GFA	Nil
Total GFA sold and pre-sold	Nil
GFA available for sale, lease or use	135,997.9 sq. m.

Construction period:

Residential buildings commencement	July 2013
Residential buildings estimated completion	December 2016
Commercial buildings commencement	December 2013
Commercial buildings estimated completion	May 2017
Pre-sale commencement date or date of pre-sale permit	July 2014
Attributable interest to Target Group	100%

Phase II Project

Zone D

Property type:

High-rise apartment buildings, high-rise residential and commercial complexes, villas, retail outlets, car parking spaces

Construction details:	
Site area	70,488.3 sq. m.
Completed GFA	23,532.6 sq. m.
Total GFA sold and pre-sold	Nil
GFA available for sale, lease or use	202,111.8 sq. m.

Construction period:	
Residential buildings commencement	July 2012
Residential buildings completion	December 2014
Commercial buildings commencement	November 2013
Commercial buildings estimated completion	November 2017
Pre-sale commencement date or date of pre-sale permit	February 2014
Attributable interest to Target Group	100%

Zone E

Property type:

Hotel and serviced apartments

Construction details:	
Site area	30,345.7 sq. m.
Completed GFA	Nil
Total GFA sold and pre-sold	Nil
GFA available for sale, lease or use	147,195.5 sq. m.

Construction period:	
Commercial buildings commencement	October 2014
Commercial buildings estimated completion	November 2017
Pre-sale commencement estimated date or date of pre-sale permit	July 2015
Attributable interest to Target Group	100%

Zone F

Property type:

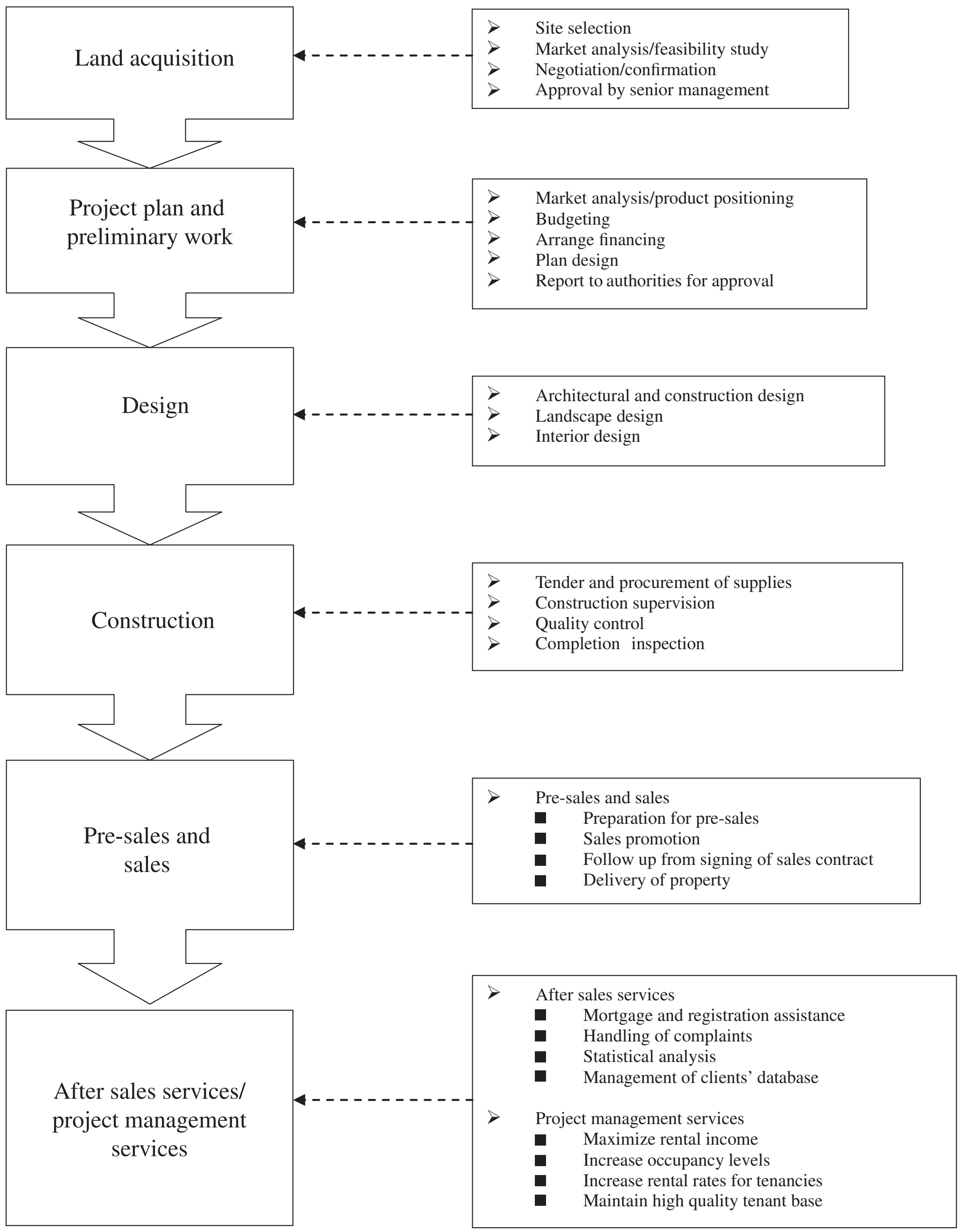
Residential and commercial complexes, car parking spaces

Construction details:	
Site area	40,383.5 sq. m.
Completed GFA	Nil
Total GFA sold and pre-sold	Nil
GFA available for sale, lease or use	239,580.1 sq. m.

Construction period:	
Residential buildings estimated commencement	January 2015
Residential buildings estimated completion	March 2018
Commercial buildings estimated commencement	January 2015
Commercial buildings estimated completion	March 2018
Pre-sale commencement estimated date or date of pre-sale permit	December 2015
Attributable interest to Target Group	100%

PROPERTY DEVELOPMENT

The major stages of the Target Group's property development projects are illustrated in the following diagram:



1. Land Acquisition

- ***Land selection***

The Directors consider the land selection process fundamental to the success of a property development project. Therefore, the Target Group would devote significant management resources on land selection. The research and strategic planning department as well as the design and management department lead the land selection process. Before commencing a property development project or exploring and identifying any potential investment of land parcels for future development, the team is required to conduct an in-depth market analysis in order to provide feasibility studies to the management. In the feasibility study, the teams will generally taking into account following various criteria, including (but not limited to):

– size, shape and location of the land parcel;

– government development plans for the relevant project and the neighboring area;

– accessibility of the project and available infrastructure support;

– competition from other property developments in the locality; and

– surrounding environment of the site (such as parks, greenery and rivers).

Once a feasibility project completed, the team will recommend the selected projects to the management for final review and approval. Until the site has been selected, a comprehensive project development plan will be devised.

- ***Land acquisition***

Pursuant to the Regulations on the Assignment of State-owned Land-Use Rights Through Competitive Bidding, Auction and Listing-for-Sale (《招標拍賣掛牌出讓國有建設用地使用權規定》), land use rights for commercial use, tourism, entertainment and commodity residential properties in the PRC can only be granted by the government through public tender, auction or listing-for-sale. When deciding whom the land use right should be granted, the relevant government authorities will also consider the credit history and qualification of the developers instead of solely based on the quote price. In addition to public tender, auction or listing-for-sale, land reserve may also be acquired in the secondary market.

After going through the land selection process as mentioned above, if the Target Group considers that the results from the above assessments are economically viable, the Target Group will proceed to acquire the selected land parcels based on the rules and requirement promulgated by the government authorities.

2. Project Plan and Preliminary Work

- ***Project positioning and budgeting***

Prior to project planning and design, the directors of the Target Group and the senior management of design, research, and sales department will be gathered and collaboratively determine the project's market positioning. During the project planning phase, the product research, design and development staff will participate in the feasibility analysis process and go through a sequence of in-depth analysis on the purchasing power, preferences, demographics, as well as the characteristics of the target customers.

In addition, the accounting, procurement, and sales department of the Target Group are responsible for preliminary budgeting of the Group's projects. The budget would be estimated based on market price and experience from previous projects.

- ***Financing***

The Target Group finances its project development costs principally by bank loans, internal funds, and proceeds from pre-sale and sales of the properties. According to guidelines on the Risk Management of Real Estate Loans of Commercial Banks (《商業銀行房地產風險管理指引》) issued by the China Banking Regulatory Commission ("**CBRC**") on 30 August 2004, no loans may be granted to projects which have not obtained the relevant land use rights certificates, construction land planning permits, construction work planning permits and construction commencement permits. According to the Notice on Financially Promoting the Land Saving and Efficient Use (《國務院關於調整固定資產投資項目資本金比例的通知》) issued by the State Council on 25 May 2009. The notice states that the minimum capital requirement for low-income housing projects and normal commercial housing projects is 20%, and the minimum capital requirement for other real estate development projects is 30%. In addition, CBRC stipulated that commercial banks are prohibited from applying loans to fund the payments of land premiums. Hence, real estate developers may only use their fund, such as proceeds generated from pre-sale, to pay for land premium and to satisfy the substantial investment outlays. However, to conduct pre-sale, the Target Group is required to comply with certain relevant laws and regulation set out by the PRC authorities.

The Target Group uses internal funds and proceeds from the pre-sale and sales of the properties to fund part of the construction costs of the relevant projects and to repay the bank loans. Proceeds from pre-sale of properties constitute the essential source of the operating cash inflows in the project development process. According to the laws and regulations of the PRC, the Target Group may pre-sell properties under construction after certain criteria are met. The Target Group seek to finance the property development projects with internal funding sources to the extent practicable as to reduce the cost of capital and maintain a well-balanced capital structure.

The Target Group also relies on bank loans and trust financing arrangements as its primary source of external financing. Pursuant to the Notice on Further Strengthening the Administration of Real Estate Credit Business published by the PBOC on 5 June 2003, construction loans are linked to the credit-worthiness and financial position of a property developer and the progress of projects. The Target Group has established a strong tie with the local commercials banks and financial institutions, including the Guilin Bank, Liu Zhou Urban Rural Credit Union and the Bank of Liuzhou. Please refer to the paragraph headed "Alternative Financing Provided by Trust Financing Companies" below for details of the Target Group's trust financing arrangements.

During the Track Record Period, the Target Group also entered into borrowing agreements with two PRC individuals, one of them is an independent third party to the Target Group while the other is an associate of the Target Group. The loan agreement entered into with the associate of the Target Group, which was unsecured and had a principal amount of RMB50.0 million and repayable before 1 October 2015, was on normal commercial terms and was thus an exempted connected transaction under the Listing Rules. As at the Latest Practicable Date, the outstanding amount of such individual borrowings amounted to approximately RMB57.3 million.

The ability of the Target Group to obtain adequate financing for land acquisition and property development also depends on a number of factors, such as economic and regulatory measures introduced by the central and local governments, the stability of the general economic condition and local economy, credit availability from financial institutions, as well as monetary policies in the PRC and PRC laws and regulations relating to the property sector.

During the Track Record Period and up to the Latest Practicable Date, the Target Group did not default on any material provisions of the bank loans or other financing arrangements.

3. Design

The Target Group cooperated with local independent architecture design company to conduct the overall planning and design of its property projects. The architecture company employs a group of well-qualified and experienced specialists in areas of planning, construction, structure, mechanics, gardening and decorations. The architecture firm first provides the conceptual design of the master plan of the project. Once the conceptual design is finalized, the management team of the Target Group will collaborate with the appointed design firms to design the master plan of the project with significant in-depth details in an effort to ensure that the final design of the master plan will be consistent with the conceptual design, tailored to the specific needs of the target customer base, and in compliance with the relevant PRC laws and regulations. Creating detailed master plans, the Target Group is able to effectively optimize the property development process, which is essential in controlling cost, quality and timing of its projects. The architecture company is selected taken into consideration factors such as its service fee, technical abilities, reputation, track record in developing similar projects and service standards of the design firm.

4. Construction

- ***Pre-construction***

To commence the construction of a property project, the Target Group, being a property developer, must comply with all the relevant requirements set out by the government authorities. According to the PRC regulation, if the land use right is acquired by way of grant, application should be submitted to the relevant PRC authorities to obtain all the following permits and licenses in order to begin construction of properties:

	Certificate/permits	Purpose(s)
1.	Land use rights certificate	a certificate of the right of a developer to use the parcel of land
2.	Construction land planning permit	a permit formally approving a developer to conduct the survey, planning and design of the parcel land
3.	Construction works planning permit	a permit indicating governmental approval for a developer's overall planning and design of the project and allowing a developer to apply for a construction permit
4.	Construction permit	a permit required for commencement of construction

- ***Construction contractors***

Construction of the Target Group's property projects usually takes place on a phase by phase basis which was a result of the financial management and marketing strategy of the Target Group and the Target Group generally outsources all of the construction works to independent contractors. In general, the independent contractors are selected by the Target Group after taking into account their reputation, track records, quality of work, quoted price, accreditation and other essential factors. In general, the Target Group hires construction contractors for each zone, and they are responsible for procuring raw materials, notably steel and concrete. The Target Group engages in discussion and procurement approval with construction contractors in order to supervise construction fees and market prices in commodities. Apart from the civil engineering work, the construction work also includes interior decoration, gardening and landscaping, all of which are outsourced to third party contractors. During the Track Record Period, construction fee adjustments arising from fluctuations had not had a material impact on the business and financial conditions of the Target Group.

The construction contracts typically agree on a fixed or a guaranteed maximum price payable by the Target Group, but the Target Group may need to pay additional amounts to the contractors in excess of the fixed cost in certain circumstances, such as changes in designs during construction. The quality and timeliness of the construction is usually warranted by contract, which is in line with the general market practice, and the contractors may be required to pay a penalty in the event of delay and poor quality of work. In order to ensure the quality of the services rendered by the construction contractors, the Target Group will constantly monitors the progress and quality of the design teams to ensure they meet the required standards and the Target Group follows two forms of payment to the contractors: (1) By installment term, which generally depends on the level of the completed construction work performed by the contractor every month and is equivalent to approximately 75% of the total subcontracting fees, and a total of approximately 22% of the total subcontracting fees will be settled by the completion of the construction project. For the remaining 3% of the total subcontracting fees, the Target Group generally retains as warranty money for a predetermined period of time to be applied against any expenses arising from any construction defects and the remaining sum will be paid, after the warranty period has expired, to the contractors in every 14 days. (2) By installment term with property offset option, which the Target Group follows the same terms and condition as above but with an option to use the real estate properties of Zhenghe City as monetary to settle the construction fees.

- ***Procurement***

Furthermore, equipment and construction materials are generally procured by the contractor except for specified materials, such as elevators, windows, water pipes, sanitary fittings and kitchen cabinets which are centrally procured through the tender and procurement department by way of tender. To maintain quality control, the Target Group employs strict procedures for selection, inspection and testing of materials. The Target Group does not own any construction equipment and do not maintain any inventory of building materials since the delivery of the building materials are generally scheduled to be on the same day as the installment date. The Directors believe the centralized procurement system and the no inventory system gives the Target Group more bargaining power and better cost control.

During the Track Record Period and up to the Latest Practicable Date, the Target Group did not have any disputes with any of its major contractors which, individually or in the aggregate, would have a material and adverse effect on the business and results of operation of the Target Group. For each of the three year ended 31 December 2013 and the six months ended 30 June 2014, payments to the largest construction contractor accounted for approximately 41.2%, 28.7%, 32.7% and 63.7%, respectively, of the total payments under the construction contracts. For the same periods, payments to the five largest construction contractors accounted for approximately 80.0%, 66.5%, 66.9% and 90.1%, respectively, of the total payments under the construction contracts.

- ***Construction supervision***

To ensure the quality of construction work performed by the contractors, the Target Group adopts standardized quality guidelines for construction management and assigns experienced engineers and with the presence of government inspection staff on each construction site to oversee and supervise the overall construction regularly. Upon project completion, the Target Group conducts its own quality checks in addition to the mandatory inspections by government agencies.

5. Pre-sale and sales

- ***Preparation for pre-sales***

The Target Group generally commences pre-sale of the properties before completion of construction. The launch of pre-sale is typically conducted after one-third of the total construction plan is completed and a fully furnished model of each major floor plan in a development zone is completed. Such measure offers potential customers with the most descriptive and accurate representation of the property the Target Group is selling.

According to PRC laws and regulations regarding pre-sale properties, various conditions must be fulfilled before commencing the pre-sale of the properties. These conditions include obtaining relevant construction land planning permit, land use rights certificate, construction work planning permit, construction work commencement permit and pre-sale permit. In addition, property developers must use a standard form of pre-sale contract that prescribed by the local authorities.

- ***Sales agency***

The Target Group deploys an independent third party professional sales and marketing agency, Jiawei, to provide sales strategies, formulate marketing schemes, and coordinate sales and promotion activities. The sales agency is selected by the Target Group after taking into account their reputation, track records, quality of work, adequate commissions, accreditation and other essential factors.

In addition to providing marketing and sales strategies, Jiawei is responsible, during the contractual term stated in the contract, for the sales marketing and promotion of all residential and commercial properties of Zhenghe City. The Target Group may not designate other sales agency to conduct similar business activities within the effective time period of the agreement or to terminate the contractual agreement unilaterally.

Under the terms of contract, the Target Group is responsible for: (i) obtaining the pre-sale permit and providing the photocopy of the permit to Jiawei for presentation to the potential customers; (ii) building, decorating and arranging the layout of the indoor sales exhibition center, including furniture and other necessary office supplies; (iii) building the model rooms and its decorating expenses; (iv) marketing material costs and promotion expenses. On the other hand, Jiawei is responsible for the majority of the sales and marketing activities of Zhenghe City and the responsibilities of in house sales department of the Target Group is limited to approving the sales and marketing strategies and plans suggested by Jiawei. Jiawei had no authority to offer any discounts or any other sales arrangements to customers unless they are pre-approved by the Target Group.

The sales agency fee is settled based on the commissions from each of the successfully sold properties, when the property purchaser have signed the commercial housing sales and purchase contract (商品房買賣合同) and settled the initial payment. Pursuant to the agency contract, Jiawei earns a 1% commission on the total contractual sales price of the first batch of 66 garden houses in zone A, and a 1.5% commission on the total contractual sales price of the other properties. The Target Group settles the sales agency fee with Jiawei once every two months.

By cooperating with the Target Group's own marketing and sales department, Jiawei is able to get the comprehensive understanding of the Target Group's property development and strategic thought process, including site selection, product positioning, project design with special features, and company culture. Such collaboration between the third-party real estate sales agency and in-house sales and marketing team provided in depth professional trainings and better preparation for sales professionals to represent the Target Group's image and culture and to produce better and more tailor-made sales strategies to the target audience. They have not only further strengthened the sales skills and knowledge of the project, but also become more effective in conveying Zhenghe City's selling points and unique features.

- ***Sales promotion and marketing***

Jiawei and the Target Group commence early marketing effort, which starts when the construction of the building's foundation has begun, to enhance the existing and potential customer's awareness.

Jiawei and the Target Group's sales and marketing department employ new forms of media, such as on-line marketing, mobile internet and social media, as their primary marketing channel to achieve their advertising objectives rather than solely relying on the traditional media outlets such as newspaper, print advertising, radio and television commercials. For instance, utilizing the smartphone app "WeChat" to capitalize on its popular "Moment Sharing" function, the Target Group has broadly reached its target audience. In addition, people who have shared the Zhenghe City's advertising on their own "WeChat Moments" will be given a RMB50 department store gift card as reward. Such effort has helped spreading the message more rapidly amongst residents in Liuzhou and increasing the advertising coverage in Liuzhou. Jiawei and the Target Group have also employed marketing methods such as proactive engagement with target customers, indoor exhibitions and outdoor advertising billboard.

In addition to selling properties to individual customers, the management team of the Target Group has taken initiative to capitalize on bulk sales or group sales from the surrounding large auto-manufacture companies. By realizing the geographic advantage of Zhenghe City to its surrounding companies, the Target Group was able to achieve a satisfactory sales figure via bulk sales, which the Target Group considers was a successful marketing and sales strategy.

The target customers for the residential properties of Zhenghe City are PRC individuals. The Target Group primarily targets middle to upper-class purchasers, such as white-collar workers, particularly those who work in the Liudong New District, and others for instance hospitals staffs, civil servants of nearby government authorities, middle to senior-level managers as well as entrepreneurs. The percentage of revenue attributable to the largest customer was less than 5% of the total revenue of the Target Group for each of the three years ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2014. The percentage of revenue attributable to the five largest customers for each of the three years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 were nil, approximately 15.1%, 8.9% and 18.1%, respectively.

The management of the Target Group confirm that, during the Track Record Period and up to the Latest Practicable date, the Target Group had been in material compliance with terms of agreements with purchasers of its properties and any rules and regulations relating to quality standard of properties, and there had been no sales misrepresentation from the Target Group and its sales staff or agents.

- ***Customers' payment arrangement***

The Target Group offers its customers the option of paying by lump sum or by installments. Generally, property buyers pay the property units via mortgage facilities from commercial banks. In some cases, banks may refuse to grant mortgage loans to property buyers for various reasons, then the customers will need to settle the purchase price though lump sum payment or by installments of every two months and pay in full in 6 months. Where a customer elects not to finance their purchase by mortgage, such customer is required to pay the purchase price in full at the time of execution of the pre-sale or sale contract. The Target Group has arrangements with the Bank of Communications which has provided mortgage services to over half of the Target Group's customers. In accordance with market practice, local banks require the Target Group to provide guarantees in respect of these mortgages. These guarantees are discharged upon, among others (i) the issuance of the realty title certificate and the mortgage of the relevant property (with the realty title certificate) to the creditor; or (ii) the settlement of mortgage loans between banks and purchasers of the Target Group's properties.

In line with the industry practice, the Target Group does not conduct independent credit checks on its property buyers but relies on credit checks conducted by the mortgagee banks.

- ***Delivery of property***

The Target Group aims to deliver properties to the purchaser within the contractual time frame stated in the sale and purchase contracts. To ensure the Target Group delivers quality products to its customers on a timely basis, the Target Group closely monitors the progress of construction of the property developments through, among other steps, regular property inspections. The pre-sale or sale contracts provide for the time frame for delivery and the Target Group is required to make penalty payments to the purchasers for any delay in delivery. Under the current PRC rules and regulations, the Target Group required to obtain a "record of acceptance after examination up project completion" (竣工驗收備案證明) prior to delivering properties to the customers.

During the Track Record Period, the Target Group did not have any incidences where the Target Group had to compensate for any delay in delivery.

6. After sales services/project management services

- ***After-sales services***

The Target Group provide assistance to its customers in various title registration procedures relating to their properties, attends to the delivery of the properties to the relevant customers, deals with complaints by its customers as well as arranging for and supervising the repair and maintenance of its developed properties in a timely manner. The management of the Target Group believe that such services are effective in enhancing the brand name of the Target Group and in encouraging customers to purchase, or recommend others to purchase, the residential properties of the Target Group.

- ***Property management services***

The management of the Target Group endeavor to provide quality property management services to the property purchasers to ensure property value and enhance brand image. The Target Group employed an independent property management firm to provide property management services, including maintenance and security of the common areas, gardening and landscaping, cleaning, security, fire protection, and other ancillary services. The property management firm and the property owners enter into a contractual agreement, that specify the scope of services covered, the quality requirements and the fees to be charged for such services.

- ***Quality control***

Each stage of the construction process is subject to inspection, and a comprehensive inspection after project completion is conducted by the Target Group and government inspectors to ensure the quality of the properties. The Target Group provides its customers with warranties covering the structure and certain fittings and facilities of the property developments in accordance with the relevant regulations. For any issues relating to the construction work of the property project, the Target Group requires the contractors to remedy such issues before settling the remaining balance due under the construction agreements. In addition, the Target Group adopted a complete construction management standard and guidelines to ensure control over its operations.

SUPPLIERS AND CUSTOMERS

During the Track Record Period, the customers for the Target Group's residential properties are primarily PRC individuals. The five largest customers of the Target Group combined accounted for less than 20% of the total sales in the three year ended 31 December 2013 and the six months ended 30 June 2014 and each of them is an independent third party to the Target Group or the Company.

The major suppliers of the Target Group are construction contractors, design houses and material and equipment suppliers. The five largest suppliers of the Target Group combined accounted for approximately 90.7%, 68.1%, 77.2% and 41.2% of the total purchases of the Group in each of the three years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively. The percentages of the Target Group's total purchases from the largest supplier for each of the three years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014 were 36.4%, 37.7%, 56.3% and 20.5%, respectively. The Target Group has maintained one to four years of business relationships with its five largest suppliers during the Track Record Period and each of them is an independent third party to the Target Group or the Company.

None of the Directors, the Target Group's directors and their associates or any Shareholder (who or which to the knowledge of the Directors owns more than 5% of the Company's share capital) has any interest in any of the five largest suppliers and customers of the Target Group.

COMPETITION

The Target Group competes with other property developers, including large national and regional property developers as well as local property developers, based on various factors, such as products quality, price, financial strengths, brand recognition and the ability to acquire lands and land use rights for opportunity to participate in the real estate property market. Please refer to the paragraph headed "Risk Factors – Risks Relating to the Property Industry – Intensified competition".

For the business of property development, the management of the Target Group believe that the rapid and continued development of the PRC economy has been stimulating and will continue to stimulate the standard of living in the PRC to improve and therefore residential properties with better design, materials uses and facilities will be in great demand. In this regard, the management of the Target Group believe that the Target Group's past experience in the development of mid-range residential and commercial properties and its historical track record demonstrate the ability of the Target Group to provide unique designs and property types to match customers' needs and preferences and maintain an competitive edge over its competitors.

INSURANCE

Despite maintaining insurance as required by applicable PRC laws and regulations, the Target Group does not maintain insurance against all risks associated with operations, such as projects that are under development against damage and destruction by fire, flood, lighting, explosions or other hazards during the construction periods or insuring assets against certain natural disasters.

PRIMARY LAND DEVELOPMENT

In addition to the property development business, the Target Group is also engaged in primary land development. Primary land development refers to the process of preparing land to conditions ready for public tender, auction and listing-for-sale, typically involving relocating existing business establishments and residents, demolishing existing buildings and other structures, clearing the site and installing basic infrastructure for future commercial property development. The relevant PRC laws states that all land in the PRC to be developed for commercial purposes, including that for business or residential property development purposes, must be granted through public tender, auction and listing-for-sale.

On 9 September 2009, the Target entered into a cooperation agreement (the "**Cooperation Agreement**") with a primary land development company, an entity under the local government of Liuzhou and is a third party independent of the Company and its connected persons, in the PRC (the "**Partner**"), pursuant to which the Partner shall plan and organize the primary land development works, (including securing land, compensating and relocating residents, leveling land and constructing the basic infrastructure and facilities in order to meet the land selling requirement), for parcels of land with a total site area of approximately 3,226 mu (the "**Land**") or a net area of approximately 2,400 mu, whilst the Target shall be responsible for the management of the primary land development work, including but not limited to: (i) ensuring the work is completed in accordance with the prescribed schedule; (ii) entering into contracts in respect of purchase of materials and construction works incidental to the primary development work of the Land; and (iii) handling matters in relation to public tender for contractors for construction works. Save for these responsibilities, the Target Group does not actively participate in the primary land development works and its primary obligation under the Cooperation Agreement is to provide funding for the development works upon the receipt of invoice issued by the Partner. In return, subsequent to a successful auction of a parcel of land developed under the Cooperation Agreement, the Target Group is entitled to receive from the Partner (i) the development costs incurred in relation to the primary land development works and (ii) a 50% profit sharing of the auction proceeds after deducting all related taxes and expenses if the selling price of the parcel of land is over RMB250,000 per mu.

The Target Group had carried out seven primary land development projects within the Land with a net site area of approximately 577.4 mu, all of which were completed during the three years ended 31 December 2013 and funded by internal resource and financial institutions in the capital markets of the Target Group and were subsequently acquired by the Target Group for property development in relation to the Phase I Project and the Phase II Project. The Target Group and the Partner have also completed primary land development works for another 250 mu of land adjacent to Zhenghe City which will be listed for sale at public auctions and it is the Target Group's intention to acquire such land for future expansion of the Zhenghe City project. The Partner is currently carrying out the relocation of existing residents and demolishment of existing premises for the remaining land with a net site area of approximately 1,572.6 mu. After completion of such relocation and demolishment, the Target Group intends to take over the sites for further primary land development however the Target Group has no definite timeframe for these development works as the relocations and demolishment are subject to approvals from the government and the existing residents and thus the completion date of which is uncertain.

ALTERNATIVE FINANCING PROVIDED BY TRUST FINANCING COMPANIES

PRC companies may obtain alternative financing under trust financing arrangements in addition to bank borrowings. Trust financing arrangements are funding arrangements provided by trust funds, which are domestic funds established and managed by trust financing companies registered with the CBRC that act as trustees of these funds. Only certain investors who satisfy certain criteria under the "Measures for the Administration of Trust Companies' Trust Plans of Assembled Funds" issued by the CBRC on 4 February 2009 may subscribe to become holders of these funds. Trust financing is recognized by the PRC laws and is common among PRC property developers who seek alternative sources of funds. Trust financing can be arranged in various forms, including equity transfers, capital injection, equity acquisition, shareholder loans, or secured loans granted by trust financing providers acting as the trustee of the respective trust funds. Trust financing providers may enter into secured loan arrangements with pledges or security interest, guarantees, capital injection, equity transfers, repurchases and/or, loan assignments.

As of the Latest Practicable Date, the Target Group had two outstanding trust financing arrangements with Zhongrong International Trust Company Ltd. (中融國際信託有限公司) and Wanjia Co-win Asset Management Company Ltd. (萬家共贏資產管理有限公司), both of which are independent third parties, and such arrangements were entered into in the ordinary course of business to finance the operations of the Target Group. The management of the Target Group consider that trust financing arrangements offer greater flexibility in the drawdown arrangements, however these trust financings often carry a higher financing cost as compared to bank borrowings. The following table sets forth the details of the outstanding trust financing arrangements of the Target Group as at the Latest Practicable Date:

Entities obtaining trust financing	Trust financing provider	Effective date and term	Principal amount of trust financing	Financing cost	Collateral pledge	Outstanding balance at the Latest Practicable Date
The Target	Zhongrong International Trust Company Ltd.	January 2014 to January 2016	RMB400 million	12%	Pledge of land use rights by the Target	RMB400 million
The Target	Wanjia Co-win Asset Management Company Ltd.	December 2013 to December 2015	RMB380 million	9%	Pledge of land use rights by the Target	RMB380 million

EXISTING MANAGEMENT AND EMPLOYEES OF THE TARGET GROUP

Directors

Mr. Mei Wei (梅偉), aged 52, is the chairman and president of the Target. Mr. Mei was appointed as a director of the Target on 7 January 2010. Mr. Mei is responsible for the overall strategic planning and business direction of the Target Group. Mr. Mei obtained a Master degree in business administration in 1993. Mr. Mei has more than 13 years of experience in the PRC real estate industry. Mr. Mei was the general manager of 柳州東華房地產開發公司 (Liuzhou Donghua Real Estate Development Company*) from 2001 to 2003, the general manager of 柳州環球房地產開發有限公司 (Liuzhou Huanqiu Real Estate Development Company Limited*) from 2003 to 2006 and the chairman of Liuzhou Huagui from 2006 to 2010. Mr. Wei has served as the chairman of the Target since its incorporation in 2010 and was the general manager of the Target from 2010 to 2012.

Mr. Xing You Hai (邢有海), aged 39, is the vice-president and chief financial officer of the Target. Mr. Xing was appointed as a director of the Target on 22 May 2014. Mr. Xing is responsible for the day to day operations and the financial operations of the Target Group. Mr. Xing obtained a MBA degree from the Guangxi University in 2011. Mr. Xing has more than 16 years of experience in the finance and accounting fields and has been recognized as a mid-level accountant by the Ministry of Finance of the PRC since 2001 and a senior accountant by the Fujian Provincial Administration of Civil Service since 2013. Mr. Xing joined 柳州環球房地產開發有限公司 (Liuzhou Huanqiu Real Estate Development Company Limited*) in 2002 as the head of finance department and was subsequently promoted to the vice general manager in 2005. Thereafter Mr. Xing was the chief financial officer of 廣西正和實業集團有限公司 (Guangxi Zhenghe Industrial Group Company Limited*) from 2006 to 2009 and the chief financial officer of Liuzhou Huagui from 2009 to 2010. Mr. Xing joined the Target as the chief financial officer in 2010 and was appointed as the vice-president in 2012. Mr. Xing is the social supervisor of 柳州市房屋登記管理中心 (Liuzhou Property Registration and Management Center*) since 2012 and the committee member of 廣西房地產及住宅研究會 (Guangxi Real Estate and Housing Research Society*) since 2013.

Mr. Chen Ming En (陳明恩), aged 31, is the director of the Target. Mr. Chen was appointed as a director of the Target on 22 May 2014. Mr. Chen holds a bachelor degree in construction engineering from Guangxi Industrial College (currently known as Guangxi University of Science and Technology) in 2008. Mr. Chen is a recognised engineer in the PRC since 2007 and has worked in the construction field since 2007.

Supervisor

Ms. He Bo (何博), aged 40, is the supervisor, vice-president and head of administration of the Target. Ms. He was appointed as the supervisor of the Target on 30 June 2010. Ms. He was responsible for the administrative matters of the Target Group. Ms. He worked in Liuzhou Huagui from 2007 to 2010 and subsequently joined the Target in 2010 as secretary to chairman. Ms. He was appointed as the vice-president and head of administration of the Target in 2013.

Employees

As at 30 June 2014, the Target Group has 41 employees. The following table sets forth the number of employees as categorized by function:

	Total
Management	5
Finance and accounting	10
Engineering and construction management	10
External liaison	3
Sales and marketing	2
Legal	2
Administration	4
Others	5
Total	41

ENVIRONMENTAL MATTERS

Being a corporation with social responsibilities and ethical emphasis, the Target Group endeavours to take appropriate steps to comply with the environmental protection regulations in the PRC to the extent required by the relevant laws and regulation as enacted from time to time.

In particular, the Target Group is subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by the relevant local government authorities, including the PRC Environmental Protection Law (中華人民共和國環境保護法), the PRC Prevention and Control of Noise Pollution Law (中華人民共和國環境噪聲污染防治法), the PRC Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例). Please refer to the section headed "Regulatory overview relating to the Target Group" in this Circular for details of these environmental laws and regulations.

Similar to other property developers, the Target Group subcontracts the construction works to third parties. Pursuant to the terms of the construction subcontracts, the subcontractors are required to comply with the environmental impact assessment and the conditions of the subsequent approval granted by the relevant government authority.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, no member of the Target Group was engaged in any litigation or arbitration of material important and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Target Group.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, the Target Group did not register any trademarks or domain names in the PRC, and was not aware of any infringement by the Target Group of any intellectual property rights owned by third parties.

INTERNAL CONTROL

Compliance with laws and regulations

The paragraphs below set out summaries of certain incidents of the Target Group's historical non-compliance with applicable regulations during the Track Record Period. The Directors are of the view that these incidents of non-compliance, whether individually or collectively, will not have a material operational or financial impact on the Target Group.

Collection of customer deposits prior to obtaining the of pre-sale permits

Details

During the Track Record Period, the Target Group has commenced pre-sale of certain of its properties and collected pre-sale deposits from customers prior to obtaining the pre-sale permits from the relevant government authorities.

Legal consequences and maximum potential penalties

The Notice on the Problem of Further Regulation of Real Estate Market and Improvement of the Pre-sale System of Commodity Houses (《關於進一步加強房地 產市場監管完善商品住房預售制度有關問題的通知》) promulgated by the MOHURD on 13 April 2010 provided that for a project without the pre-sale permit, the real estate developer shall not conduct any pre-sale, nor charge the purchasers any fees in the nature of deposit or prepayment in forms of subscription, reservation, registration according to assigned serial number and issue of VIP card, nor organize any sales exhibition.

Under the Regulations on Administration of Urban Real Estate Development and Operation (《城市房地產開發經營管理條例》) promulgated and implemented by the State Council on 20 July 1998, where a developer conducts unauthorised pre-sale of commodity houses without compliance with the said regulations, the real state authority under the government at or above county level shall order such developer to stop its illegal act and confiscate its illegal gains and can impose a fine less than 1% of the prepayment it received.

Under the Regulations on Administration of Urban Real Estate Development and Operation in Guangxi Zhuang Autonomous Region (《廣西壯族自治區城市房地產開發經營管理條例》) (amended in 2004) passed on 31 July 2004 and implemented on 1 August 2004, where a developer, in violation of the said regulations, conducts unauthorised pre-sale of commodity houses without a Permit for Pre-sale of commodity houses, the relevant competent development authority shall order such developer to stop the pre-sale and confiscate its illegal gains and can impose a fine ranging between 0.2% and 1% of its pre-sale proceeds of commodity houses.

The maximum fines which may be imposed on the Target Group is estimated to be approximately RMB0.7 million and the maximum amount which may be confiscated is estimated to be approximately RMB72.1 million. Given and based on (i) the Target Group has never received any instructions from the government authorities to cease such collection of deposits, nor has the Target Group received any orders or notices regarding the forfeiture of such collection of deposits or cancellation of its real estate development qualification; (ii) the Target Group has agreed to immediately cease such collection of deposits once it received any orders or notices from the government authorities regarding such collection of deposits; and (iii) the discussions between the PRC Legal Adviser and the relevant government representatives, the PRC Legal Adviser is of the view that once the Target Group ceased such collection of deposits it is less likely that the government authorities would impose any punishments on the Target Group .

Rectification actions

The Target Group and the Company intend to immediately cease the collection of deposits from customers upon Completion. The Target Group also intends to return any collected deposits interest-free should the customers requested so or the customers indicated that they are no longer interested in purchasing the properties from the Target Group. The Target Group agreed to comply with any rectification orders or notices issued by the local government authorities.

Inter-enterprise loans

Details

During the Track Record Period, the Target Group used its own funds to extend a loan amounted to RMB800.0 million (the "**Loan**") to Hainan Zhenghe, the Target Group's then controlling shareholder, with interest at the rate of 13.15% per annum for the purpose of co-ordinating the Hainan Zhenghe group's working capital. Money lending was not within the scope of business of the Target Group and it did not possess the relevant licenses to carry out such business. The PRC Legal Adviser is of the view that the Loan constituted an inter-enterprise loan and may be subject to penalties from the People's Bank of China. Please refer to the section headed "Risk Factors Relating to the Target Group – Risks relating to the business of the Target Group – The Target Group may be subject to penalties in respect of inter-enterprise loans". The Target Group also extended other loans to companies on an interest-free basis.

Legal consequences and maximum potential penalties

Pursuant to the General Rules on Credit 《貸款通則》 effective since 1 August 1996, enterprises cannot conduct any loan financing activities among each other. In the event of the existence of any inter-enterprise loan agreements, a corporate entity is prohibited to provide loan to another corporate entity and if doing so such lending corporate entity may be subject to a maximum penalty of five times of the interest received from the borrower who is a corporate entity. The maximum penalty which may be imposed on the Target Group is estimated to be approximately RMB1,065.2 million. Regarding the interest-free loans that the Target Group provided during the Track Record Period, the PRC Legal Adviser is of the view that such loans are not subject to any penalties from the People's Bank of China.

Rectification actions

At as the Latest Practicable Date, (i) the full amounts of the principal and interest on the Loan had been repaid in full; (ii) the Target Group did not receive any notice of penalties from the People's Bank of China; (iii) the Target Group is not aware of any pending or threatened dispute arising out of or in connection with the Loan; and (iv) the Vendor will indemnify the Group against any loss or penalty arising out of the non-compliance. Given the above the Directors are of the view that the possible penalties arising from the Loan are remote and as a result the Target Group does not have any provision in relation to this non-compliance.

Internal Control Adviser

The Company engaged an independent internal control adviser (the "**Internal Control Adviser**") to perform an overall assessment on certain of the Target Group's procedures, systems and internal controls, and in particular to review the internal controls to be established to prevent future breach and enhance on-going compliance with respect to the historical non-compliance incidents.

The Internal Control Adviser observed a total of three high risk issues, namely (i) the collection of pre-sale deposits from customers prior to obtaining the pre-sale permits; (ii) the lack of a systematic mechanism monitoring the flow of cash and working capital; and (iii) the need to strengthen the planning and control of the Target's financing activities. The management of the Target Group concurs with the findings of the Internal Control Adviser and has formulated a rectification schedule to implement the Internal Control Adviser's recommended measures immediately following Completion. The Directors will closely monitor the implementation of such recommended measures and are of the view that given (i) the Internal Control Adviser is satisfied with the Target Group's rectification plan; (ii) the Vendor has agreed to indemnify the Group against all penalty or loss particularly arising out of the historic non-compliance incidents; and (iii) the Internal Control Adviser's recommendations will be fully implemented and effected upon Completion, such internal control issues will not pose any material adverse impact on the operation and business of the Target Group.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for the three years ended 31 December 2013 and the six months ended 30 June 2014. The following financial information are based on the financial information of the Target Group as set out in Appendix II to this circular.

Financial performance of the Target Group

Set out below is the summary of the financial results of the Target Group for each of the three years ended 31 December 2013 and the six months ended 30 June 2013 and 30 June 2014 prepared in accordance with Hong Kong Financial Reporting Standards:

	Year ended 31 December			**Six months ended 30 June**	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(audited)**
Revenue	–	260,285	314,165	235,561	69,587
Cost of sales	–	(132,089)	(226,094)	(158,246)	(52,850)
Gross profit	–	128,196	88,071	77,315	16,737
(Loss)/profit before taxation	(24,171)	104,396	65,790	70,836	10,291
(Loss)/profit and total comprehensive (expense)/income for the year/period	(18,347)	54,027	39,169	43,061	6,254

Discussion of certain statement of profit and loss items

Revenue

Revenue from the sale of properties by the Target Group will be recognized when the properties have been completed and delivered to the purchasers. Deposits and installments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities. To substantiate revenue recognition, the following conditions must be met:

(i) the contracts for the sale of properties have been entered into between the Target Group and the purchasers;

(ii) the construction work of properties have been substantially completed and an acceptance certificate of completion of work issued by the government authorities for that building has been obtained; and

(iii) a statement has been published on the public newspaper to notify the purchasers that the building is ready for delivery and move-in.

During the course of the primary land development project, the land development costs incurred by the Target Group will be capitalised in the balance sheet as land development expenditure before the public auction of the land for which primary land development has been completed (the **"Completed Sites"**). No revenue or cost of sales will be recognised before the public auction of the Completed Sites as the economic benefits associated with the primary land development which will flow to the Target Group cannot be measured reliably.

If the Completed Sites developed by the Target Group are successfully bid by the Target Group, the whole development project including the primary development should be considered as a series of transactions according to Hong Kong Accounting Standards. The Target Group will recover its cost incurred in the primary land development project while the profit derived from primary land development will be deducted from land cost in the account of property under development for sale and reflected in the cost of sales in the statement of profit or loss and other comprehensive income of the Target Group when the properties developed on the Completed Sites are sold to the ultimate customers.

If the Target Group fails to bid the Completed Sites which were developed by it, the primary land development project will be regarded as an individual transaction given that the economic effect could be assessed independently when the Completed Sites are sold to ultimate customers. Accordingly, once the public auction of the Completed Sites is completed, the profit from primary land development project by the Target Group will be recognised as revenue as the economic benefits associated with this transaction which will flow to the Target Group can be measured reliably.

As disclosed in the section headed "Business of the Target Group – Primary Land Development", the Target Group completed seven primary land development projects during the Track Record Period with a net site area of approximately 577.4 mu and all the Completed Sites were subsequently acquired by the Target Group. During the Track Record Period the Target Group had also completed primary land development works for another parcel of land of approximately 250 mu which is adjacent to Zhenghe City and pending for auction by the government. For the three years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2014, profits attributable to the Target Group were approximately RMB20.0 million, RMB46.1 million, RMB46.1 million and nil respectively and were deducted from land cost in the account of properties under development for sale.

For the two years ended 31 December 2012 and 2013, the Target Group recorded revenue of approximately RMB260.3 million and approximately RMB314.2 million respectively from the sale of units of the Phase I Project. No revenue was generated for the year ended 31 December 2011 as the Phase I Project was still under construction. For the six months ended 30 June 2014, the Target Group recorded revenue of approximately RMB69.6 million, also generated from the sale of units of the Phase I Project.

The following table sets forth the breakdown of the revenue generated from the sales of the Target Group's Zhenghe City properties and the ASP for each of the three years ended 31 December 2013 and the six months ended 30 June 2013 and 30 June 2014:

	Year ended 31 December			Six months ended 30 June	
	2011 (audited)	**2012 (audited)**	**2013 (audited)**	**2013 (unaudited)**	**2014 (audited)**
Revenue generated from the sales of:					
Zone A (RMB'000)	–	260,285	83,168	4,564	69,587
Zone B (RMB'000)	–	–	230,997	230,997	–
Total (RMB'000)	–	260,285	314,165	235,561	69,587
ASP (RMB)	–	6,795.3	5,537.4	6,599.4	5,065.0

For the year ended 31 December 2012, all of the revenue of the Target Group was generated by the sale of Zhenghe City zone A properties, which were villas and townhouses with the GFA per unit ranging from 246.8 sq.m. to 383.9 sq.m. and the property value per unit ranging from approximately RMB1.4 million to approximately RMB4.1 million. The ASP for the year amounted to approximately RMB6,795.3.

For the year ended 31 December 2013, sales of zone A properties, which were mostly residential apartments in high-rise buildings with the GFA per unit ranging from 93.6 sq.m. to 245.1 sq.m. and the property value per unit ranging from approximately RMB0.3 million to approximately RMB1.2 million, accounted for approximately 26.5% of revenue generated during the year. The remaining 73.5% revenue was generated from the sales of zone B villas and townhouses with the GFA per unit ranging from 252.0 sq.m. to 359.3 sq.m. and the property value per unit ranging from approximately RMB1.5 million to approximately RMB3.3 million. The ASP for the year amounted to approximately RMB5,537.4, lower than that of 2012 due to the fact that the residential apartments carry a lower ASP than the villas and townhouses and thus the ASP was lower than that of 2012 during which only villas and townhouses were sold.

For the six months 30 June 2014, sales of zone A residential apartments in high-rise buildings with the GFA per unit ranging from 93.6 sq.m. to 224.9 sq.m. and the property value per unit ranging from approximately RMB0.3 million to approximately RMB1.0 million, accounted for approximately 36.9% of revenue generated during the period, while sales of zone B villas and townhouses with the GFA per unit ranging from 252.2 sq.m. to 355.3 sq.m. and the property value per unit ranging from approximately RMB1.5 million to approximately RMB3.3 million accounted for the remaining 63.1% revenue recorded for the period. The ASP for the six months ended 30 June 2014 was approximately RMB5,065.0, lower than that of the six months ended 30 June 2013 being approximately RMB6,599.4, primarily due to the fact that the vast majority of properties sold during the six months ended 30 June 2013 was zone B villas and townhouses that carried a higher ASP.

Gross profit margin

The gross profit margin of the Target Group dropped from approximately 49.3% in 2012 to approximately 28.0% in 2013 for the reason that the gross profit in 2012 was generated from the sale of properties in zone A while most of the gross profit in 2013 was generated from the sale of properties in zone B of the Phase I Project. The cost of sales for the properties in zone B was significantly higher than those in zone A mainly due to the fact that zone B is adjacent to a mountain requiring more complicated construction works. For the six months ended 30 June 2014, the gross profit margin of the Target Group decreased from approximately 32.8% for the corresponding period in 2013 to approximately 24.1%. The decrease in gross margin was similarly attributable to the higher cost of sales associated with the development of zone B properties which offset the gross profits generated by the sales of zone A apartments.

Cost of sales

The cost of sales of the Target Group primarily comprises of land cost, construction and development cost and capitalised interest. During each of the three years ended 31 December 2013 and the six months ended 30 June 3014, construction and development costs constituted the majority of the Target Group's cost of sales, accounted for approximately nil, 64.9%, 69.5% and 68.5% respectively of the total cost of sales of the period. The construction and development costs are affected by a number of factors, including but not limited to, the type of properties being developed, the geographic condition of the development zones and the material and labour costs. Land costs constitute a lesser portion of the Target Group's cost of sales as the Target Group was also engaged in the primary land development business enabling the Target Group to reduce its land acquisition costs. The following table sets forth the information in relation to the costs of sales of the Target Group:

	Year ended 31 December			**Six months ended 30 June**	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	**(audited)**	**(audited)**	**(unaudited)**	**(audited)**
Land cost	–	22,487	33,496	21,144	8,103
Construction and development costs	–	85,729	157,238	114,856	36,184
Capitalised interest	–	23,873	35,360	22,246	8,563
Total	–	132,089	226,094	158,246	52,850
GFA delivered (sq. m.)	–	38,303.8	56,734.9	35,694.4	13,738.7
Average cost of properties per sq. m. delivered (RMB)	–	3,448.4	3,985.1	4,433.3	3,846.8
ASP (RMB)	–	6,795.3	5,537.4	6,599.4	5,065.0
Average cost of properties per sq. m. as a percentage of ASP	–	50.7%	72.0%	67.2%	75.9%

Period to period comparisons

(i) Comparison of the six months ended 30 June 2014 to the six months ended 30 June 2013

For the six months ended 30 June 2014, the Target Group recorded a revenue of approximately RMB69.6 million, representing a decrease of approximately 70.5% as compared to the corresponding period in 2013. The significant decrease in revenue was attributable to (i) the facts that during the six months ended 30 June 2013 the majority of properties delivered were zone B villas whilst during the six months ended 30 June 2014 the majority of properties delivered were zone A high-rise apartments which are considerably smaller in GFA and of lower value; and (ii) the property completion and delivery for the year 2014 primarily took place in the fourth quarter of 2014. Accordingly the gross profit of the Target Group for the six months ended 30 June 2014 also plunged by approximately 78.4% to approximately RMB16.7 million.

The Target Group recorded a net profit of approximately RMB6.3 million which was primarily resulting from the decrease in revenue during the period.

The table below sets forth the revenue recognized, the total GFA delivered and the average selling price per sq. m. for each zone of Zhenghe City in the six months ended 30 June 2013 and 2014:

	For the six months ended 30 June							
	2013				**2014**			
	RMB'000	*%*	*GFA (sq. m.)*	*ASP (RMB)*	*RMB'000*	*%*	*GFA (sq. m.)*	*ASP (RMB)*
Zone A	4,564.0	1.9	608.9	7,495.5	25,681.0	36.9	6,765.4	3,796.0
Zone B	230,997.0	98.1	35,085.5	6,583.8	43,906.0	63.1	6,973.3	6,296.3
Total	235,561.0	100.0	35,694.4	6,599.4	69,587.0	100.0	13,738.7	5,065.0

(ii) Comparison of the year ended 31 December 2013 to the year ended 31 December 2012

For the year ended 31 December 2013, the Target recorded a revenue of approximately RMB314.2 million, representing an increase of approximately 20.7% as compared to the year ended 31 December 2012 being approximately RMB260.3 million. The increase in revenue was primarily due to the completion and delivery of both high-rise apartments in zone A and villas in zone B which generated a larger sum of revenue during the year ended 31 December 2013 as compared to the year ended 31 December 2012 where only a number of villas in zone A were completed and sold. Gross profit for the year amounted to approximately RMB88.1 million, representing a decline of approximately 31.3% as compared to the year ended 31 December 2012, which was primarily attributable to the fact that the development cost of zone B properties are higher than that of zone A as previously discussed.

The Target Group recorded a net profit of approximately RMB39.2 million, representing a decrease of approximately 27.5% as compared to the year ended 31 December 2012. Such decrease was primarily attributable to the higher construction costs associated with the development of zone B properties.

The table below sets forth the revenue recognized, the total GFA delivered and the average selling price per sq. m. for each zone of Zhenghe City in the year ended 31 December 2012 and 2013:

	For the year ended 31 December							
	2012				**2013**			
	RMB'000	*%*	*GFA (sq. m.)*	*ASP (RMB)*	*RMB'000*	*%*	*GFA (sq. m.)*	*ASP (RMB)*
Zone A	260,285	100	38,303.8	6,795.3	83,168.0	26.5	21,649.4	3,833.6
Zone B	–	–	–	–	230,997.0	73.5	35,085.5	6,583.8
Total	260,285	100.0	38,303.8	6,795.3	314,165.0	100.0	56,734.9	5,537.4

(iii) Comparison of the year ended 31 December 2012 to the year ended 31 December 2011

The Target Group recorded a revenue of approximately RMB260.3 million for the year ended 31 December 2012 generated from the sales of zone A properties. Since the Target Group had not commenced the sales of Zhenghe City in the year ended 31 December 2011, no revenue was recorded in the year ended 31 December 2011. Net profit for the year ended 31 December 2012 amounted to approximately RMB54.0 million, as compared to the net loss of approximately RMB18.3 million for the year ended 31 December 2011.

Financial position of the Target Group

The table below summaries the consolidated financial position of the Target Group as at 31 December 2011, 2012, 2013 and 30 June 2014:

	As at 31 December			As at 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	**(audited)**	**(audited)**	**(audited)**
Non-current assets	18,343	39,708	329,764	309,538
Current assets	2,004,854	1,692,395	1,995,320	1,854,383
Current liabilities	1,186,554	1,721,433	1,587,245	1,019,828
Non-current liabilities	838,000	–	650,000	1,050,000
Net current assets (liabilities)	818,300	(29,038)	408,075	834,555
Net (liabilities) assets	(1,357)	10,670	87,839	94,093

The total assets of the Target Group amounted to approximately RMB2,023.2 million, RMB1,732.1 million and RMB2,325.1 million as at 31 December 2011, 2012 and 2013 respectively. As at 30 June 2014, the total assets of the Target Group amounted to RMB2,163.9 million, which primarily comprised properties for sale, pledged bank deposits and land development expenditure, which respectively accounted for approximately 60.1%, 13.8% and 11.5% of the total assets of the Target Group as at 30 June 2014.

The total liabilities of the Group amounted to approximately RMB2,024.6 million, RMB1,721.4 million and 2,237.2 million as at 31 December 2011, 2012 and 2013 respectively. As at 30 June 2014, the total liabilities of the Target Group amounted to RMB2,069.8 million, which primarily comprised long-term borrowings and deposits received for sale of properties, which respectively accounted for approximately 50.7% and 23.6% of the total liabilities of the Group as at 30 June 2014.

The net assets of the Target Group amounted to approximately RMB10.7 million, RMB87.8 million and RMB94.1 million respectively as at 31 December 2012, 31 December 2013 and 30 June 2014. The Target Group recorded net current assets of approximately RMB834.6 million as at 30 June 2014.

As at 30 September 2014, the valuation of the Properties as indicated by the Independent Valuer using market approach was approximately RMB1,575.0 million (equivalent to approximately HK$1,987.5 million), and the adjusted net asset value of the Target Group was approximately RMB235.7 million (equivalent to approximately HK$296.9 million).

Liquidity and financial resources

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group had (i) current assets of approximately RMB2,004.9 million, RMB1,692.4 million, RMB1,995.3 million and RMB1,854.4 million respectively; (ii) cash and cash equivalents of approximately RMB940.9 million, RMB36.9 million, RMB85.9 million RMB5.1 million respectively; (iii) restricted and pledged bank deposits of nil, approximately RMB13.0 million, RMB314.8 million and RMB298.1 million respectively and (iv) current ratio of approximately 1.7 times, 1.0 times, 1.3 times and 1.8 times respectively.

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group had (i) current liabilities of RMB1,186.5 million, RMB1,721.4 million, RMB1,587.2 million and RMB1,019.8 million respectively; (ii) borrowings of approximately RMB938.0 million, RMB894.0 million, RMB1,103.0 million and RMB1,103.0 million respectively; (iii) gearing ratios (calculated as net debt (total borrowings less cash and cash equivalents and pledged bank deposits) divided by total registered capital of approximately 0.0 time, 8.4 times, 3.5 times and 4.0 times respectively.

The following table sets forth the breakdown of the Target Group's total borrowings as at 31 December 2011, 2012, 2013 and 30 June 2014:

	As at 31 December			As at 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	**(audited)**	**(audited)**	**(audited)**
Borrowings due within one year	100,000	894,000	453,000	53,000
Borrowings due over one year	838,000	–	650,000	1,050,000
Total borrowings	938,000	894,000	1,103,000	1,103,000

As at 31 December 2012, the Group's total borrowings amounted to approximately RMB894.0 million, representing a decrease of approximately 4.7% as compared to 31 December 2011. As at 31 December 2013, the Group's total borrowings increased to approximately RMB1,103.0 million, representing an increase of approximately 23.4% as compared to 31 December 2012. As at 30 June 2014, it remained at approximately RMB1,103.0 million. As at 30 June 2014, long-term borrowings accounted for approximately 95.2% of the Target Group's total borrowings. For the three years ended 31 December 2013 and the six months ended 30 June 2014, the effective interest rate of the fixed rate borrowings ranged from 7.90% to 13.15%, 7.22% to 13.15%, 7.20% to 13.15% and 8.24% to 12.00%.

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Target Group's borrowings amounting to RMB900.0 million, RMB800.0 million, RMB1,050 million and RMB1,050 million, respectively, represents loans provided by trust financing companies, were secured by properties for sale and carry interest at fixed rate ranging from 9.60% to 13.15%, 9.60% to 13.15%, 8.24% to 13.15% and 8.24% to 12.00% per annum, respectively.

Foreign exchange management

The Target Group is a limited liability company incorporated in the PRC and most of its monetary assets, liabilities, incomes and expenses were denominated in RMB. The Target Group did not use any derivative financial instruments for hedging purposes.

Capital commitment

As at 31 December 2011, 2012, 2013 and 30 June 2014, the Target Group had capital commitment of approximately RMB35.6 million, RMB28.9 million, RMB575.0 million and RMB526.0 million respectively.

Significant investment, material acquisition and disposals

The Target Group did not have any significant investments, material acquisition or disposal for the period from 1 January 2011 to 30 June 2014.

Contingent liabilities

As at 31 December 2011, 2012, 2013 and 30 June 2014, the Target Group had provided guarantees to banks for mortgage facilities granted to purchasers of the Group's properties amounted to approximately RMB13.4 million, RMB48.4 million, RMB135.8 million and RMB182.3 million.

Pledge of asset

As at 31 December 2011, 2012, 2013 and 30 June 2014, the Target Group had pledge of assets, including pledged bank deposits and properties for sale, amounted to approximately RMB200.0 million, RMB200.0 million, RMB467.6 million and RMB457.1 million respectively.

Employee information

As at 31 December 2011, 2012, 2013 and 30 June 2014, the Target Group had 37, 40, 39 and 41 employees.

The total remunerations paid to the Target Group's employees for each of the three years ended 31 December 2013 and the six months ended 30 June 2014 were approximately RMB2.8 million, RMB4.8 million, RMB4.9 million and RMB2.4 million respectively.

1. THREE-YEAR AUDITED FINANCIAL INFORMATION

The audited consolidated financial statements of the Group for the years ended 31 March 2012, 2013 and 2014 together with the relevant notes thereto can be found from pages 22 to 77 of the annual report of the Company for the year ended 31 March 2012, pages 27 to 87 of the annual report of the Company for the year ended 31 March 2013 and pages 46 to 123 of the annual report of the Company for the year ended 31 March 2014.

The unaudited consolidated interim financial statements of the Group for the six months ended 30 September 2014 together with the relevant notes thereto can be found from pages 5 to 28 of the interim report of the Company for the six months ended 30 September 2014.

The said annual and interim reports of the Company are available on the Company's website at www.chaoyuehk.com and the website of the Stock Exchange at www.hkexnews.hk.

The following is the management discussion and analysis of the Group for each of the three years ended 31 March 2014 as extracted from the Company's annual reports:

For the Year Ended 31 March 2012

Review of continuing operations

Shanghai Comfort Environment and Science Co., Ltd. and its Subsidiaries ("SH Comfort Group")

SH Comfort Group engaged in direct drinking water machines business and air and water purification equipment and system businesses under the brand name of "OZONE COMFORT".

Direct drinking water machines

The business model by appointing a sole agent to operate and manage the direct drinking water machines already rented to the end-users and to grant with the rights to use the patents and technology to run the business on behalf of SH Comfort Group in certain regions with the brand "OZONE COMFORT" was proved to be a right strategy. As a deposit approximately equal to one year of sole agent fee had been received and the annual sole agent fee had been received in advance, the chance of default payment by the sole agent is eliminated and a steady income stream was ensured. Besides, the selling and administrative expenses reduced a lot under this arrangement. The turnover of this segment for the year ended 31 March 2012 was HK$22,828,000 (2011: HK$14,325,000). The segment result recorded a profit of HK$9,695,000 for the year ended 31 March 2012 whereas a segment loss of HK$167,061,000 was recorded in 2011.

Air and water purification equipment and system

The air and water purification equipment and system business continued to shrank as a result of the Group's stringent credit control procedures in client acceptance procedures and the uncertainties of the global economy. The turnover recorded in the year ended 31 March 2012 was HK$273,000 (2011: HK$10,173,000) and the segment loss was HK$8,704,000 (2011: HK$53,104,000).

Disposal of subsidiaries

On 6 January 2012, the Group and China National Gold Group Corporation ("China Gold Group") entered into a sale agreement to dispose 70% interest in two subsidiaries, Fastmind Investments Limited and Acme Day Limited, which are the beneficiary owners of a company with exploration license and mining license for a gold mine in Kyrgyz Republic at a total consideration of USD21 million (equivalent to approximately HK$163.4 million).

At 31 March 2012, the disposal has not been completed and the carrying amount of the relevant assets and liabilities was classified as Assets classified as held for sale and Liabilities associated with assets classified as held for sale in the balance sheet. On 5 June 2012, the disposal was completed and Fastmind Investments Limited and Acme Day Limited become associated companies of the Group. According to the sale agreement, USD18 million of the consideration will be paid once the stamp duty for the transfer of shares being paid. As at the date of the Company's 2012 annual report, the tax authority is reviewing the documents submitted and assessing the amount of stamp duty should be paid.

In year ended 31 March 2012, the mining work is not commenced but exploration works was conducted continuously to try to locate additional resources for the gold mine. During the year ended 31 March 2012, HK$32,716,000 (2011: HK$24,142,000) administrative expenses was incurred which is mainly represent the amortization of mining license, staff allowances and costs for exploration works, consultancy and advisory works.

Acquisition of new business

On 13 March 2012, the Group entered into an agreement to invest in 60% of the increased registered capital of United (Fujian) Enterprise Management Co., Ltd. ("United") by making a cash injection of RMB7.5 million (equivalent to approximately HK$9.2 million) into United.

United is a wholly foreign-owned enterprise established in the PRC in 2008 and is principally engaged in the provision of corporate management consulting services, provision of international economy, technology and environmental protection related data and consultancy services, system management and maintenance, information technology support and management, human resources services, software development, data processing and process outsourcing. United is also engaged in the wholesale of textile, clothing, daily consumables, cultural and sports products, handicrafts, construction materials, machines and equipments, hardware and electrical appliances and electronic products.

The Group recognises that United possesses teams of outstanding professionals in investment evaluation, enterprise management and business information analysis which are able to provide the Group with quality services such as project identification, assessment, and business information analysis on potential investments in a wide range of industries. United also have the competence and experience to provide project management and management enhancement services to the Group's investment projects in the PRC and will help enhance their operational efficiency and competitiveness.

Apart from the provision of general management consultancy services, United has been engaged by two large-scale commercial property developers in the PRC to provide them with services on investment planning, commercial management and sourcing of branded products. In addition, United has the channels and qualifications to engage in the promotion and sale of international and domestic branded products in the PRC.

Subsequent to 31 March 2012, the required capital was properly injected and verified and United became a 60% subsidiary of the Group accordingly.

Financial review

Liquidity

The Group recorded net current asset of HK$98,384,000 as at 31 March 2012 (2011: HK$17,922,000) and the current ratio was 2.40 (2011: 1.23). The significant improvement of the current assets and current ratio of the Group as at 31 March 2012 was deal to the reclassification of the assets and liabilities attributable to the mining operation to current assets and current liabilities as 70% of the gold mine is expected to be sold within twelve months. The current assets increased significantly from HK$94,502,000 as at 31 March 2011 to HK$168,603,000 as at 31 March 2012 as a result of reclassification of the mining right, which was recognised as non-current asset in previous years, to assets held for sale under the current assets.

The bank balance as at 31 March 2012 was HK$37,903,000 (2011: HK$81,474,000), of which most were denominated in Hong Kong dollars, US dollars and Renminbi. The cash position of the Group will improve a lot once the USD18 million consideration for the disposal of 70% gold mine being received after the payment of stamp duty.

Gearing ratio

The gearing ratio of the Group, which was expressed as a percentage of total borrowings to shareholders' equity, as at 31 March 2012 was 76.13% as compared to 34.97% as at 31 March 2011. The total borrowings as at 31 March 2012 amounted to approximately HK$38,706,000 (2011: HK$34,776,000) represented borrowings of HK$16,474,000 (2011: HK$14,715,000) from an independent third party, which were interest-bearing at 12% per annum, and an amount due to a director of a subsidiary of HK$22,232,000 (2011: HK$20,061,000), which was interest free. These two borrowings were contracted to be repayable at 31 March 2014 without security. The increase in the gearing ratio is mainly due to the decrease in shareholders' equity as a result of the loss incurred for the year ended 31 March 2012.

Financial resources

The Group currently finances its operations mainly by internally generated funds and other loans. The management believes that the Group will generate its liquidity from business operations and will consider making use of further equity financing when necessary.

Capital structure

There was no change in capital structure in the year ended 31 March 2012. As at 31 March 2012, the Group had 18,824,435,160 ordinary shares and 214,637,160 shares of non-voting convertible preference shares in issued and recorded a shareholders' equity of HK50,839,000 (2011: HK$99,453,000).

Charges on assets

As at 31 March 2012, the Group had no charge on assets (2011: Nil).

Capital commitments

As at 31 March 2012, the Group had a capital commitment of of RMB7.5 million, equivalent to approximately HK$9.25 million in respect of acquisition of equity interest in a company. Save as aforesaid, the Group did not have any significant capital commitments (2011: Nil).

Contingent liabilities

As at 31 March 2012, the Group had no contingent liabilities (2011: Nil).

Foreign exchange exposure

As part of the Group's assets and liabilities are denominated in Renminbi, US dollars and Hong Kong dollars, in order to minimize the foreign exchange risk, the Group aims to utilize the fund for transactions that are denominated in the same currency.

Employment and remuneration policy

As at 31 March 2012, the Group had approximately 10, 12 and 22 employees in Hong Kong, Kyrgyz Republic and the PRC respectively. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical scheme, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff. The Group also has a discretionary share option scheme which is designed to award employees for their performance. No share option was granted during the year ended 31 March 2012 and there were 66,000,000 share options granted to the directors and employees of the Group as at 31 March 2012. During the year, the staff cost of the Group (including Director's emoluments, staff wages and retirement benefit scheme contributions) amounted to approximately HK$8.0 million.

For the year ended 31 March 2013

Review of operations

United

United is principally engaged in provision of consultancy services, trading of goods and construction, operation and maintenance of websites and/or e-commerce platform. Details of operation of different segments are as follows:

(a) Provision of consultancy services

The consultancy services provided by United to its clients include a comprehensive scope of assessment for its client's business on internal control system, operating strategy, budgeting, personnel retention and training, information technology support, cost control, administrative functions and logistics system. United also conducts market research and analysis and develops applicable management software for its clients. During the year ended 31 March 2013, United terminated the service with one client. As at 31 March 2013, United had a total of four clients. Each client will contribute RMB1 million to RMB2 million consultancy fee annually. United is now negotiating with two potential clients for the scope and terms of service to be provided. For the year ended 31 March 2013, the turnover recorded for this segment was HK$7,568,000 and the segment loss was HK$1,864,000.

(b) Trading of goods

With the introduction through one of the existing clients principally engaged in property development, United entered into a contract with a state-owned enterprise principally engaged in property and highway construction in the PRC in the second half of 2012 to source construction materials for its property development projects. Along with the completion of the property project of the client, United Fujian may further enter into a contract therewith to source branded products for the shopping outlet being developed by the client at the site. During the year ended 31 March 2013, the turnover recorded for this segment was HK$8,409,000 which represented mainly trading of construction materials and the segment profit was HK$418,000.

(c) Construction, operation and maintenance of websites and/or e-commerce platforms

United also extended its business scope to the construction, operation and maintenance of website and e-commerce platforms for its clients with a view to promoting the clients' upcoming projects and establishing an online shopping platform of the clients' products.

In August 2012, United entered into a contract with a client to establish a e-commerce platform in trading of red wine in the PRC. However, the contract was terminated in March 2013. United conducted a series of market researches on red wine market in the PRC for this project and consider that the prospect of this project is very good. After thorough consideration, United reached an agreement with that client and decided to run the red wine e-commerce platform itself. United had entered into a sole distribution agent agreement with a winery in the United States in March 2013 and had contacted other wineries in the United States as their sole distributor in the PRC. The e-commerce platform is expected to be launched in July 2013. No contribution from this segment was recorded for the year ended 31 March 2013.

The Kuru-Tegerek gold deposit ("Gold Mine")

Upon completion of the disposal of 70% interest of the Gold Mine in the Republic of Kyrgyz to China Gold Group on 5 June 2012, the Group's investment in the Gold Mine was recorded as associated companies. The value of the Group's 30% interest in the Gold Mine was assessed on the completion date of the disposal with a fair value of HK$56,648,000.

On 15 January 2013, China CAMC Engineering Co., Ltd. ("CAMC") was introduced as a business partner of this project through acquisition of 16% interest of the Gold Mine from China Gold Group and such transaction was completed in May 2013. CAMC is one of the pioneer investors in the Republic of Kyrgyz. With its strong international project management experience and good relationship with the local government and community, CAMC can help to manage the operation of the Gold Mine.

After numerous meetings to discuss and communicate with the resource department of the government of the Republic of Kyrgyz, the feasibility report was approved in April 2013. Temporary electric supply and temporary operation center was set up in the mining site. The design of the exploration plan for the Gold Mine is now in progress. After that, the construction of the infrastructure for the exploration of the Gold Mine will be commenced. The commercial production of the Gold Mine is expected to be commenced in early 2015.

During the year, the Group shared HK$2,567,000 of loss in the Gold Mine which represent mainly salaries and professional fees incurred.

Financial review

Finance position and liquidity

As at 31 March 2013, the total assets and liabilities of the Group stood at HK$285,669,000 and HK$4,254,000 respectively. Non-current assets amounted to HK$56,716,000 comprised mainly the investment in associated companies, which represented the Group's interest in the Gold Mine in the Republic of Kyrgyz, and furniture and office equipment. Current assets amounted to HK$228,953,000 which comprised mainly deposits, prepayment and other receivables, financial assets at fair value through profit or loss and bank balance and cash. Current liabilities amounted to HK$4,254,000 which comprised mainly accruals and other payables. There was no long-term loan and borrowing as at 31 March 2013.

The Group recorded net current assets of HK$224,699,000 as at 31 March 2013 (31 March 2012: HK$98,384,000) and the current ratio was 53.82 (31 March 2012: 2.40). The significant improvement of the net current assets and current ratio was mainly deal to increase in cash and bank balances as a result of the disposal of the Park Wealth Limited and its subsidiaries (the " Park Wealth Group") and 70% Gold Mine and decrease of trade and other payables, deferred income and other liabilities as a result of disposal of the Park Wealth Group.

The bank balances as at 31 March 2013 was HK$214,642,000 (31 March 2012: HK$37,903,000), of which most were denominated in Hong Kong dollars, US dollars and Renminbi.

Gearing ratio

The gearing ratio of the Group, which was expressed as a percentage of total borrowings to equity attributable to shareholders, as at 31 March 2013 was 0% (31 March 2012: 76.13%). The zero gearing ratio recorded because the borrowings and an amount due to a director of a subsidiary recorded in Park Wealth Group were disposed of and no new loan was borrowed by the Group during the year ended 31 March 2013.

Financial resources

The Group currently finances its operations mainly by internally generated funds. The management believes that the Group will generate its liquidity from business operations and will consider making use of further equity financing when necessary.

Capital structure

36,000,000 shares and 15,512,918 shares of ordinary shares of the Company were issued on 5 September 2012 and 27 March 2013 respectively upon the conversion of the non-voting convertible preference shares. As at 31 March 2013, the Group had issued 18,875,948,078 shares (31 March 2012: 18,824,435,160 shares) of ordinary shares and 163,124,242 shares (31 March 2012: 214,637,160 shares) of non-voting convertible preference shares. The equity attributable to shareholders of the Company as at 31 March 2013 was HK$270,258,000 (31 March 2012: HK$50,839,000) and the increment was mainly due to the gains from disposal of Park Wealth Group and 70% interest in Gold Mine recorded in the year ended 31 March 2013.

Charges on assets

As at 31 March 2013, the Group had no charge on assets (31 March 2012: Nil).

Contingent liabilities

As at 31 March 2013, the Group had no contingent liabilities (31 March 2012: Nil).

Foreign exchange exposure

As part of the Group's assets and liabilities are denominated in Renminbi, US dollars and Hong Kong dollars, in order to minimize the foreign exchange risk, the Group aims to utilize the fund for transactions that are denominated in the same currency.

Employment and remuneration policy

As at 31 March 2013, the Group had approximately 8, 1 and 33 employees in Hong Kong, the Republic of Kyrgyz and the PRC respectively. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical scheme, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff. The Group also has a discretionary share option scheme which is designed to award employees for their performance. No share option was granted during the year ended 31 March 2013 and there were 66,000,000 share options granted to the directors and employees of the Group as at 31 March 2013. During the year, the staff cost of the Group (including Director's emoluments, staff wages and retirement benefit scheme contributions) amounted to approximately HK$10.4 million.

For the year ended 31 March 2014

Review of operations

Provision of consultancy services

During the year ended 31 March 2014, other than the consultancy services provided to the existing clients, United Fujian was engaged by a client to conduct a market research, analysis and formulate the development strategy for the e-commerce platform for trading of agricultural equipment, fertilizer and other agricultural related products. Besides, United was engaged by another client to conduct a market research and analysis on prepaid travelling card project. United also conducted an analysis on introducing some famous chain stores in food and beverage industries in Taiwan into the PRC market.

In the year ended 31 March 2014, one of the clients did not renew the consultancy service contract as the project had been advised and followed up by United was sold by the client with a satisfactory price. At 31 March 2014, United had a total of three regular clients. Each regular client contributes RMB1 million to RMB2 million consultancy fee annually. Two potential new clients are being followed up and the scope and terms of service is under negotiation.

For the year ended 31 March 2014, the turnover recorded for this segment was HK$2,937,000 (2013: HK$5,418,000), and the segment loss was HK$738,000 (2013: HK$1,864,000).

Trading of goods and operation of e-commerce platforms

A framework agreement to supply approximately 3,500 tonnes of steel for construction projects was signed with a client and about half of the total quantity of steel had been ordered and delivered in 2013. However, the property development project of that client was slow down and no order had been placed by the client in the reporting year. As a result, the turnover in the reporting year decreased significantly.

For the wine e-commerce platform, the website was successfully launched on 15 September 2013. However, the effect of the various austerity measures implemented by the PRC government was unexpectedly serious. In addition, the slowdown of the PRC economic development also affected the sales. Although United have cooperated with other e-commerce platforms and group buying websites to promote the publicity of the wines on the internet, the sale was quite disappointing.

During the year ended 31 March 2014, the turnover recorded for this segment was HK$70,000 (2013: HK$8,409,000), and the segment loss was HK$1,553,000 (2013: profit of HK$418,000).

Gold Mine

Mining plan is being designed and in progress after the approval of the feasibility report. The location of the tailings dam was preliminary selected and studies on its effect on the environment, especially the water resource, have commenced. Mining plants and other infrastructure will be constructed once the design plan has been approved. In order to meet the target to commence mining in late 2016, certain mining machineries were ordered.

Up till now, the electricity supply facilities constructed in the mining site was checked and approved by the relevant department and the next step is to setup telecommunication facilities and equipment in the mining area. During the year, exploration works have been continued to find and locate additional resources.

During the year ended 31 March 2014, the Group shared HK$30,313,000 of loss in the Gold Mine (2013: HK$2,567,000). The significant increase in loss shared in the reporting year is mainly due to increase in preoperating expenses incurred which represented salaries, professional fees and resource duties and an impairment loss amounted to HK$9,231,000 was recorded as a result of the decrease in gold and copper prices during the reporting year and revised ore extraction method.

Material acquisitions and disposals of subsidiaries and associated companies

On 9 July 2013, the Company entered into an acquisition agreement to purchase 100% interests in two companies, Hong Ming Investments Limited and Shi Yi Investments Limited (collectively known as "Target Companies"), which are leading producers of stainless steel and copper products in the PRC that use scrap stainless steel and scrap copper as raw materials (the "acquisition"). The consideration for the acquisition is HK$10,000,000,000 and will be satisfied by the Company by the composition of cash, new shares of the Company and convertible bonds.

The acquisition is subject to, amongst other things, the Company being satisfied with the results of such enquiries, investigations and due diligence reviews of the business, affairs, operations and financial position or projections of the Target Companies; and the Company raising funding of not less than HK$3,000 million. As the conditions precedent could not be fulfilled by the long stop date, 31 March 2014, the acquisition agreement lapsed and ceased to be of further effect.

There were no other material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 March 2014.

Financial review

Finance position and liquidity

At 31 March 2014, the total assets and liabilities of the Group stood at HK$236,204,000 (2013: HK$285,669,000) and HK$3,347,000 (2013: HK$4,254,000) respectively.

Non-current assets amounted to HK$25,201,000 (2013: HK$56,716,000) comprised mainly the interests in associated companies, which represented the Group's interest in the Gold Mine in Republic of Kyrgyz, and furniture and office equipment. The balance decrease significantly as compared with last year is mainly due to the share of HK$30,313,000 loss in the associated companies in which HK$9,231,000 is the impairment loss on the value of the gold mine recognized as a result of the decrease in gold and copper prices and the revised ore extraction method.

Current assets amounted to HK$211,003,000 (2013: HK$228,953,000) which comprised mainly deposits, prepayment and other receivables and bank balance and cash.

Current liabilities amounted to HK$3,347,000 (2013: HK$4,254,000) which comprised mainly accruals and other payables.

There was no long-term loan and borrowing as at 31 March 2014 and 2013.

The Group recorded net current assets of HK$207,656,000 as at 31 March 2014 (2013: HK$224,699,000) and the current ratio was 63.04 (2013: 53.82). The bank balances as at 31 March 2014 was HK$204,353,000 (2013: HK$214,642,000), of which most were denominated in Hong Kong dollars, US dollars and Renminbi.

Gearing ratio

As no outstanding borrowing and loan as at 31 March 2014 and 2013, the gearing ratio was 0%.

Financial resources

The Group currently finances its operations mainly by internally generated funds and internal resources. The management believes that the Group will generate its liquidity from business operations and will consider making use of further equity financing when necessary.

Capital structure

163,124,242 shares of ordinary shares of the Company were issued on 4 July 2013 upon the conversion of the non-voting convertible preference shares. As at 31 March 2014, the Group had issued 19,039,072,320 shares (2013: 18,875,948,078 shares) of ordinary shares and zero shares (2013: 163,124,242 shares) of non-voting convertible preference shares. The total equity of the Company as at 31 March 2014 was HK$232,857,000 (2013: HK$281,415,000) and the decrease was mainly due to the loss recorded in the reporting year.

Charges on assets

As at 31 March 2014 and 2013, the Group had no charge on assets.

Contingent liabilities

As at 31 March 2014 and 2013, the Group had no contingent liabilities.

Foreign exchange exposure

As part of the Group's assets and liabilities are denominated in Renminbi, US dollars and Hong Kong dollars, in order to minimize the foreign exchange risk, the Group aims to utilize the fund for transactions that are denominated in the same currency.

Employment and remuneration policies

At 31 March 2014, the Group had approximately 8, 1 and 18 employees in Hong Kong, Republic of Kyrgyz and the PRC respectively. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical scheme, mandatory provident fund for Hong Kong employees, social insurance packages for the PRC employees and education subsidy to encourage continuous professional development of staff. The Group also has a discretionary share option scheme which is designed to award employees for their performance. No share option was granted during the year ended 31 March 2014 and there were 66,000,000 share options granted to the directors and employees of the Group as at 31 March 2014. During the year, the staff cost of the Group (including Director's emoluments, staff wages and retirement benefit scheme contributions) amounted to approximately HK$11.4 million.

2. INDEBTEDNESS STATEMENT

(a) Borrowings and amounts due to related parties and third parties

As at the close of business on 31 October 2014, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Target Group had the following outstanding borrowings and amounts due to related parties and third parties:

	RMB'000
Borrowings	
– Secured	1,079,000
– Unsecured	65,400
	1,144,400
Amounts due to related parties and third parties (Unsecured)	302,184

As at 31 October 2014, approximately RMB650,000,000 of borrowings were secured by the Target Group's pledged deposits and properties for sale, approximately RMB429,000,000 of borrowings were secured by the Target Group's properties for sale and properties of related parties. In addition, certain directors and related parties had provided guarantee or joint guarantee to the Target Group of approximately RMB844,000,000 borrowings as at 31 October 2014.

(b) Contingent liabilities

As at the close of business on 31 October 2014, the Target Group had provided guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties, amounting to approximately RMB194,358,000.

Save as disclosed above and apart from intra-group liabilities, as at the close of business on 31 October 2014, the Group and the Target Group did not have any debt securities issued and outstanding, debt securities authorized or otherwise created but unissued, term loans, mortgages, charges, debentures, loan capital, bank overdrafts, liabilities under acceptance or acceptance credits, hire purchase or finance lease obligations, guarantees or other material contingent liabilities.

3. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 March 2014, being the date to which the latest audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL

After due and careful consideration, the Directors are of the opinion that, after taking into account the internal resources available to the Enlarged Group, the existing banking facilities and the new banking facility obtained in December 2014 that are available to the Enlarged Group and the Acquisition, the Enlarged Group has sufficient working capital for its present requirements and the requirements for the next twelve months from the date of this circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

It is the Board's strategy to review from time to time various potential business opportunities and investments to enhance Shareholders' value. The Group has been focusing on identifying appropriate investments that present development opportunities and are able to generate a sustainable stream of cash flow and profit in the long run.

The Directors consider that the proposed Acquisition matches the aforesaid mission and believe that the PRC property market is reviving and the acquisition of the property project represents a prime opportunity for the Group to enter into the reviving property market in a timely and cost-effective manner.

The Target Group is devoted to become the leading property developer in Guangxi, the PRC. The Directors are of the view that (i) with its competitive advantages over other land developers in acquiring lands for future development as the Target Group has participated in the primary land development in Liuzhou; and (ii) with its concrete experience in properties development of Zhenghe City and a strong management team which built up a well-known brand name in Liuzhou, the goal of the Target Group is achievable in the future.

Regarding the current business consultancy services, the Group is committed to provide quality services to its clients. The Directors are confident that the business consultancy service will enjoy good prospect given the economic development of the PRC in the coming years. Regarding the wine e-commerce platform, United (Fujian) Corporate Management Limited will continue to explore different sale channels and launch various promotion campaigns to increase the publicity of the wines to improve its sale and revenue contribution. Although the gold price showed a downward trend recently which caused an impairment loss to the Company, the management of the gold mine business is confident that the gold price will restore to a rising trend when the expected commercial production commence in 2016 and provide economic return to the Shareholders.

The following is the text of an accountants' report on the Target, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

31 December 2014

The Directors
Chaoyue Group Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding 柳州正和樺桂置業集團有限公司 (Liuzhou Zhenghe Huagui Zhiye Group Company Limited)* (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group" or "Group") for each of the three years ended 31 December 2013 and the six months ended 30 June 2014 (the "Relevant Periods") for inclusion in a circular issued by Chaoyue Group Limited ("Chaoyue") dated 31 December 2014 in connection with the proposed acquisition of 70% equity interests of the Company (the "Circular").

The Company is a private limited liability company established in the People's Republic of China (the "PRC") on 7 January 2010. It is engaged in the primary land development and development and sale of properties. The registered office of the Company is No. 102, Xinliu Road, Yu Feng District, Liuzhou, Guangxi, the PRC.

The particulars of the Company's subsidiaries are as follows:

				Equity interest attributable to the Group						
Name of subsidiaries	Place of Establishment	Date of Establishment	Registered and paid-up capital	At 31 December 2011	2012	2013	At 30 June 2014	At the date of the report	Principal Activities	Legal Form
				%	%	%	%	%		
廣西正桓貿易有限公司 Guangxi Zhenghuan Trading Co., Ltd. ("Zhenghuan Trading")*	PRC	18 July 2011	RMB10,000,000	100	100	100	100	100	Inactive	Private limited liability company
廣西昌樺投資有限公司 Guangxi Changhua Investment Co., Ltd ("Changhua Investment")*	PRC	18 July 2011	RMB10,000,000	100	100	100	100	100	Inactive	Private limited liability company
廣西益正貿易有限公司 Guangxi Yizheng Trading Co., Ltd ("Yizheng Trading")*	PRC	15 August 2011	RMB10,000,000	100	100	100	100	100	Inactive	Private limited liability company

* *The English name is for identification purpose only.*

As at the date of this report and throughout the Relevant Periods, all the subsidiaries are directly held by the Company.

All companies comprising the Group have adopted December 31 as their financial year end date. No statutory audited financial statements have been prepared for the Company's subsidiaries since their respective dates of establishment as there are no requirement for statutory audit.

The statutory financial statements of the Company for the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations in the PRC (the "PRC GAAP") and were audited by the following certified public accountants registered in the PRC:

Financial year	Name of auditor
Years ended 31 December 2011 and 2012	福建華興會計師事務所有限公司
Year ended 31 December 2013	福建華興會計師事務所(特殊普通合夥)

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries for the Relevant Periods in accordance with the accounting policies conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements").

We have undertaken an independent audit of the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA and have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issuance. The directors of Chaoyue are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011, 2012 and 2013 and 30 June 2014, and of the consolidated results and consolidated cash flows of the Group for the Relevant Periods.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the six months ended 30 June 2013 together with the notes thereon have been extracted from the Group's unaudited consolidated financial information for the same period (the "June 2013 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We conducted our review on the June 2013 Financial Information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the June 2013 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
	Notes	**2011**	**2012**	**2013**	**2013**	**2014**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*7*	–	260,285	314,165	235,561	69,587
Cost of sales		–	(132,089)	(226,094)	(158,246)	(52,850)
Gross profit		–	128,196	88,071	77,315	16,737
Other income and other gains or losses	*8*	271	107,457	104,310	53,192	1,928
Selling and distribution expenses		(3,698)	(4,915)	(8,478)	(2,787)	(1,048)
Administration expenses		(6,646)	(8,792)	(12,036)	(3,992)	(7,326)
Finance costs	*9*	(14,098)	(117,550)	(106,077)	(52,892)	–
(Loss) profit before tax	*10*	(24,171)	104,396	65,790	70,836	10,291
Income tax credit (expense)	*12*	5,824	(50,369)	(26,621)	(27,775)	(4,037)
(Loss) profit and total comprehensive (expense) income for the year/period		(18,347)	54,027	39,169	43,061	6,254

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

THE GROUP	Notes	As at 31 December 2011 RMB'000	2012 RMB'000	2013 RMB'000	At 30 June 2014 RMB'000
Non-current assets					
Property, plant and equipment	15	2,513	2,083	1,581	1,269
Other deposit	17	–	–	19,000	–
Restricted and pledged bank deposits	23	–	–	270,000	270,050
Deferred tax assets	19	15,830	37,625	39,183	38,219
		18,343	39,708	329,764	309,538
Current assets					
Land development expenditure	20	175,141	195,041	249,339	249,339
Properties for sale	21	507,521	800,556	1,234,740	1,300,277
Tax prepayment		14,780	–	–	–
Trade and other receivables	22	335,556	130,697	200,490	263,124
Amounts due from other related parties	35(b)	30,927	335,611	180,081	8,545
Deposit paid for acquisition of land use right	16	–	180,600	–	–
Restricted bank deposits	23	–	13,000	44,806	28,045
Bank balances and cash	23	940,929	36,890	85,864	5,053
		2,004,854	1,692,395	1,995,320	1,854,383
Current liabilities					
Trade and other payables	24	29,327	234,410	299,934	269,354
Deposits received for sale of properties	25	352,810	287,647	476,435	488,194
Borrowings due within one year	26	100,000	894,000	453,000	53,000
Deferred income	28	–	15,750	15,750	15,750
Amounts due to directors	35(c)	–	–	–	4,550
Amounts due to other related parties	35(d)	704,417	238,575	292,113	140,270
Tax liabilities		–	51,051	50,013	48,710
		1,186,554	1,721,433	1,587,245	1,019,828
Net current assets (liabilities)		818,300	(29,038)	408,075	834,555
Total assets less current liabilities		836,643	10,670	737,839	1,144,093
Non-current liability					
Borrowings due over one year	26	838,000	–	650,000	1,050,000
Net (liabilities) assets		(1,357)	10,670	87,839	94,093
Capital and reserves					
Registered capital	29	100,000	100,000	200,000	200,000
Reserves		(101,357)	(89,330)	(112,161)	(105,907)
		(1,357)	10,670	87,839	94,093

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

THE COMPANY	Notes	As at 31 December 2011 RMB'000	2012 RMB'000	2013 RMB'000	At 30 June 2014 RMB'000
Non-current assets					
Property, plant and equipment	15	2,513	2,083	1,581	1,269
Investments in subsidiaries	18	30,000	30,000	30,000	30,000
Other deposit	17	–	–	19,000	–
Restricted and pledged bank deposits	23	–	–	250,000	250,050
Deferred tax assets	19	15,830	37,625	39,183	38,219
		48,343	69,708	339,764	319,538
Current assets					
Land development expenditure	20	175,141	195,041	249,339	249,339
Properties for sale	21	507,521	800,556	1,234,740	1,300,277
Trade and other receivables	22	335,556	130,697	200,490	263,124
Amounts due from other related parties	35(b)	1,937	306,621	151,091	8,545
Tax prepayment		14,780	–	–	–
Deposit paid for acquisition of land use right	16	–	180,600	–	–
Restricted and pledged bank deposits	23	–	13,000	44,806	28,045
Bank balances and cash	23	939,940	35,900	84,839	4,017
		1,974,875	1,662,415	1,965,305	1,853,347
Current liabilities					
Trade and other payables	24	29,322	234,338	299,831	269,160
Deposits received for sale of properties	25	352,810	287,648	476,437	488,196
Borrowings due within one year	26	100,000	859,000	418,000	18,000
Deferred income	28	–	15,750	15,750	15,750
Amounts due to subsidiaries	27	–	35,063	35,045	64,114
Amounts due to directors	35(c)	–	–	–	4,550
Amounts due to other related parties	35(d)	704,417	238,575	292,113	140,270
Tax liabilities		–	51,051	50,013	48,710
		1,186,549	1,721,425	1,587,189	1,048,750
Net current assets (liabilities)		788,326	(59,010)	378,116	804,597
Total assets less current liabilities		836,669	10,698	717,880	1,124,135
Non-current liability					
Borrowings due over one year	26	838,000	–	630,000	1,030,000
Net (liabilities) assets		(1,331)	10,698	87,880	94,135
Capital and reserves					
Registered capital	29	100,000	100,000	200,000	200,000
Reserves	30	(101,331)	(89,302)	(112,120)	(105,865)
		(1,331)	10,698	87,880	94,135

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Registered capital *RMB'000*	Statutory surplus reserve *RMB'000* *(note)*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2011	100,000	9,211	(12,221)	96,990
Loss and total comprehensive expense for the year	–	–	(18,347)	(18,347)
Dividends recognised as distribution *(note 13)*	–	–	(80,000)	(80,000)
Transfer to statutory surplus reserve	–	4,354	(4,354)	–
At 31 December 2011 and 1 January 2012	100,000	13,565	(114,922)	(1,357)
Profit and total comprehensive income for the year	–	–	54,027	54,027
Dividends recognised as distribution *(note 13)*	–	–	(42,000)	(42,000)
Transfer to statutory surplus reserve	–	6,978	(6,978)	–
At 31 December 2012 and 1 January 2013	100,000	20,543	(109,873)	10,670
Profit and total comprehensive income for the year	–	–	39,169	39,169
Dividends recognised as distribution *(note 13)*	–	–	(62,000)	(62,000)
Transfer to statutory surplus reserve	–	6,243	(6,243)	–
Capital injection from shareholders	100,000	–	–	100,000
At 31 December 2013 and 1 January 2014	200,000	26,786	(138,947)	87,839
Profit and total comprehensive income for the period	–	–	6,254	6,254
At 30 June 2014	200,000	26,786	(132,693)	94,093

For the six months ended 30 June 2013 (unaudited)

	Share capital *RMB'000*	Statutory surplus reserve *RMB'000* *(note)*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2013	100,000	20,543	(109,873)	10,670
Profit and total comprehensive income for the period	–	–	43,061	43,061
At 30 June 2013	100,000	20,543	(66,812)	53,731

Note: According to relevant laws and regulations of the PRC, an entity established under the PRC Company Law is required to make an appropriation at 10 percent of the profit for the year as shown in the PRC statutory financial statements, prepared in accordance with the PRC GAAP, to the statutory surplus reserve until the balance reached 50 percent of the registered capital of that entity. The reserve appropriated can only make up losses or use to increase the registered capital of that entity and is not distributable.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
OPERATING ACTIVITIES					
(Loss) profit before tax	(24,171)	104,396	65,790	70,836	10,291
Adjustments for:					
Allowance for (reversal of) bad and doubtful debts	1	235	2,262	186	(1,190)
Depreciation of property, plant and equipment	548	613	640	317	329
Finance costs	14,098	117,550	106,077	52,892	–
Interest income	(79)	(107,706)	(106,621)	(53,376)	(585)
Operating cashflows before movements in working capital	(9,603)	115,088	68,148	70,855	8,845
(Increase) decrease in properties for sale	(185,783)	(313,708)	(148,336)	276,565	(13,112)
(Increase) decrease in trade and other receivables	(271,593)	296,920	(126,183)	(553,876)	(37,789)
Increase in land development expenditure	(72)	(19,900)	–	–	–
Decrease (increase) in deposits received for sale of properties	244,140	(65,163)	16,428	(141,962)	11,758
Increase in deposit paid for acquisition of land use right	–	(180,600)	–	–	–
Increase in other deposit	–	–	(19,000)	–	–
Increase (decrease) in trade and other payables	5,763	176,294	157,071	368,340	(33,642)
Increase (decrease) in amount due to other related parties	3,027	(3,027)	2,269	–	(2,269)
Government grant received	750	15,000	–	–	–
Cash (used in) from operations	(213,371)	20,904	(49,603)	19,922	(66,209)
Income taxes and land appreciation taxes ("LAT") paid	(23,788)	(6,332)	(29,217)	(10,824)	(4,376)
Interest paid	(20,165)	(104,434)	(146,983)	(86,928)	(58,940)
NET CASH USED IN OPERATING ACTIVITIES	(257,324)	(89,862)	(225,803)	(77,830)	(129,525)

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
INVESTING ACTIVITIES					
Interest received	79	753	544	484	585
Placement of restricted/pledged bank deposits	–	(13,000)	(314,806)	(461)	(55,203)
Release of restricted/pledged bank deposits	–	–	13,000	–	71,913
Purchase of property, plant and equipment	(700)	(183)	(138)	(8)	(17)
Advances to related parties	(30,927)	(850,043)	(5,034)	(171)	(480)
Repayments from related parties	–	1,937	43	–	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(31,548)	(860,536)	(306,391)	(156)	16,798
FINANCING ACTIVITIES					
Proceeds from capital injection	–	–	100,000	–	–
Dividends paid	(80,000)	(42,000)	(18,600)	–	–
New borrowings raised	810,000	56,000	703,000	35,000	435,000
Repayment of borrowings	(10,000)	(100,000)	(494,000)	(56,000)	(435,000)
Advance from related parties	700,470	1,318,070	392,526	108,500	182,313
Repayments to related parties	(218,340)	(1,185,711)	(208,758)	(36,958)	(153,047)
Advances from directors	–	–	–	–	4,550
Advances from third parties	1,500	–	107,000	8,000	53,100
Repayments to third parties	–	–	–	–	(55,000)
NET CASH FROM FINANCING ACTIVITIES	1,203,630	46,359	581,168	58,542	31,916
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	914,758	(904,039)	48,974	(19,444)	(80,811)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	26,171	940,929	36,890	36,890	85,864
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	940,929	36,890	85,864	17,446	5,053

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was established as a private limited liability company in the PRC. The address of its registered office and the principal place of business is No. 102, Xinliu Road, Yu Feng District, Liuzhou, Guangxi, the PRC. The principal activities of the Group are primary land development and development and sale of properties.

Before 24 May 2014, the Company's immediate holding company was Hainan Zhenghe (defined in note 29) which is established in the PRC and its ultimate holding company was China Sino-Science International Oil High-Tech Company Limited, which is incorporated in the British Virgin Islands. On 24 May 2014, pursuant to a sales and purchase agreement, Hainan Zhenghe transferred its entire interest in the Company to Fuqing Wangfu (defined in note 29), which became the immediate holding company of the Company since then, and its ultimate holding company is 南寧尊乾貿易有限公司 (Nanning Zunqian Trading Co., Ltd*), which are both established in the PRC.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company. The Financial Information for the Relevant Periods is prepared solely for the purpose of including the financial information of the Group in the circular of Chaoyue in connection with the proposed acquisition of 70% equity interests of the Company.

* The English name is for identification purpose only

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new Hong Kong Accounting Standards ("HKAS"), HKFRSs, amendments to standards and interpretations which are effective for the Group's financial period beginning on 1 January 2014. For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently applied all HKFRSs throughout the Relevant Periods.

The Group has not early applied the following new standards and amendments to standards that have been issued but are not yet effective during the Relevant Periods.

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[6]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[5]
Amendments to HKAS 27	Equity Method in Separate Financial Statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction contracts and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial information. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of other new standards and amendments to standards will have no material impact on the Financial Information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance, which for the Relevant Periods continue to be those disclosures required under the predecessor Companies Ordinance (Cap. 32), in accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The Financial Information has been prepared on historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follow:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has the power over the investee;
- is exposed, or has right, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment losses.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Sales of properties

Revenue from sale of properties in the ordinary course of business is recognised when the respective properties have been completed and delivered to the buyers. Deposits and instalments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from primary land development

The Group is given the right to carry out construction and preparation works in respect of municipal infrastructure within the districts where the Group has signed land development contracts with Liuzhou Dongcheng Investment & Development Co., Ltd. ("Dongcheng Investment"), an entity established by Liuzhou State-owned Assets Supervision and Administration Commission. When the land plots are sold by the local government to land buyers through public auction, tender or listing, the Group is entitled to receive from Dongcheng Investment a portion of the proceeds from land sales. Revenue from the primary land development is recognised upon the transfer of risks and rewards in connection with the primary land development and when the amount of revenue can be measured reliably, which occurs upon the completion of related municipal infrastructure work and the land plot is delivered to the land buyer.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administration purposes, are stated in the consolidated statement of financial position at cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method, at the following rates per annum:

Furniture, fixtures and equipment	19%
Motor vehicles	19%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Land development expenditure

Land development expenditure is stated at the lower of cost and net realisable value. The cost includes expenditure directly attributable to the development of relevant projects such as road construction, demolition and resettlement work.

Net realisable value takes into account the portion of the proceeds from profit sharing derived from land sales less costs to be incurred in realising the revenue derived from the sale of land development expenditure based on prevailing market conditions.

Properties for sale

Completed properties and properties under development for sale in the ordinary course of business are included in current assets and stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised in accordance with the Group's accounting policy, and other attributable expenses.

Net realisable value represents the estimated selling price for properties for sale less all estimated costs of completion and costs necessary to make the sale.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flow have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes classified as defined contribution plan for all qualifying employees are recognised as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax 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 the reporting period.

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

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

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amounts due from other related parties, restricted and pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instrument

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire or, when it transfers the financial asset and substantially all the risks and rewards of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when the Group's obligation is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months, are as below:

Impairment of properties under development for sale and completed properties for sale

The Group's and the Company's properties under development for sale and completed properties for sale are stated at the lower of cost and net realisable value with aggregate carrying amount of approximately RMB507,521,000, RMB800,556,000, RMB1,234,740,000 and RMB1,300,277,000 as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively. The net realisable value is the estimated selling price less estimated selling expenses and estimated cost of completion (if any), which are determined based on best available information and latest market conditions. Where there is any decrease in the estimated selling price arising from any changes to the property market conditions in the PRC, there may be write-down on the properties under development for sale and completed properties for sale.

Impairment of land development expenditure

The Group's land development expenditure is stated at the lower of cost and net realizable value. Based on the Group's recent experience and the nature of the subject land development, the Group estimates its net realizable value, i.e. the portion of the proceeds from land sales estimated by the management.

If the cost is higher than the estimated net realisable value, provision for the excess of cost of land development expenditure over its net realisable value should be made. A provision would be made by the Group if estimated costs exceed the economic benefits expected to be received from the land development project. Determination of these provisions would require the use of judgment and estimates. Where the expectation is different from the original estimate, the carrying amount and provision for loss on land development expenditure will be adjusted accordingly.

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Group's and the Company's land development expenditure amounted to approximately RMB175,141,000, RMB195,041,000, RMB249,339,000 and RMB249,339,000, respectively.

LAT

The Group is subject to land appreciation tax in the PRC. However, the implementation and settlement of the tax varies amongst different tax jurisdictions in various cities of the PRC and certain projects of the Group have not finalised their land appreciation tax calculations and payments with any local tax authority in the PRC. Accordingly, significant estimate is required in determining the amount of land appreciation and its related income tax provisions. The Group recognised the land appreciation tax based on management's best estimates. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and the related income tax provisions in the periods in which such tax is finalised with local tax authority. As at 31 December 2011, the Group and the Company had prepaid LAT of approximately RMB14,780,000. As at 31 December 2012 and 2013 and 30 June 2014, the Group's and the Company's tax payable in relation to LAT were approximately RMB5,036,000, RMB19,728,000 and RMB19,652,000, respectively.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit or taxable temporary difference will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits or taxable temporary difference together with future tax planning strategies. As at December 2011, 2012 and 2013 and 30 June 2014, the Group's and the Company's deferred tax assets amounting to approximately RMB15,830,000, RMB37,625,000, RMB39,183,000 and RMB38,219,000, respectively.

Recognition and allocation of construction costs on properties under development

Development costs of properties are recorded as properties under development for sale during the construction stage and will be transferred to completed properties for sale and charged to the consolidated statement of profit or loss and other comprehensive income upon the recognition of the sales of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management's best estimate. During the development stage, the Group typically divides the development projects into phases. Costs that are common to different phases are allocated to individual phases based on saleable area. Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

Estimated impairment of trade and other receivables

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, 2012 and 2013 and 30 June 2014, the carrying amounts of the Group's and the Company's trade and other receivables are approximately RMB335,556,000, RMB130,697,000, RMB200,490,000 and RMB263,124,000, net of allowance of doubtful debts of approximately RMB4,000, RMB239,000, RMB2,501,000 and RMB1,311,000, respectively.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 26 and amounts due to other related parties in note 35, net of bank balances and cash and equity comprising registered capital and reserves.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure mainly through raising new capital, as well as the issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

THE GROUP

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	971,897	481,859	622,835	339,124
Financial liabilities				
Amortised cost	1,671,470	1,355,382	1,694,250	1,516,360

THE COMPANY

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Loans and receivables (including cash and cash equivalents)	941,918	451,880	572,100	318,178
Financial liabilities				
Amortised cost	1,671,465	1,355,573	1,674,192	1,525,282

b. Financial risk management objective and policies

The Group's and the Company's major financial instruments include trade and other receivables, amounts due to subsidiaries, amounts due to directors, amounts due from (to) other related parties, restricted and pledged bank deposits, bank balances and cash, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes.

The management monitors and manages financial risks relating to the operations of the Group and the Company through internal risk assessment which analyses exposure by degree and magnitude of risks. The risks included market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to fixed-rate bank and other loans (note 26).

As the bank balances and restricted/pledged bank deposit interest rates having limited fluctuation over the year/period, management of the Company are of the opinion that the Group's and the Company's exposure to cash flow interest rate risk is minimal. Accordingly, no sensitivity analysis is presented on bank balances and restricted/pledged bank deposit.

Credit risk

As at the end of each reporting period, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position and the Company's statements of financial position; and

- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 34.

In order to minimise the credit risk, the Group and the Company have policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

The credit risk on liquid funds and restricted/pledged bank deposits is limited because the counterparties are state-owned banks in the PRC.

The Group and the Company have no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties and customers.

The Group and the Company also have the concentration of credit risk in relation to the amounts due from other related parties. Details are set out in note 35.

The management of the Group and the Company is of the opinion that the credit risk on amounts due from other related parties is limited because of the good relationship with the related parties and no default in recovering the balances was noted from the related parties in the past.

For properties under development which are subject to pre-sales agreements, the Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of guarantee, the bank holding the mortgage may demand the Group to repay the outstanding amount of the loan and any accrued interest thereon. Under such circumstances, the Group is able to retain the customer's purchase deposit and sell the property to recover any amounts paid by the Group to the bank. In this regard, the management of the Group and the Company considers that the Group's credit risk is significantly reduced.

Liquidity risk

In the management of liquidity risk, the Group's and the Company's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuation in cash flows. In addition, the management monitors the utilisation of borrowings based on the actual operation requirement of the Group and the Company as well as ensures compliance with loan covenants.

The Group and the Company rely on borrowings as a significant source of liquidity. As at 30 June 2014, the Group and the Company have borrowings of approximately RMB1,103,000,000 and RMB1,048,000,000, respectively (note 26).

Liquidity tables

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

The table includes both interest and principal cash flows.

THE GROUP

	Weighted average interest rate %	Repayable on demand *RMB'000*	Less than 3 months *RMB'000*	3 months to 1 year *RMB'000*	1 year to 2 years *RMB'000*	Undiscounted cash flows *RMB'000*	Total carrying amount *RMB'000*
As at 31 December 2011							
Trade and other payables	N/A	19,053	–	10,000	–	29,053	29,053
Borrowings, fixed rate	9.46%	–	127,511	82,653	947,136	1,157,300	938,000
Amounts due to other related parties							
– interest bearing	8.37%	–	27,275	526,256	–	553,531	486,250
– interest-free	N/A	218,167	–	–	–	218,167	218,167
Financial guarantee contracts	N/A	13,406	–	–	–	13,406	–
		250,626	154,786	618,909	947,136	1,971,457	1,671,470

	Weighted average interest rate %	Repayable on demand *RMB'000*	Less than 3 months *RMB'000*	3 months to 1 year *RMB'000*	1 year to 2 years *RMB'000*	Undiscounted cash flows *RMB'000*	Total carrying amount *RMB'000*
As at 31 December 2012							
Trade and other payables	N/A	212,807	–	10,000	–	222,807	222,807
Borrowings, fixed rate	12.98%	–	84,087	920,086	–	1,004,173	894,000
Amounts due to other related parties							
– interest bearing	12.13%	–	3,150	99,450	–	102,600	90,000
– interest-free	N/A	148,575	–	–	–	148,575	148,575
Financial guarantee contracts	N/A	48,396	–	–	–	48,396	–
		409,778	87,237	1,029,536	–	1,526,551	1,355,382

	Weighted average interest rate %	Repayable on demand *RMB'000*	Less than 3 months *RMB'000*	3 months to 1 year *RMB'000*	1 year to 2 years *RMB'000*	Undiscounted cash flows *RMB'000*	Total carrying amount *RMB'000*
As at 31 December 2013							
Trade and other payables	N/A	231,137	–	68,000	–	299,137	299,137
Borrowings, fixed rate	12.92%	400,000	15,155	97,409	705,878	1,218,442	1,103,000
Amounts due to other related parties							
– interest bearing	12.64%	–	2,323	126,104	–	128,427	119,135
– interest-free	N/A	172,978	–	–	–	172,978	172,978
Financial guarantee contracts	N/A	135,834	–	–	–	135,834	–
		939,949	17,478	291,513	705,878	1,954,818	1,694,250

	Weighted average interest rate	Repayable on demand	Less than 3 months	3 months to 1 year	1 year to 2 years	Undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2014							
Trade and other payables	N/A	247,040	–	21,500	–	268,540	268,540
Borrowings, fixed rate	9.34%	–	28,865	133,508	1,102,431	1,264,804	1,103,000
Amounts due to directors	N/A	4,550	–	–	–	4,550	4,550
Amounts due to other related parties							
– interest bearing	12%	–	3,458	57,630	–	61,088	57,630
– interest-free	N/A	82,640	–	–	–	82,640	82,640
Financial guarantee contracts	N/A	182,315	–	–	–	182,315	–
		516,545	32,323	212,638	1,102,431	1,863,937	1,516,360

THE COMPANY

	Weighted average interest rate	Repayable on demand	Less than 3 months	3 months to 1 year	1 year to 2 years	Undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2011							
Trade and other payables	N/A	19,048	–	10,000	–	29,048	29,048
Borrowings, fixed rate	9.46%	–	127,511	82,653	947,136	1,157,300	938,000
Amounts due to other related parties							
– interest bearing	8.37%	–	27,275	526,256	–	553,531	486,250
– interest-free	N/A	218,167	–	–	–	218,167	218,167
Financial guarantee contracts	N/A	13,406	–	–	–	13,406	–
		250,621	154,786	618,909	947,136	1,971,452	1,671,465

	Weighted average interest rate	Repayable on demand	Less than 3 months	3 months to 1 year	1 year to 2 years	Undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2012							
Trade and other payables	N/A	212,735	–	10,000	–	222,735	222,735
Borrowings, fixed rate	13.15%	–	48,470	920,086	–	968,556	859,000
Amounts due to other related parties							
– interest bearing	12.13%	–	3,150	99,450	–	102,600	90,000
– interest-free	N/A	148,575	–	–	–	148,575	148,575
Amounts due to subsidiaries	7.21%	63	35,617	–	–	35,680	35,063
Financial guarantee contracts	N/A	48,396	–	–	–	48,396	–
		409,769	87,237	1,029,536	–	1,526,542	1,355,373

	Weighted average interest rate	Repayable on demand	Less than 3 months	3 months to 1 year	1 year to 2 years	Undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2013							
Trade and other payables	N/A	231,034	–	68,000	–	299,034	299,034
Borrowings, fixed rate	13.13%	400,000	14,113	59,439	684,230	1,157,782	1,048,000
Amounts due to other related parties							
– interest bearing	12.64%	–	2,323	126,104	–	128,427	119,135
– interest-free	N/A	172,978	–	–	–	172,978	172,978
Amounts due to subsidiaries	7.17%	45	1,042	37,970	–	39,057	35,045
Financial guarantee contracts	N/A	135,834	–	–	–	135,834	–
		939,891	17,478	291,513	684,230	1,933,112	1,674,192

	Weighted average interest rate	Repayable on demand	Less than 3 months	3 months to 1 year	1 year to 2 years	Undiscounted cash flows	Total carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 30 June 2014							
Trade and other payables	N/A	246,848	–	21,500	–	268,348	268,348
Borrowings, fixed rate	9.48%	–	27,693	94,528	1,081,611	1,203,832	1,048,000
Amounts due to directors	N/A	4,550	–	–	–	4,550	4,550
Amounts due to other related parties							
– interest bearing	12%	–	3,458	57,630	–	61,088	57,630
– interest-free	N/A	82,640	–	–	–	82,640	82,640
Amounts due to subsidiaries	6.12%	29,114	1,173	38,980	–	69,267	64,114
Financial guarantee contracts	N/A	182,315	–	–	–	182,315	–
		545,467	32,324	212,638	1,081,611	1,872,040	1,525,282

c. Fair value measurements

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

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

7. SEGMENT INFORMATION AND REVENUE

Operating segments are identified on the basis of internal reports prepared in accordance with PRC GAAP that are regularly reviewed by the chief operating decision maker ("CODM") to allocate resources to the segments and to assess their performance.

The CODM which is responsible for allocating resources and assessing performance of the operating segments has been defined as the management of the Group. The management review the (loss) profit after tax of the Group prepared in accordance with accounting policies under PRC GAAP for the purpose of resources allocation and performance assessment for each of the three years ended 31 December 2013 and the six months ended 30 June 2014. The operations of the Group represents a single operating and reportable segment under HKFRS 8 Operating Segments. The Group has been operating in one operating segment, being the primary land development and development and sale of properties, and financial information has been reviewed on consolidated basis as a whole.

Below is the reconciliation for profit (loss) before tax from PRC GAAP to HKFRSs:

	Year ended 31 December			Six months ended 30 June	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profits (loss) before tax under PRC GAAP	56,528	94,843	84,896	3,368	(1,235)
Reconciled for:					
– timing difference for sales-related activities	(75,293)	22,753	(11,246)	70,947	15,927
– reversal of expenses capitalised	(4,127)	(13,617)	(6,220)	(1,367)	(4,096)
– others	(1,279)	417	(1,640)	(2,112)	(305)
(Loss) profit before tax under HKFRSs	(24,171)	104,396	65,790	70,836	10,291

Geographical and other entity-wide information

The Group's operations are located in the PRC, which is the country of domicile of the Group.

The Group's revenue is derived solely from its operations in sales of properties during the Relevant Periods. The Group's revenue from external customers is derived solely from its operations in the PRC, and all of the Group's non-current assets are located in the PRC by location of assets.

No revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue during the Relevant Periods.

8. OTHER INCOME AND OTHER GAIN OR LOSS

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Government grant recognised as income	220	–	–	–	–
Interest income on bank deposits	79	753	544	484	585
Interest income on amounts due from other related parties	–	106,953	106,077	52,892	–
(Allowance for) reversal of doubtful debts	(1)	(235)	(2,262)	(186)	1,190
Donations	(46)	(25)	(50)	–	–
Others	19	11	1	2	153
	271	107,457	104,310	53,192	1,928

9. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on borrowings wholly repayable within five years					
Bank loans	2,553	112,056	111,369	55,642	1,078
Other loans	9,733	133	1,726	–	48,692
Interest on amounts due to other related parties	21,561	76,985	98,402	46,536	7,310
	33,847	189,174	211,497	102,178	57,080
Less: amounts capitalised in properties under development	(19,749)	(71,624)	(105,420)	(49,286)	(57,080)
	14,098	117,550	106,077	52,892	–

Borrowing costs capitalised during the Relevant Periods arose from borrowings specifically for the purpose of obtaining qualifying assets.

10. (LOSS) PROFIT BEFORE TAX

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
(Loss) profit before tax has been arrived at after charging:					
Directors' remuneration *(note 11)*	658	673	821	318	473
Other employees:					
Salaries and other benefits	2,002	3,919	3,880	2,271	1,791
Contribution to retirement benefits scheme	94	161	234	80	121
Total staff costs	2,754	4,753	4,935	2,669	2,385
Less: Amount capitalised in properties under development for sale	(1,753)	(2,109)	(2,298)	(1,274)	(1,051)
	1,001	2,644	2,637	1,395	1,334
Depreciation for property, plant and equipment	548	613	640	317	329
Allowance for (reversal of) doubtful debts	1	235	2,262	186	(1,190)
Cost of properties sold recognised as expenses	–	132,089	226,094	158,246	52,850

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid to the directors for the Relevant Periods are as follow:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Directors' fee	–	–	–	–	–
Other emoluments					
– salaries and other benefits	595	610	744	311	458
– performance related incentive bonus *(note)*	50	50	50	–	–
– contributions to retirement benefits scheme	13	13	27	7	15
	658	673	821	318	473

The emoluments of the directors on a named basis are as follows:

For the year ended 31 December 2011

	Huang Jingyuan *RMB'000* *(note b)*	**Chen Xueyun** *RMB'000* *(note b)*	**Xing Youhai** *RMB'000*	**Mei Wei** *RMB'000*	**Total** *RMB'000*
Directors' fee	–	–	–	–	–
Other emoluments					
– salaries and other benefits	–	–	249	346	595
– performance related incentive bonus *(note a)*	–	–	21	29	50
– contributions to retirement benefits scheme	–	–	6	7	13
	–	–	276	382	658

For the year ended 31 December 2012

	Huang Jingyuan *RMB'000* *(note b)*	**Chen Xueyun** *RMB'000* *(note b)*	**Xing Youhai** *RMB'000*	**Mei Wei** *RMB'000*	**Total** *RMB'000*
Directors' fee	–	–	–	–	–
Other emoluments					
– salaries and other benefits	–	–	257	353	610
– performance related incentive bonus *(note a)*	–	–	21	29	50
– contributions to retirement benefits scheme	–	–	6	7	13
	–	–	284	389	673

For the year ended 31 December 2013

	Huang Jingyuan *RMB'000* *(note b)*	**Chen Xueyun** *RMB'000* *(note b)*	**Xing Youhai** *RMB'000*	**Mei Wei** *RMB'000*	**Total** *RMB'000*
Directors' fee	–	–	–	–	–
Other emoluments					
– salaries and other benefits	–	–	278	466	744
– performance related incentive bonus *(note a)*	–	–	21	29	50
– contributions to retirement benefits scheme	–	–	13	14	27
	–	–	312	509	821

For the six months ended 30 June 2013 (unaudited)

	Huang Jingyuan *RMB'000* *(note b)*	Chen Xueyun *RMB'000* *(note b)*	Xing Youhai *RMB'000*	Mei Wei *RMB'000*	Total *RMB'000*
Directors' fee	–	–	–	–	–
Other emoluments					
– salaries and other benefits	–	–	134	177	311
– contributions to retirement benefits scheme	–	–	3	4	7
	–	–	137	181	318

For the six months ended 30 June 2014

	Xing Youhai *RMB'000*	Mei Wei *RMB'000*	Chen Ming'en *RMB'000* *(note c)*	Total *RMB'000*
Directors' fee	–	–	–	–
Other emoluments				
– salaries and other benefits	146	312	–	458
– contributions to retirement benefits scheme	8	7	–	15
	154	319	–	473

Notes:

(a) The performance related incentive bonus payment is determined with reference to the individual performance during the Relevant Periods.

(b) Retired as the director of the Company on 22 May 2014.

(c) Appointed as the director of the Company on 22 May 2014.

Of the five individuals with the highest emoluments in the Group for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, two were directors of the Group whose emoluments is included in the disclosures above. The emoluments of the remaining three individuals for the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, respectively, were as follows:

	Year ended 31 December			Six months ended 30 June	
	2011 *RMB'000*	2012 *RMB'000*	2013 *RMB'000*	2013 *RMB'000* (unaudited)	2014 *RMB'000*
Employees					
– salaries and other benefits	328	499	656	302	356
– discretionary bonus (note)	32	42	42	–	–
– contributions to retirement benefits scheme	17	19	40	14	22
	377	560	738	316	378

Note: The discretionary bonus payment is determined with reference to individual performance during the Relevant Periods.

All of the remaining three highest paid individuals in the Group for the Relevant Periods were below HK$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived any emoluments during the Relevant Periods.

12. INCOME TAX (CREDIT) EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current tax					
PRC Enterprise Income Tax ("PRC EIT")	–	39,979	14,825	17,922	1,156
LAT	–	32,185	13,354	13,354	1,917
	–	72,164	28,179	31,276	3,073
Deferred tax *(note 19)*	(5,824)	(21,795)	(1,558)	(3,501)	964
	(5,824)	50,369	26,621	27,775	4,037

All of the Group's entities are located in the PRC and PRC EIT is calculated based on the applicable tax rate of 25% on assessable profits.

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

The income tax (credit) expense for the year/period can be reconciled to the (loss) profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	2012	2013	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss) profit before tax	(24,171)	104,396	65,790	70,836	10,291
PRC EIT rate	25%	25%	25%	25%	25%
Tax at PRC EIT rate	(6,043)	26,099	16,448	17,709	2,573
Tax effect of expenses not deductible for tax purpose	212	130	154	50	26
LAT	–	32,185	13,354	13,354	1,917
Tax effect of LAT	–	(8,046)	(3,338)	(3,338)	(479)
Others	7	1	3	–	–
Income tax (credit) expense for the year/period	(5,824)	50,369	26,621	27,775	4,037

During the years ended 31 December 2011, 2012 and 2013 and six months period ended 30 June 2013 and 2014, the Group is required to prepay LAT and EIT in aggregate amounting to approximately RMB18,113,000, RMB17,112,000, RMB21,890,000, RMB15,961,000 (unaudited) and RMB15,935,000, respectively, in accordance with the relevant PRC tax rules in respect of pre-sale of property development projects. As at 31 December 2011, 2012 and 2013 and 30 June 2014, the aggregate amounts of approximately RMB8,357,000, RMB19,407,000, RMB14,702,000 and RMB12,268,000 has been prepaid and included in the tax prepayment/tax liabilities of consolidated statement of financial position.

13. DIVIDENDS

During the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, a final dividend of RMB80,000,000, RMB42,000,000, RMB62,000,000, nil (unaudited) and nil, respectively, were recognised as distribution to the owners of the Company.

No dividend per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

14. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

15. PROPERTY, PLANT AND EQUIPMENT

THE GROUP AND THE COMPANY

	Furniture, Fixtures and Equipment	Motor Vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*
COST			
At 1 January 2011	26	2,424	2,450
Additions	9	691	700
At 31 December 2011	35	3,115	3,150
Additions	68	115	183
At 31 December 2012	103	3,230	3,333
Additions	83	55	138
At 31 December 2013	186	3,285	3,471
Additions	17	–	17
At 30 June 2014	203	3,285	3,488
DEPRECIATION			
At 1 January 2011	2	87	89
Provided for the year	6	542	548
At 31 December 2011	8	629	637
Provided for the year	16	597	613
At 31 December 2012	24	1,226	1,250
Provided for the year	23	617	640
At 31 December 2013	47	1,843	1,890
Provided for the period	18	311	329
At 30 June 2014	65	2,154	2,219
CARRYING VALUES			
At 31 December 2011	27	2,486	2,513
At 31 December 2012	79	2,004	2,083
At 31 December 2013	139	1,442	1,581
At 30 June 2014	138	1,131	1,269

16. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHT

THE GROUP AND THE COMPANY

The deposit was paid to Liuzhou Land Resources Bureau for acquisition of land use right from property development projects, which will be transferred as part of the consideration for acquiring the land use right if tender success. The land use right was subsequently acquired and the deposits was transferred to properties under development for sale in 2013.

17. OTHER DEPOSIT

THE GROUP AND THE COMPANY

Other deposit was paid to Liuzhou Land Resources Bureau as a guarantee to commence a hotel construction and is refundable upon the commencement of construction. The construction is expected to commence in 2015, and is classified as non-current assets as at 31 December 2013 and reclassified to current assets under trade and other receivables as at 30 June 2014.

18. INVESTMENTS IN SUBSIDIARIES

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted investment, at cost	30,000	30,000	30,000	30,000

19. DEFERRED TAXATION

THE GROUP AND THE COMPANY

For the purpose of presentation in the statements of financial position, certain deferred tax assets and liabilities have been offset.

	Accrued expenses	LAT	Tax loss	Unrealized profits on properties for sale	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note a)		*(note b)*	
At 1 January 2011	–	–	–	10,006	10,006
Credit (charge) to profit or loss	4	(4,566)	5,375	5,011	5,824
At 31 December 2011	4	(4,566)	5,375	15,017	15,830
Credit (charge) to profit or loss	66	5,825	(5,375)	21,279	21,795
At 31 December 2012	70	1,259	–	36,296	37,625
Credit (charge) to profit or loss	560	3,673	–	(2,675)	1,558
At 31 December 2013	630	4,932	–	33,621	39,183
(Charge) credit to profit or loss	(298)	(19)	–	(647)	(964)
At 30 June 2014	332	4,913	–	32,974	38,219

Notes:

(a) LAT mainly represents the taxable temporary difference arising from prepayment for LAT and deductible temporary difference arising from provision of LAT.

(b) Unrealized profits on properties for sale represents the deductible temporary difference arising from the unrealized profit of the primary land development project per note 20 and such deferred tax asset is released when the related properties are sold.

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Group has unused tax losses of approximately RMB21,498,000, nil, nil and nil, respectively. A deferred tax asset has been fully recognised in respect of the amount of unused tax loss at the end of each reporting period.

20. LAND DEVELOPMENT EXPENDITURE

THE GROUP AND THE COMPANY

In 2009, 柳州華桂房地產開發有限公司 (Liuzhou Huagui Property Development Co., Ltd.) ("Liuzhou Huagui")*, one of owners of the Company, entered into an agreement with Dongcheng Investment relating to the joint development of a primary land development project of Liuzhou Industrial Projects Exhibition Center (the"Project"), and the Project was subsequently transferred from Liuzhou Huagui to the Company in 2010, pursuant to an tripartite agreement signed among Liuzhou Huagui, Dengcheng Investment and the Company.

Under the agreement, subsequent to a successful auction of a parcel of land development under the Project, the Company is entitled to receive from Dongcheng Investment the related costs incurred and a 50% profit sharing after deducting all related taxes and expenses if selling price from the auction is over RMB250,000 per acre.

During the Relevant Periods, 4 parcels of land under the Project were put on public auction and the Company acquired all these 4 parcels of land by auction.

* The English name is for identification purpose only

21. PROPERTIES FOR SALE

THE GROUP AND THE COMPANY

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Completed properties for sale	–	98,906	196,744	143,893
Properties under development for sale	507,521	701,650	1,037,996	1,156,384
	507,521	800,556	1,234,740	1,300,277
Carrying amount of properties under development for sale expected to be sold:				
– Within one year	230,994	323,932	249,598	632,380
– After one year	276,527	377,718	788,398	524,004
	507,521	701,650	1,037,996	1,156,384

As at 31 December 2011, 2012 and 2013 and 30 June 2014, certain properties for sale with carrying amount of RMB200,035,000, RMB200,035,000 RMB467,594,000 and RMB457,115,000, respectively, were pledged to secure certain bank and other loans of the Group and the Company.

22. TRADE AND OTHER RECEIVABLES

THE GROUP AND THE COMPANY

	At 31 December 2011 *RMB'000*	2012 *RMB'000*	2013 *RMB'000*	At 30 June 2014 *RMB'000*
Trade receivables	–	4,088	6,157	4,212
Less: allowance for doubtful debts	–	(220)	(407)	(280)
Trade receivables, net	–	3,868	5,750	3,932
Other receivables and prepayments				
Other deposits	41	193	17,162	18,673
Prepayments for construction work	321,441	17,558	162,557	222,495
Other tax prepayment	14,062	16,773	11,520	12,650
Staff advances	12	7	3,329	548
Interest receivables	–	–	172	4,826
Receivable on primary land development *(note)*	–	92,298	–	–
	335,556	130,697	200,490	263,124

Note: Receivables on primary land development represents the balance due from Dongcheng Investment on the Project after certain parcels of land were auctioned by local land bureau and acquired by the Group. RMB38,000,000 was subsequently received in 2013, and the remaining balance was reinvested to the Project.

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the date of delivery of the properties at the end of each reporting period:

	At 31 December 2011 *RMB'000*	2012 *RMB'000*	2013 *RMB'000*	At 30 June 2014 *RMB'000*
Age				
0 to 30 days	–	3,868	829	3,574
31 to 60 days	–	–	–	–
61 to 90 days	–	–	–	142
91 to 180 days	–	–	4,921	216
	–	3,868	5,750	3,932

Trade receivables as at 31 December 2011, 2012 and 2013 and 30 June 2014 included the receivables from the property sales of approximately nil, nil, RMB829,000 and RMB1,342,000, respectively, whereby the banks have agreed to provide mortgage facilities to the property purchasers and the banks are in the process of releasing the funds to the Group.

Consideration in respect of properties sold are received in accordance with the terms of the related sales and purchase agreements, certain portion on instalment payment are received on or before the date of delivery of the properties to customers and the remaining balance are normally settled within 90 days from date of delivery.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period and no impairment is necessary for those balances which are not past due.

At 31 December 2011, 2012 and 2013 and 30 June 2014, included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately nil, nil, RMB4,921,000 and RMB216,000, respectively, which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

Aging of past due but not impaired trade receivables

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Age				
91 to 180 days	–	–	4,921	216

Movement in the allowance for doubtful debts in respect of trade and other receivables

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	3	4	239	2,501
Impairment loss recognised on receivables	1	235	2,482	280
Amounts recovered during the year/period	–	–	(220)	(1,470)
At the end of the year/period	4	239	2,501	1,311

As at 31 December 2011, 2012 and 2013 and 30 June 2014, included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of approximately RMB4,000, RMB239,000, RMB2,501,000 and RMB1,311,000, respectively, of which the debtors have been in financial difficulties.

23. RESTRICTED/PLEDGED BANK DEPOSITS/BANK BALANCES

THE GROUP AND THE COMPANY

Restricted/pledged bank deposits

Restricted bank deposits mainly represent the deposits received for sale of properties from the buyers of the properties. The balances will be released upon the buyers obtaining the individual property ownership certificate.

Pledged bank deposits amounting to nil, nil, RMB270,000,000 and RMB270,000,000 respectively, as at 31 December 2011, 2012 and 2013 and 30 June 2014 represent deposits pledged to banks to secure short-term and long-term borrowings. The pledged bank deposits will be released upon the settlement of relevant borrowings (note 26).

The Group's and the Company's restricted/pledged bank deposits carry interest at prevailing market rates which range from nil, 0.44% to 3.75%, 0.39% to 4.12% and 0.35% to 4.12% per annum, as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively.

Bank balances

The Group's and the Company's bank balances carry interest at prevailing market rates which range from 0.40% to 0.50%, 0.39% to 0.44%, 0.35% to 0.39% and 0.35% to 0.39% per annum as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively.

All bank balances were denominated in RMB throughout the Relevant Periods.

24. TRADE AND OTHER PAYABLES

THE GROUP

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	6,505	20,326	23,727	24,582
Accrued construction cost to contractors *(note a)*	9,795	160,721	94,413	105,584
Interest payables	658	30,198	4,013	1,859
Amount due to third parties *(note b)*	2,250	1,500	108,500	113,716
Retention payables *(note c)*	10,000	10,000	68,000	21,500
Others *(note d)*	119	11,665	1,281	2,113
	29,327	234,410	299,934	269,354

THE COMPANY

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	6,505	20,326	23,727	24,582
Accrued construction cost to contractors *(note a)*	9,795	160,721	94,413	105,584
Interest payables	658	30,198	4,013	1,859
Amount due to the third parties *(note b)*	2,250	1,500	108,500	113,716
Retention payables *(note c)*	10,000	10,000	68,000	21,500
Others *(note d)*	114	11,593	1,178	1,919
	29,322	234,338	299,831	269,160

Notes

(a) Balances represent accrued construction costs payable to contractors as at 31 December 2011, 2012 and 2013 and 30 June 2014.

(b) Balances represent the amounts due to third parties which were non-trade related, unsecured, interest-free and repayable on demand. As at 30 June 2014, included in amounts due to third parties represented amount of approximately RMB7,117,000 due to 廣西正和實業集團有限公司 (Guangxi Zhenghe Industrial Co., Ltd) ("Guangxi Zhenghe Industrial")*, which is the former related party of the Group and the Company.

(c) Balances represent the retention money held by the Group according to construction contracts in which such amounts will be released within one year after the completion of the construction work.

(d) Balance as at 31 December 2012 mainly consisted of business tax payable amounting to approximately RMB11,388,000.

* *The English name is for identification purpose only*

Trade payables principally comprise amounts outstanding for purchase of construction materials for properties for sale. The average credit period for purchase of construction materials ranged from 180 days to 365 days.

The following is an aged analysis of the Group's and the Company's trade payables presented based on the date of materials received at the end of each reporting period:

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Age				
0 to 90 days	6,505	20,326	23,358	24,540
91 to 180 days	–	–	–	24
181 to 365 days	–	–	91	2
Over 365 days	–	–	278	16
	6,505	20,326	23,727	24,582

25. DEPOSITS RECEIVED FOR SALE OF PROPERTIES

Considerations in respect of properties sold are received in accordance with the terms of the related sales and purchase agreements, certain portion are received on or before the date of delivery of the properties to customers which is recorded as deposits received for sale of properties.

As at 31 December 2011, 2012 and 2013 and 30 June 2014, the Group and the Company have received deposits of approximately RMB76,792,000, RMB45,408,000, RMB172,645,000 and RMB488,194,000, respectively, in which the title of the properties are not expected to be transferred to the customers within 12 months.

26. BORROWINGS

THE GROUP

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	38,000	73,000	35,000	35,000
Other loans	900,000	821,000	1,068,000	1,068,000
	938,000	894,000	1,103,000	1,103,000
Analysed as:				
Secured	938,000	838,000	1,050,000	1,050,000
Unsecured	–	56,000	53,000	53,000
	938,000	894,000	1,103,000	1,103,000

THE COMPANY

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	38,000	38,000	–	–
Other loans	900,000	821,000	1,048,000	1,048,000
	938,000	859,000	1,048,000	1,048,000
Analysed as:				
Secured	938,000	838,000	1,030,000	1,030,000
Unsecured	–	21,000	18,000	18,000
	938,000	859,000	1,048,000	1,048,000

All borrowings were fixed-rate borrowings and denominated in RMB during the Relevant Periods.

THE GROUP

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of borrowings repayable:				
Within one year	100,000	894,000	453,000	53,000
More than one year, but not exceeding two years	838,000	–	650,000	1,050,000
	938,000	894,000	1,103,000	1,103,000
Less: Amounts due within one year shown under current liabilities	(100,000)	(894,000)	(453,000)	(53,000)
Amounts shown under non-current liabilities	838,000	–	650,000	1,050,000

THE COMPANY

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of borrowings repayable:				
Within one year	100,000	859,000	418,000	18,000
More than one year, but not exceeding two years	838,000	–	630,000	1,030,000
	938,000	859,000	1,048,000	1,048,000
Less: Amounts due within one year shown under current liabilities	(100,000)	(859,000)	(418,000)	(18,000)
Amounts shown under non-current liabilities	838,000	–	630,000	1,030,000

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's and the Company's fixed-rate borrowings are as follows:

THE GROUP

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
Effective interest rate	7.90%-13.15%	7.22%-13.15%	7.20%-13.15%	8.24%-12.00%

THE COMPANY

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
Effective interest rate	7.90%-13.15%	7.22%-13.15%	7.20%-13.15%	8.24%-12.00%

THE GROUP

As at 31 December 2011, 2012 and 2013 and 30 June 2014, included the Group's other loans amounting to RMB900,000,000, RMB800,000,000, RMB1,050,000,000 and RMB1,050,000,000, respectively, represents loans provided by trust companies. The borrowings carry interest at fixed rate ranging from 9.60% to 13.15%, 9.60% to 13.15%, 8.24% to 13.15% and 8.24% to 12.00% per annum, respectively.

At the end of each reporting period, certain of the Group's trusted loans were indirectly secured by the Group's properties for sale and bank deposits pledged to a bank and the bank in return issued letter of guarantee to the trust companies as security for the loans granted.

The followings show the details of assets pledged or guarantees provided to the Group:

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guaranteed/jointly guaranteed by:				
Related parties	900,000	800,000	780,000	780,000
Directors and related parties	–	35,000	35,000	35,000
	900,000	835,000	815,000	815,000
Secured by:				
Properties for sale	200,035	200,035	467,594	457,115
Pledged deposits	–	–	270,000	270,000

In addition to the Group's own assets pledged, some related parties had also pledged certain assets to the bank to secure borrowings to the Group.

THE COMPANY

As at 31 December 2011, 2012 and 2013 and 30 June 2014, included in the Company's other loans amounting to RMB900,000,000, RMB800,000,000, RMB1,030,000,000 and RMB1,030,000,000, respectively, represents loans provided by trust companies, carry interest at fixed rate ranging from 9.60% to 13.15%, 9.60% to 13.15%, 8.24% to 13.15% and 8.24% to 12.00% per annum, respectively.

At the end of each reporting period, certain of the Company's trusted loans were indirectly secured by the Company's properties for sale and bank deposits pledged to a bank and the bank in return issued letter of guarantee to the trust companies as security for the loans granted.

The followings show the details of assets pledge or guarantees provided to the Company:

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guaranteed/jointly guaranteed by:				
Related parties	900,000	800,000	780,000	780,000
Secured by:				
Properties for sale	200,035	200,035	467,594	457,115
Pledged deposits	–	–	250,000	250,000

In addition to the Company's own assets pledged, some related parties had also pledged certain assets to the bank to secure borrowings to the Company.

THE GROUP AND THE COMPANY

At 31 December 2011, 2012 and 2013 and 30 June 2014, the Group and the Company had available unutilised banking facilities of approximately RMB52,000,000, RMB52,000,000, nil and nil, respectively.

27. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to subsidiaries	–	35,063	35,045	64,114

Amounts are unsecured, carrying interest ranging from 7.21%, 3.99% to 7.20% and 3.99% to 9.40% per annum as at 31 December 2012 and 2013 and 30 June 2014, respectively. All balances are repayable within one year at the end of each reporting period.

28. DEFERRED INCOME

THE GROUP AND THE COMPANY

During the year ended 31 December 2012, the Group and the Company received cash subsidies of RMB15,750,000 from the PRC local government for the construction of certain renewable energy pumping and ventilation system which benefits the purchasers of the Group's properties. The grant is related to long-term development project with project period usually over a year. These government grant received prior to the completion of the conditions are classified as deferred income. The project has commenced in the second half 2014 and is expected to complete in 2017.

29. REGISTERED CAPITAL

The Company was set up on 7 January 2010, with initial registered capital of RMB100,000,000. The capital verification was performed by a certified public accountant registered in the PRC, 廣西正則會計師事務所有限公司, on 22 March 2010.

Pursuant to the board resolution passed on 28 August 2013, the registered capital of the Company increased from RMB100,000,000 to RMB200,000,000. The registered capital has been fully paid-up by owners as of 31 December 2013.

The capital verification on the additional RMB100,000,000 registered capital was performed by a certified public accountant registered in the PRC, 廣西東方廣信會計師事務所有限公司, on 28 August 2013.

The owners' capital contribution which has been made in accordance with the Company's memorandum and articles of association is as follows:

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
海南正和實業集團有限公司 (Hainan Zhenghe Industrial Co., Ltd.)* ("Hainan Zhenghe")	70,000	70,000	140,000	–
Liuzhou Huagui	30,000	30,000	60,000	60,000
福清市旺福房地產開發有限公司 (Fuqing Wangfu Property Development* Co., Ltd.) ("Fuqing Wangfu")	–	–	–	140,000
	100,000	100,000	200,000	200,000

* *The English name is for identification purpose only*

Pursuant to the sales and purchase agreement dated on 22 May 2014, Hainan Zhenghe had transferred in full its equity interest in the Company to Fuqing Wangfu.

30. RESERVES OF THE COMPANY

	Statutory surplus reserve	Accumulated losses	Total
	RMB'000 *(note)*	*RMB'000*	*RMB'000*
At 1 January 2011	9,211	(12,221)	(3,010)
Loss and total comprehensive expense for the year	–	(18,321)	(18,321)
Dividends recognised as distribution	–	(80,000)	(80,000)
Transfer to statutory surplus reserve	4,354	(4,354)	–
At 31 December 2011 and 1 January 2012	13,565	(114,896)	(101,331)
Profit and total comprehensive income for the year	–	54,029	54,029
Dividends recognised as distribution	–	(42,000)	(42,000)
Transfer to statutory surplus reserve	6,978	(6,978)	–
At 31 December 2012 and 1 January 2013	20,543	(109,845)	(89,302)
Profit and total comprehensive income for the year	–	39,182	39,182
Dividends recognised as distribution	–	(62,000)	(62,000)
Transfer to statutory surplus reserve	6,243	(6,243)	–
At 31 December 2013 and 1 January 2014	26,786	(138,906)	(112,120)
Profit and total comprehensive income for the period	–	6,255	6,255
At 30 June 2014	26,786	(132,651)	(105,865)

Note: According to relevant laws and regulations of the PRC, an entity established under the PRC Company Law is required to make an appropriation at 10 percent of the profit for the year as shown in the PRC statutory financial statements, prepared in accordance with the PRC GAAP, to the statutory surplus reserve until the balance reached 50 percent of the registered capital of that entity. The reserve appropriated can only make up losses or use to increase the registered capital of that entity and is not distributable.

31. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, the Group entered into sales and purchase agreements with contractors for the transfer of properties amounting to approximately nil, nil, RMB172,361,000, nil (unaudited) and nil, respectively, for settlement of the payable for construction work provided by contractors.

32. OTHER COMMITMENTS

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Construction commitments in respect of properties for sale contracted for but not provided in the Financial Information	35,614	28,851	574,998	526,039

33. RETIREMENT BENEFITS SCHEME

The employees of the Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under the scheme.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately RMB107,000, RMB174,000, RMB261,000, RMB87,000 (unaudited) and RMB136,000 for the years ended 31 December 2011, 2012 and 2013, and the six months ended 30 June 2013 (unaudited) and 2014, respectively, represent contributions paid or payable to the scheme for the Relevant Periods.

34. CONTINGENT LIABILITIES

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Guarantees given to banks for mortgage facilities granted to purchasers of the Group's properties	13,406	48,396	135,834	182,315

The Group had provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage loans together with accrued interests thereon and any penalty owed by the defaulted purchaser to banks, the Group is then entitled to take over the legal title of the related properties. The guarantee period commences from the dates of grant of the relevant mortgage loans and ends after the buyer obtained the individual property ownership certificate.

35. RELATED PARTY DISCLOSURES

(a) Name and relationship of related parties

Name	Relationship with the Company
Hainan Zhenghe	Holding company before May 2014
Fuqing Wangfu	Holding company after May 2014
Liuzhou Huagui	Non-controlling owner of the Company
柳州樺桂紡織品貿易有限公司 Liuzhou Huagui Textile Trading Co., Ltd* ("Huagui Textile")	Controlled by Hainan Zhenghe
柳州市精藝建材貿易有限公司 Liuzhou Jingyi Construction Material Trading Co., Ltd.* ("Jingyi Trading")	Controlled by Hainan Zhenghe
柳州正和物業服務有限公司柳州分公司 Liuzhou Zhenghe Property Service Co., Ltd., Liuzhou Branch* ("Zhenghe Property")	Controlled by Hainan Zhenghe
雲南正和實業有限公司 Yunnan Zhenghe Industrial Co., Ltd.* ("Yunnan Zhenghe")	Controlled by Hainan Zhenghe
柳州市利嘉商業管理有限責任公司 Liuzhou Lijia Shangyeguanli Co., Ltd.* ("Liuzhou Lijia")	Controlled by Guangxi Zhenghe, immediate holding company of Hainan Zhenghe
廣西正和商業管理有限公司 Guangxi Zhenghe Business Management Co., Ltd.* ("Guangxi Zhenghe Business")	Controlled by Hainan Zhenghe
福建正和貿易有限公司 Fujian Zhenghe Trading Co., Ltd.* ("Fujian Zhenghe")	Controlled by Hainan Zhenghe
天津天譽軒置業有限公司 Tianjing Tianyuxuan Real Estate Co., Ltd.* ("Tianjing Tianyu")	Controlled by Hainan Zhenghe
廣西嘉唯房地產營銷策劃有限公司 Guangxi Jiawei Real Estate Marketing Co.,Ltd* ("Guangxi Jiawei")	Controlled by Hainan Zhenghe
Guangxi Zhenghe Industrial	Intermediate holding company
鍾雷 Zhong Lei	Controlling shareholder of Liuzhou Huagui
Mei Wei	Director of the Company
Xing Youhai	Director of the Company

* *The English name is for identification purpose only.*

(b) Amounts due from other related parties

THE GROUP

Amounts due from other related parties are as follows:

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-trade related				
Hainan Zhenghe				
– Interest bearing	–	220,976	88,476	–
– Interest-free	–	35,602	7,581	–
Huagui Textile	9,600	9,600	9,600	–
Jingyi Trading	19,390	19,390	19,390	–
Zhenghe Property	–	–	830	–
Yunnan Zhenghe	–	50,000	50,000	–
Liuzhou Lijia	–	21	–	–
Fuqing Wangfu	–	–	–	8,545
Guangxi Jiawei	–	22	–	–
Guangxi Zhenghe Business	1,937	–	4,204	–
	30,927	335,611	180,081	8,545

THE COMPANY

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-trade related				
Hainan Zhenghe				
– Interest bearing	–	220,976	88,476	–
– Interest-free	–	35,602	7,581	–
Zhenghe Property	–	–	830	–
Yunnan Zhenghe	–	50,000	50,000	–
Liuzhou Lijia	–	21	–	–
Fuqing Wangfu	–	–	–	8,545
Guangxi Jiawei	–	22	–	–
Guangxi Zhenghe Business	1,937	–	4,204	–
	1,937	306,621	151,091	8,545

Except for the balance shown above as interest bearing which carries interest rate of 13.15% and 13.15% per annum as at 31 December 2012 and 2013, respectively, all other amount are interest-free. All the balances are non-trade related, unsecured and repayable on demand. Except for the balance due from Fuqing Wangfu, all other balances due from the related parties were settled as of 30 June 2014.

The following information is disclosed pursuant to section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), which requires compliance with section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32):

THE GROUP

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Hainan Zhenghe	–	345,106	256,578	96,057
Huagui Textile	9,600	9,600	9,600	9,600
Jingyi Trading	19,390	19,390	19,390	19,390
Zhenghe Property	–	–	830	830
Yunnan Zhenghe	–	50,000	50,000	50,000
Liuzhou Lijia	–	21	21	–
Fuqing Wangfu	–	–	–	8,545
Guangxi Jiawei	–	22	194	–
Guangxi Zhenghe Business	1,937	1,937	4,204	4,204

THE COMPANY

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Hainan Zhenghe	–	345,106	256,578	96,057
Zhenghe Property	–	–	830	830
Yunnan Zhenghe	–	50,000	50,000	50,000
Liuzhou Lijia	–	21	21	–
Fuqing Wangfu	–	–	–	8,545
Guangxi Jiawei	–	22	194	–
Guangxi Zhenghe Business	1,937	1,937	4,204	4,204

(c) Amounts due to directors

THE GROUP AND THE COMPANY

Amounts due to directors are as follows:

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mei Wei	–	–	–	2,600
Xing Youhai	–	–	–	1,950
	–	–	–	4,550

The amounts are due to Mei Wei and Xing Youhai which are non-trade related, unsecured, interest-free and repayable within one year.

(d) Amounts due to other related parties

THE GROUP AND THE COMPANY

Amounts due to related parties are as follows:

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed as:				
Trade related	3,027	–	2,269	–
Non-trade related	701,390	238,575	289,844	140,270
Total	704,417	238,575	292,113	140,270

	At 31 December			At 30 June
	2011	**2012**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade related				
Guangxi Jiawei	3,027	–	2,269	–

The above balance being commission payable for sale of properties which is interest-free, unsecured and repayable on demand. The following is an aged analysis of the Group's and the Company's trade payable to Guangxi Jiawei presented based on the invoice date at the end of each reporting period:

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Age				
0 to 90 days	3,027	–	2,269	–

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-trade related				
Zhenghe Property	–	5	–	
Liuzhou Huagui	–	–	20,570	82,640
Hainan Zhenghe				
– Interest bearing	366,250	–	–	–
– Interest-free	16,149	–	–	–
Huagui Textile				
– Interest bearing	10,000	–	–	–
– Interest-free	71,379	71,515	71,504	–
Jingyi Trading				
– Interest bearing	70,000	60,000	60,000	–
– Interest-free	62,612	72,805	71,518	–
Guangxi Zhenghe Business				
– Interest bearing	30,000	30,000	30,000	–
– Interest-free	–	1,009	–	–
Liuzhou Lijia				
– Interest bearing	10,000	–	–	–
Yunnan Zhenghe	10,000	–	–	–
Fujian Zhenghe	45,000	–	–	–
Tianjing Tianyu	10,000	–	–	–
Guangxi Zhenghe Industrial	–	3,241	7,117	–
Zhong Lei				
– Interest bearing	–	–	29,135	57,630
	701,390	238,575	289,844	140,270

	At 31 December			At 30 June
	2011	2012	2013	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Analysed as:				
Interest bearing balances	486,250	90,000	119,135	57,630
Non-interest bearing balances	215,140	148,570	170,709	82,640
	701,390	238,575	289,844	140,270

Except for certain balances which are interest bearing and carry fixed interest rate of 6.06% to 8.83%, 6.06% to 13.15%, 7.80% to 13.15% and 12.00% as at 31 December 2011, 2012 and 2013 and 30 June 2014, respectively, all other amounts are interest-free. All non-trade related balances are unsecured and repayable within one year.

(e) Related parties transactions

THE GROUP AND THE COMPANY

During the years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2013 and 2014, the Group entered into the following transactions with related parties:

	Year ended 31 December			Six months ended 30 June	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Purchase from related parties					
Jingyi Trading	–	15,720	5,952	5,952	–
Interest income					
Hainan Zhenghe	–	106,953	106,077	52,892	–
Selling and distribution expenses					
Guangxi Jiawei	3,207	3,050	4,899	1,538	139
Interest expense					
Jingyi Trading	3,603	4,622	4,089	2,442	(149)
Huagui Textile	1,687	1,302	1,436	767	–
Guangxi Zhenghe Business	2,090	2,158	2,179	891	(77)
Liuzhou Lijia	480	101	–	–	–
Hainan Zhenghe	13,701	68,802	90,698	42,436	2,340
Zhong Lei	–	–	–	–	5,196
	21,561	76,985	98,402	46,536	7,310

Interest expense represents the expenses incurred on borrowings from related parties. Approximately amounts of RMB7,463,000, RMB66,388,000, RMB98,402,000, RMB46,536,000 (unaudited) and RMB7,310,000 for the years ended 31 December 2011, 2012 and 2013 and 30 June 2013 and 2014, respectively, which were for the purpose of financing its construction projects, are capitalised in the properties under development during the Relevant Periods.

During the Relevant Periods, some related parties had provided guarantee or joint guarantee to the Group and the Company for the borrowings raised as set out in note 26. In addition, as at 31 December 2011, 2012, 2013 and 30 June 2014, some related parties had also pledged certain assets to secure borrowings of approximately RMB938,000,000, RMB838,000,000, RMB400,000,000 and RMB400,000,000, respectively, made to the Group and the Company.

(f) Compensation of key management personnel

THE GROUP

The remuneration of key management personnel during the Relevant Periods was as follows:

	Year ended 31 December			Six months ended 30 June	
	2011	**2012**	**2013**	**2013**	**2014**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Short-term employee benefits	1,005	1,200	1,492	614	814
Post employee benefits	30	33	67	20	37
Other long term benefits	–	–	–	–	–
	1,035	1,233	1,559	634	851

The remuneration of key management personnel is determined by reference to the performance of individuals and market trend.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company, any of its subsidiaries or the Group have been prepared in respect of any period subsequent to 30 June 2014.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(1) INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information") is prepared by the Directors to illustrate the financial effect of the proposed acquisition of 70% equity interest of the Target (the "Acquisition") on the Group, as if the Acquisition had been completed on 30 September 2014 or 1 April 2013, as appropriate.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules, for the purpose of illustrating the effect of the Acquisition pursuant to the terms of the sale and purchase agreement dated 27 August 2014 (the "SPA") entered into among the Company and all shareholders of the Target (the "Vendor").

The unaudited pro forma consolidated statement of financial position is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2014, which has been extracted from the Company's published interim financial report for the six months ended 30 September 2014 and the audited consolidated statement of financial position of the Target Group as at 30 June 2014 as extracted from the accountants' report of the Target Group thereon set out in Appendix II to this Circular, after making pro forma adjustments relating to the Acquisition, as if the Acquisition had been completed on 30 September 2014.

The unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared based on (i) the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 March 2014 as extracted from the published annual report of the Company for the year ended 31 March 2014; and (ii) the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2013 as extracted from the accountants' report of the Target Group as set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition, as if the Acquisition had been completed on 1 April 2013. The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimates and uncertainties. Accordingly, because of its nature, it does not purport to predict what the results or cash flows of the Enlarged Group will be after the Acquisition or the financial position that will be attained upon completion of the Acquisition.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group set out in the interim financial report of the Company for the six months ended 30 September 2014 and the annual report of the Company for the year ended 31 March 2014 and other financial information included elsewhere in this Circular.

(2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP AS AT 30 SEPTEMBER 2014

	The Group as at 2014/9/30 HKD'000	Target Group as at 2014/6/30 RMB'000	Target Group as at 2014/6/30 HKD'000	Total HK$'000	Pro forma adjustments HKD'000	HKD'000	The Enlarged Group HKD'000
	Note a	*Note b*	*Note b*		*Note c*	*Note f*	
Non-current assets:							
Property, plant and equipment	1	1,269	1,601	1,602			1,602
Pledged bank deposits		270,050	340,774	340,774			340,774
Deferred tax assets		38,219	48,228	48,228			48,228
Provisional goodwill					145,473		145,473
	1	309,538	390,603	390,604	145,473		536,077
Current assets:							
Land development expenditure		249,339	314,639	314,639			314,639
Properties for sale		1,300,277	1,640,811	1,640,811	346,671		1,987,482
Inventories	714			714			714
Trade and other receivables	2,221	263,124	332,034	334,255			334,255
Amounts due from ultimate holding company	33			33			33
Amounts due from other related parties		8,545	10,783	10,783			10,783
Restricted and pledged bank deposits		28,045	35,390	35,390			35,390
Bank balances and cash	197,753	5,053	6,376	204,129	(353,327)	(6,474)	(155,672)
	200,721	1,854,383	2,340,033	2,540,754	(6,656)	(6,474)	2,527,624
Current liabilities:							
Trade and other payables	1,923	269,354	339,896	341,819			341,819
Deposits received for sale of properties		488,194	616,049	616,049			616,049
Borrowings due within one year		53,000	66,880	66,880			66,880
Deferred income		15,750	19,875	19,875			19,875
Amounts due to directors		4,550	5,742	5,742			5,742
Amounts due to other related parties		140,270	177,006	177,006			177,006
Tax liabilities		48,710	61,467	61,467			61,467
	1,923	1,019,828	1,286,915	1,288,838			1,288,838
Net current assets	198,798	834,555	1,053,118	1,251,916	(6,656)	(6,474)	1,238,786
Total assets less current liabilities	198,799	1,144,093	1,443,721	1,642,520	138,817	(6,474)	1,774,863
Non-current liabilities:							
Borrowings due over one year		1,050,000	1,324,988	1,324,988			1,324,988
Deferred tax liabilities					168,469		168,469
		1,050,000	1,324,988	1,324,988	168,469		1,493,457
Net assets	198,799	94,093	118,733	317,532	(29,652)	(6,474)	281,406
Capital and reserves:							
Registered capital	19,039	200,000	239,356	258,395	(239,356)		19,039
Reserves	177,164	(105,907)	(120,623)	56,541	120,623	(6,474)	170,690
Non-controlling interests	2,596			2,596	89,081		91,677
	198,799	94,093	118,733	317,532	(29,652)	(6,474)	281,406

(3) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 MARCH 2014

	The Group for the year ended 31 March 2014 HK$'000 *Note e*	The Target Group for the year ended 31 December 2013 RMB'000 *Note b*	The Target Group for the year ended 31 December 2013 HK$'000 *Note b*	Total HK$'000	Pro Forma Adjustments HK$'000 *Notes f, g*	The Enlarged Group HK$'000
Revenue	3,007	314,165	393,518	396,525		396,525
Cost of sales	(2,017)	(226,094)	(283,202)	(285,219)	(91,517)	(376,736)
Gross Profit	990	88,071	110,316	111,306	(91,517)	19,789
Other income, gains and losses	500	104,310	130,657	131,157		131,157
Selling and distribution expenses	(125)	(8,478)	(10,619)	(10,744)		(10,744)
Administrative expenses	(19,091)	(12,036)	(15,076)	(34,167)		(34,167)
Goodwill written off	(462)			(462)		(462)
Share of results of associates	(30,313)			(30,313)		(30,313)
Finance cost		(106,077)	(132,870)	(132,870)		(132,870)
Other expense					(6,474)	(6,474)
(Loss) profit before tax	(48,501)	65,790	82,408	33,907	(97,991)	(64,084)
Income tax expense		(26,621)	(33,345)	(33,345)	22,879	(10,466)
(Loss) profit for the year	(48,501)	39,169	49,063	562	(75,112)	(74,550)
Other comprehensive expense for the year						
Exchange differences arising on translation	(57)			(57)		(57)
Total comprehensive (expense) income for the year	(48,558)	39,169	49,063	505	(75,112)	(74,607)
(Loss) profits for the year attributable to						
Owners of the Company	(43,927)	39,169	49,063	5,136	(75,112)	(69,976)
Non-controlling Interests	(4,574)			(4,574)		(4,574)
	(48,501)	39,169	49,063	562	(75,112)	(74,550)
Total comprehensive (expense) income for the year attributable to						
Owners of the Company	(44,048)	39,169	49,063	5,015	(75,112)	(70,097)
Non-controlling Interests	(4,510)			(4,510)		(4,510)
	(48,558)	39,169	49,063	505	(75,112)	(74,607)

(4) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE ENLARGED GROUP FOR THE YEAR ENDED 31 MARCH 2014

	The Group for the year ended 31 March 2014 HK$'000 *Note e*	The Target Group for the year ended 31 December 2013 RMB'000 *Note b*	The Target Group for the year ended 31 December 2013 HK$'000 *Note b*	Total HK$'000	Pro Forma Adjustments HK$'000 *Notes d, f, g*	The Enlarged Group HK$'000
OPERATING ACTIVITIES						
(Loss) profit before tax	(48,501)	65,790	82,407	33,906	(75,112)	(41,206)
Adjustments for:						
Allowance for bad and doubtful debts		2,262	2,833	2,833		2,833
Depreciation of property, plant and equipment	768	640	802	1,570		1,570
Interest income	(678)	(544)	(681)	(1,359)		(1,359)
Impairment loss on goodwill	462			462		462
Share of results of associates	30,313			30,313		30,313
Net gain from financial assets at fair value through profit or loss	(165)			(165)		(165)
Operating cashflows before movements in working capital	(17,801)	68,148	85,361	67,560	(75,112)	(7,552)
Increase in inventories	(766)	(148,336)	(185,803)	(186,569)		(186,569)
Increase in trade and other receivables	(1,479)	(126,183)	(158,055)	(159,534)		(159,534)
Decrease in deposits received for sale of properties		16,428	20,577	20,577		20,577
Increase in other deposit		(19,000)	(23,799)	(23,799)		(23,799)
(Decrease) increase in trade and other payables	(907)	157,071	196,744	195,837		195,837
Increase in amounts due to other related parties		2,269	2,842	2,842		2,842
Cash used in operations	(20,953)	(49,603)	(62,133)	(83,086)	(75,112)	(158,198)
Income taxes and land appreciation taxes paid		(29,217)	(36,597)	(36,597)		(36,597)
Interest paid		(146,983)	(184,108)	(184,108)		(184,108)
NET CASH USED IN OPERATING ACTIVITIES	(20,953)	(225,803)	(282,838)	(303,791)	(75,112)	(378,903)

	The Group for the year ended 31 March 2014 HK$'000 *Note e*	The Target Group for the year ended 31 December 2013 RMB'000 *Note b*	The Target Group for the year ended 31 December 2013 HK$'000 *Note b*	Total HK$'000	Pro Forma Adjustments HK$'000 *Notes d, f, g*	The Enlarged Group HK$'000
INVESTING ACTIVITIES						
Interest received	678	544	681	1,359		1,359
Placement of restricted/pledged bank deposits		(314,806)	(394,321)	(394,321)		(394,321)
Release of restricted/pledged bank deposits		13,000	16,284	16,284		16,284
Purchase of property, plant and equipment	(277)	(138)	(173)	(450)		(450)
Advances to related parties		(5,034)	(6,306)	(6,306)		(6,306)
Repayments from related parties		43	54	54		54
Purchases of financial assets at fair value through profit or loss	(64,037)			(64,037)		(64,037)
Acquisition of subsidiaries					(307,832)	(307,832)
Proceeds from disposal of financial assets at fair value through profit or loss	74,286			74,286		74,286
NET CASH FROM (USED IN) INVESTING ACTIVITIES	10,650	(306,391)	(383,781)	(373,131)	(307,832)	(680,963)
FINANCING ACTIVITIES						
Proceeds from capital injection		100,000	125,258	125,258		125,258
Dividends paid		(18,600)	(23,298)	(23,298)		(23,298)
New borrowings raised		703,000	880,566	880,566		880,566
Repayment of borrowings		(494,000)	(618,776)	(618,776)		(618,776)
Advances from related parties		392,526	491,671	491,671		491,671
Repayments to related parties		(208,758)	(261,487)	(261,487)		(261,487)
Advanced from third parties		107,000	134,026	134,026		134,026
NET CASH FROM FINANCING ACTIVITIES		581,168	727,960	727,960		727,960
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,303)	48,974	61,341	51,038	(382,944)	(331,906)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	214,642	36,890	45,495	260,137	(45,495)	214,642
Effect of foreign exchange rate changes	14		2,374	2,388		2,388
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	204,353	85,864	109,210	313,563	(428,439)	(114,876)

(5) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

a. Figures are extracted from the unaudited condensed consolidated financial statements of the Group as set out in the interim financial report of the Company for the period ended 30 September 2014.

b. Figures are extracted from the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2013, respectively, included in the accountants' report of the Target Group as set out in Appendix II to the Circular and converted to the presentation currency of the Group. The conversion of RMB into HK$ for the consolidated statement of financial position of the Target Group is based on the exchange rate of RMB1 to HK$1.26, being the exchange rate prevailing on 30 September 2014 quoted by the People's Bank of China. The conversion of RMB into HK$ for the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of cash flows is based on the exchange rate of RMB1 to HK$1.25, being the average exchange rate prevailing in year 2013 quoted by the People's Bank of China. No representation is made that RMB amounts have been, could have been or could be converted into HK$, or vice versa, at that rate or at any other rates or at all.

c. Pursuant to the SPA entered into on 27 August 2014, the Consideration is RMB280,000,000 (equivalent to approximately HK$353,327,000 based on the exchange rate of RMB1 to HK$1.26) and shall be satisfied by cash. The completion of the Acquisition is subject to the conditions as set out in the section of "Letter from the Board" to this circular (the "Conditions").

   For the purpose of preparation of the Unaudited Pro Forma Financial Information, it is assumed that (i) the Target has fulfilled the Conditions to the Acquisition and the Acquisition will not be reversed; and (ii) the fair values of the identifiable assets and liabilities (other than properties for sale and land development expenditure) of the Target Group approximate their carrying amounts as at 30 September 2014.

   The Acquisition will be accounted for under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

The recognition of pro forma goodwill and non-controlling interests from the Acquisition as if the Acquisition were completed on 30 September 2014 are as follows:

	HK$'000	*HK$'000*
Cash consideration to acquire 70% equity interest of the Target		353,327
Add: Non-controlling interests with 30% equity interest		89,081
Less: Deemed fair value of the net assets of the Target Group:		
Net asset of the Target Group as at 30 June 2014	118,733	
Pro forma fair value adjustment	346,671	
Deferred tax liability	(168,469)	
		296,935
Pro forma goodwill arising on Acquisition		145,473

The pro forma fair value of properties for sale is based on directors' estimation with reference to a valuation report issued by DTZ Debenham Tie Leung Limited at 30 September 2014 (the "Valuation Report"). As set out in the Valuation Report, the fair value of properties for sale is approximately RMB1,575,000,000 (equivalent to approximately HK$1,987,482,000) on the measurement date of 30 September 2014. There is no material change on the status of the properties for sale from 30 June 2014 to 30 September 2014.

An amount of RMB274,723,000 (equivalent to approximately HK$346,671,000), being the difference between the Pro forma fair value of properties for sale of RMB1,575,000,000 (equivalent to approximately HK$1,987,482,000), and the carrying amount of properties for sale of RMB1,300,277,000 (equivalent to approximately HK$1,640,811,000) of the Target Group, shown in the consolidated statement of financial position as at 30 June 2014 included in the accountants' report of the Target as set out in Appendix II to the Circular is adjusted as pro forma fair value increase of properties for sale.

In addition, corresponding deferred tax on the pro forma fair value change on properties for sale amounted to RMB133,505,000 (equivalent to approximately HK$168,469,000), using the progressive tax rate for Land Appreciation Tax and statutory tax rate of 25% for Enterprise Income Tax is recognised as deferred tax liability.

Non-controlling interest amounted to approximately HK$89,081,000 represents the proportionate share of the recognised amounts of the Target Group's identifiable net assets (i.e. 30% share of deemed fair value of net assets of the Target Group amounting to HK$296,935,000) as if the Acquisition had been completed on 30 September 2014.

Pro forma goodwill arose on the Acquisition because the Company expected synergies between primary land development and property development and future market development which can increase its competitiveness on pricing strategies over other property developers. Therefore, the consideration paid for the combination effectively included amounts in relation to the benefit of expected revenue growth and the future market development of the Enlarged Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The pro forma fair value of the identifiable assets (including properties held for sale) and liabilities of the Target Group used in the preparation of this Unaudited Pro Forma Financial Information may be substantially different from the final amounts of identifiable assets and liabilities recognised upon the Completion, accordingly, the goodwill and non-controlling interests to be recognised in connection with the Acquisition at the completion date could be materially different from the estimated amounts stated herein.

The Directors have assessed whether there is any impairment on the pro forma goodwill as at 30 September 2014 in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36") and concluded that there is no impairment in respect of the pro forma goodwill of approximately HK$145,473,000 shown in the pro forma consolidated statement of financial position of the Enlarged Group.

For the purpose of impairment testing, pro forma goodwill has been allocated to an individual cash generating unit, the Target Group. The recoverable amount of the Target Group has been determined based on value in use calculation. That calculation uses cash flow projections based on a five-year period financial budget approved by management and discount rate of 12.3% for the purpose in this Unaudited Pro Forma Financial Information. The Target Group's cash flow beyond the five-year period are extrapolated with zero growth rate. Since the recoverable amount of the cash generating unit is higher than its carrying amount, the directors of the Company consider that the pro forma goodwill is not impaired.

The Directors confirmed that they will apply consistent accounting policies and principal assumptions to assess impairment of goodwill in subsequent reporting periods in accordance with the requirement of HKAS 36.

d. Pro forma cash flow adjustment of approximately HK$307,832,000 represents (i) the cash consideration of RMB280,000,000 (equivalent to approximately HK$353,327,000, at the exchange rate of RMB1 to HK$1.26) pursuant to the SPA; and (ii) the acquisition of bank balances and cash of RMB36,890,000 (equivalent to approximately HK$45,495,000, at the exchange rate of RMB1 to HK$1.23) as at 1 January 2013 assuming the Acquisition had been completed on 1 January 2013. Pursuant to the Circular, the Group intends to finance the consideration as to RMB230 million by borrowings.

e. Figures are extracted from the audited consolidated financial statements of the Group for the year ended 31 March 2014 as set out in annual report of the Company.

f. The adjustment represents estimated acquisition-related costs of approximately HK$6,474,000 which would be recognised in profit or loss upon the Completion. This adjustment will not have continuing effect on the Enlarged Group.

g. The amounts represent the pro forma adjustments to the cost of sales of approximately HK$91,517,000 and the corresponding deferred tax effect of approximately HK$22,879,000 during the year ended 31 December 2013 as if the properties for sale had been adjusted to reflect its fair value as of 1 January 2013 as if the Acquisition had been completed on 1 January 2013. Pro forma adjustment on cost of sales is calculated after taking into account the following two attributes: 1) completed properties for sale ("PFS") as of 1 January 2013 sold during the year ended 31 December 2013; and 2) incomplete properties for sale ("PUD") as of 1 January 2013 were subsequently completed and sold during the year ended 31 December 2013. For completed PFS sold during the year ended 31 December 2013, any profits element thus arising would be adjusted as the completed PFS had already been measured at its fair value as of 1 January 2013. For PUD subsequently completed and sold during the year ended 31 December 2013, profit element would be adjusted to reflect the fair value of PUD as of 1 January 2013.

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this Circular in respect of the unaudited pro forma financial information of the Enlarged Group.

Deloitte.
德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF CHAOYUE GROUP LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Chaoyue Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 September 2014, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2014, the unaudited pro forma consolidated statement of cash flows for the year ended 31 March 2014 and related notes as set out on pages III-1 to III-9 of the circular issued by the Company dated 31 December 2014 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are set out in Section 1 of Appendix III to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 70% equity interest of Liuzhou Zhenghe Huagui Real Estate Group Company Limited on the Group's financial position as at 30 September 2014 and the Group's financial performance and cash flows for the year ended 31 March 2014 as if the event or transaction had taken place at 30 September 2014 and 1 April 2013, respectively. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's condensed consolidated financial statements for the six months ended 30 September 2014, on which a review report has been published, while information about the Group's financial performance and cash flows have been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 March 2014, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2014 or 1 April 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 December 2014

The following is the text of a letter, summary of valuations and valuation certificates dated 31 December 2014 prepared for the purpose of incorporation into this circular received from DTZ Debenham Tie Leung Limited in connection with its opinion on the values of the properties held by the Group as at 30 September 2014.

DTZ
16/F, Jardine House,
1 Connaught Place,
Central, Hong Kong

31 December 2014

The Directors
Chaoyue Group Limited
Unit 3213, 32nd Floor
COSCO Tower
183 Queen's Road Central
Hong Kong

Dear Sirs,

INSTRUCTIONS, PURPOSE AND DATE OF VALUATION

In accordance with your instructions for us to value the properties held by Chaoyue Group Limited (referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC") (as more particularly described in the valuation certificates), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary to provide you with our opinion of the values of such properties as at 30 September 2014 (the "date of valuation").

DEFINITION OF MARKET VALUE

Our valuation of each of the properties represents its market value which in accordance with The HKIS Valuation Standards (2012 Edition) is defined as "the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

VALUATION BASIS AND ASSUMPTION

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Unless otherwise stated, we have, in the course of our valuations of the properties, assumed that transferable land use rights in respect of the properties for a specific term at nominal annual land use fees have been granted and that any premium has already been fully settled. We have relied on the advice given by the Group regarding the title to the properties. Unless otherwise stated, we have, for the purpose of our valuations, assumed that the grantee has enforceable title to the properties. Moreover, we have assumed that the grantee or the user of the properties has free and uninterrupted rights to use or to assign the properties for the whole of the unexpired term as granted.

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

In respect of the properties situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Group and the advice provided by the Group's legal adviser, Hills & Co., are set out in the notes in the respective valuation certificate.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

METHOD OF VALUATION

Regarding the properties in Group I, we have valued each of these properties by direct comparison approach assuming sale of each of these properties in its existing state and by making reference to comparable sales transactions as available in the relevant market.

In respect of the properties in Group II and Group III which are held by the Group under development and for future development respectively in the PRC, we have valued on the basis that each of these properties is to be developed and completed in accordance with the Group's latest development proposals provided to us. We have assumed that all consents, approvals and licences from relevant government authorities for the development proposals have been obtained without onerous conditions or delays. We have also assumed that the design and construction of the properties are in compliance with the local planning regulations and have been approved by the relevant authorities. The development value of the property when completed represents our opinion of the aggregate value of the development assuming it would have been completed at the date of valuation. In arriving at the final value of the property in existing state, we have also taken into account the construction costs expended and costs that will be expended to reflect the quality of the completed development.

TITLE INVESTIGATION

We have been provided with extracts of documents relating to the titles of the properties in the PRC, but no searches have been made in respect of the properties. We have not searched the original documents to verify ownership or to ascertain any amendment which may not appear on the copies handed to us. We are also unable to ascertain the title of the properties in the PRC and we have therefore relied on the advice given by the Group regarding the Group's interests in the PRC properties.

SOURCE OF INFORMATION

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and its legal adviser, Hills & Co., regarding the titles to the properties and the interests of the Group in the properties. In respect of the properties in the PRC, we have accepted advice given by the Group on such matters as planning approvals or statutory notices, tenure, identification of land and buildings, development proposal, construction costs, completion date of buildings, particulars of occupancy, site and floor areas, interest attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

SITE INSPECTION

We have inspected the exterior and, where possible, the interior of the properties. The site inspections were carried out in September 2014 by Ms. Liang Zhen-Hua who is a Registered China Real Estate Appraiser. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not able to report that the properties are free of rot, infestation and any other structural defects, nor were any test carried out to any of the services. Moreover, we have not carried out investigation on site to determine the suitability of the soil conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Unless otherwise stated, we have not been able to carry out on-site measurements to verify the site and floor area of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct.

CURRENCY

Unless otherwise stated, all money amounts stated in this valuation report are in Renminbi ("RMB") which is the official currency of the PRC.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K.F. Chan
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Senior Director

Note: Mr. Andrew K. F. Chan is a Registered Professional Surveyor (General Practice) who has over 27 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUATIONS

Property	Market value in existing state as at 30 September 2014 *RMB*
Group I – Properties held by the Group for sale in the PRC	
1. The completed portion of Phase 1, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	57,000,000
2. The completed portion of Phase 2, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	199,000,000
Sub-total:	256,000,000
Group II – Properties held by the Group under development in the PRC	
3. A portion of Phase 1 under construction, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	795,000,000
4. A portion of Phase 2 under construction, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	199,000,000
Sub-total:	994,000,000

	Property	Market value in existing state as at 30 September 2014 *RMB*
	Group III – Property held by the Group for future development in the PRC	
5.	A portion of Phase 2 held for future development, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	325,000,000
	Sub-total:	325,000,000
	Total	**1,575,000,000**

VALUATION CERTIFICATE

Group I – Properties held by the Group for sale in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2014
1.	The completed portion of Phase 1, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	The property comprises the unsold residential portion of Phase 1 of a composite development completed between 2012 and 2013. The property has a total gross floor area of 13,470.74 sq m. The property is located in the rural area of Yufeng District of Liuzhou. Developments nearby are mainly residential developments. According to the information provided by the Group, the property is for residential use. The land use rights of the property have been granted for terms due to expire on 22 February 2080 for residential use, due to expire on 22 February 2050 for commercial use and due to expire on 22 February 2060 for sport and entertainment uses.	As at the valuation date, the property was vacant.	RMB57,000,000

Notes:–

(1) According to State-owned Land Use Rights Certificates Nos. (2012) 110294, (2012) 110236, (2012) 110296 and (2012) 110297 issued by Liuzhou Land Resources Bureau (柳州國土資源局) on 5 June 2012, the land use rights of Phase 1 of the development with a total site area of 231,696.90 sq m have been vested in Liuzhou Zhenghe Huagui Real Estate Group Company Limited (柳州正和樺桂置業集團有限公司) with terms due to expire on 22 February 2080 for residential use, due to expire on 22 February 2050 for commercial use and due to expire on 22 February 2060 for sports and entertainment uses.

(2) According to Contracts for Grant of Land Use Rights Nos. (2010)01, 2011027, (2010)02, (2010)03, 2011028, 2011029, (2010)4 and 2011093, the land use rights of Phase 1 of the development have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited for a total consideration of RMB206,450,000.

(3) According to 88 Completion and Acceptance Certificates for Construction Works, portions of Phase 1 of the development with a total gross floor area of 137,343.48 sq m have been completed.

(4) As advised by the Group, a total residential gross floor area of 1,448 sq m has been pre-sold at a total consideration of RMB7,970,000 and yet to be delivered. In the course of our valuation, we have included such pre-sold portions.

(5) We have been provided with a legal opinion on the title which contains, inter-alia, the following information:–

(i) Liuzhou Zhenghe Huagui Real Estate Group Company Limited has lawfully owned the land use rights of the property and there is no pending or threatened legal, governmental or arbitrative proceeding or action against the land use rights;

(ii) Liuzhou Zhenghe Huagui Real Estate Group Company Limited is the legal land user of the property; and

(iii) The property is free from seizing, mortgage, limitation of any other rights and third party rights.

(6) In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:–

State-owned Land Use Rights Certificate	Yes
Contract for Grant of Land Use Rights	Yes
Completion and Acceptance Certificate	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2014
2.	The completed portion of Phase 2, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	The property comprises the unsold residential portion of Phase 2 of a composite development completed in 2013. The property has a total gross floor area of 20,944.00 sq m. The property is located in the rural area of Yufeng District of Liuzhou. Developments nearby are mainly residential developments. According to the information provided by the Group, the property is for residential use. The land use rights of the property have been granted for terms due to expire on 12 December 2072 and 12 December 2082 respectively for residential use and due to expire on 12 December 2052 for commercial use.	As at the valuation date, the property was vacant.	RMB199,000,000

Notes:–

(1) According to State-owned Land Use Rights Certificates Nos. (2013) 122794, (2013) 122795 and (2013) 122796 issued by Liuzhou Land Resources Bureau on 26 September 2013, the land use rights of Phase 2 of the development with a total site area of 141,217.50 sq m have been vested in Liuzhou Zhenghe Huagui Real Estate Group Company Limited with terms due to expire on 12 December 2072 and 12 December 2082 respectively for residential use and due to expire on 12 December 2052 for commercial use.

(2) According to Contract for Grant of Land Use Rights No. 2012106 entered into between the State Land Resources Bureau of Luzhai County and Liuzhou Zhenghe Huagui Real Estate Group Company Limited, the land use rights of Phase 2 of the development have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited for a consideration of RMB361,250,000.

(3) According to 18 Completion and Acceptance Certificates for Construction Works, portions of Phase 2 of the development with a total gross floor area of 23,532.57 sq m have been completed.

(4) We have been provided with a legal opinion on the title which contains, inter-alia, the following information:–

(i) Liuzhou Zhenghe Huagui Real Estate Group Company Limited has lawfully owned the land use rights of the property and there is no pending or threatened legal, governmental or arbitrative proceeding or action against the land use rights;

(ii) Liuzhou Zhenghe Huagui Real Estate Group Company Limited is the legal land user of the property; and

(iii) The property is free from seizing, mortgage, limitation of any other rights and third party rights.

(5) In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:–

State-owned Land Use Rights Certificate	Yes
Contract for Grant of Land Use Rights	Yes
Completion and Acceptance Certificate	Yes

VALUATION CERTIFICATE

Group II – Properties held by the Group under development in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2014
3.	A portion of Phase 1 under construction, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	The property is erected upon 4 parcels of land with a total site area of approximately 231,696.90 sq m. The property, currently under construction, is a planned development of composite use. According to the information provided by the Group, the constituent planned gross floor areas of the property are as follows:–	As at the valuation date, the property was under construction.	RMB795,000,000

Use	Approximate Gross Floor Area *(sq m)*
Residential	140,148.41
Retail	49,422.35
Office	72,470.65
Carpark	81,905.74
Total:	343,947.15

The superstructure of the development is under construction and the whole development is scheduled to be completed in 2017.

The property is located in the rural area of Yufeng District of Liuzhou. Developments nearby are mainly residential developments. According to the information provided by the Group, the property is for composite use.

The land use rights of the property have been granted for terms due to expire on 22 February 2080 for residential use, due to expire on 22 February 2050 for commercial use and due to expire on 22 February 2060 for sport and entertainment uses.

Notes:

(1) According to State-owned Land Use Rights Certificates Nos. (2012) 110294, (2012) 110236, (2012) 110296 and (2012) 110297 issued by Liuzhou Land Resources Bureau on 5 June 2012, the land use rights of Phase 1 of the development with a total site area of 231,696.90 sq m have been vested in Liuzhou Zhenghe Huagui Real Estate Group Company Limited with terms due to expire on 22 February 2080 for residential use, due to expire on 22 February 2050 for commercial use and due to expire on 22 February 2060 for sports and entertainment uses.

(2) According to Contract for Grant of Land Use Rights No. (2010) 01 entered into between the State Land Resources Bureau of Luzhai County and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 22 February 2010, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Northwest of the junction of Zongliu Road, Binjiang First Zone, Liudong Avenue
(ii)	Site Area	:	55,828.44 sq m
(iii)	Use	:	Residential
(iv)	Plot Ratio	:	1.0-1.5
(v)	Building Covenant	:	Construction shall commence before 31 August 2010 and complete before 29 February 2012
(vi)	Land Premium	:	RMB45,100,000

According to Contract for Grant of Land Use Rights No. 2011027 entered into between the State Land Resources Bureau of Liuzhou and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 28 April 2011, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Northwest of the junction of Zongliu Road, Binjiang First Zone, Liudong Avenue
(ii)	Site Area	:	23,956.53 sq m
(iii)	Use	:	Residential and commercial
(iv)	Plot Ratio	:	1.0-1.5
(v)	Building Covenant	:	Construction shall commence before 30 July 2011 and complete before 30 July 2013
(vi)	Land Premium	:	RMB30,500,000

According to Contract for Grant of Land Use Rights No. (2010) 02 entered into between the State Land Resources Bureau of Luzhai County and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 22 February 2010, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Northwest of the junction of Zongliu Road, Binjiang First Zone, Liudong Avenue
(ii)	Site Area	:	17,093.33 sq m
(iii)	Use	:	Residential and commercial
(iv)	Plot Ratio	:	1.5-2.0
(v)	Building Covenant	:	Construction shall commence before 31 August 2010 and complete before 29 February 2012
(vi)	Land Premium	:	RMB16,650,000

According to Contract for Grant of Land Use Rights No. (2010)03 entered into between the State Land Resources Bureau of Luzhai County and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 22 February 2010, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Northwest of the junction of Zongliu Road, Binjiang First Zone, Liudong Avenue
(ii)	Site Area	:	61,935.75 sq m
(iii)	Use	:	Residential
(iv)	Plot Ratio	:	1.0-1.5
(v)	Building Covenant	:	Construction shall commence before 31 August 2010 and complete before 29 February 2012
(vi)	Land Premium	:	RMB46,550,000

According to Contract for Grant of Land Use Rights No. 2011028 entered into between the State Land Resources Bureau of Liuzhou and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 28 April 2012, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Northwest of the junction of Zongliu Road, Binjiang First Zone, Liudong Avenue
(ii)	Site Area	:	4,765.83 sq m
(iii)	Use	:	Residential and commercial
(iv)	Plot Ratio	:	1.5-2.0
(v)	Building Covenant	:	Construction shall commence before 30 July 2011 and complete before 30 July 2013
(vi)	Land Premium	:	RMB7,600,000

According to Contract for Grant of Land Use Rights No. 2011029 entered into between the State Land Resources Bureau of Liuzhou and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 28 April 2012, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Northwest of the junction of Zongliu Road, Binjiang First Zone, Liudong Avenue
(ii)	Site Area	:	11,670.74 sq m
(iii)	Use	:	Residential and commercial
(iv)	Plot Ratio	:	1.0-1.5
(v)	Building Covenant	:	Construction shall commence before 30 July 2011 and complete before 30 July 2013
(vi)	Land Premium	:	RMB14,600,000

According to Contract for Grant of Land Use Rights No. (2010)04 entered into between the State Land Resources Bureau of Luzhai County and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 11 January 2010, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Northwest of the junction of Zongliu Road, Binjiang First Zone, Liudong Avenue
(ii)	Site Area	:	59,425.08 sq m
(iii)	Use	:	Residential, commercial and sports and entertainment
(iv)	Plot Ratio	:	2.0-3.0
(v)	Building Covenant	:	Construction shall commence before 31 August 2010 and complete before 31 August 2012
(vi)	Land Premium	:	RMB67,150,000

According to Contract for Grant of Land Use Rights No. 2011093 entered into between the State Land Resources Bureau of Liuzhou and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 31 October 2011, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Northwest of the junction of Zongliu Road, Binjiang First Zone, Liudong Avenue
(ii)	Site Area	:	9,218.13 sq m
(iii)	Use	:	Residential, commercial and sports and entertainment
(iv)	Plot Ratio	:	2.0-3.0
(v)	Building Covenant	:	Construction shall commence before 30 January 2012 and complete before 30 January 2014
(vi)	Land Premium	:	RMB24,850,000

According to the abovementioned Contracts for Grant of Land Use Rights, the property shall be completed between 29 February 2012 and 30 January 2014. As per the Group's instruction, we have disregarded it in our valuation. Moreover, we have assumed that all consents, approvals and licences from relevant government authorities for the development proposals have been obtained and have assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

(3) According to 7 Planning Permits for Construction Use of Land, the construction site of Phase 1 of the development with a total site area of 236,733.72 sq m is in compliance with the urban planning requirements.

(4) According to various Planning Permits for Construction Works, the construction works of Phase 1 of the development with a total gross floor area of 382,448.48 sq m are in compliance with the construction works requirements and have been approved.

(5) According to various Commencement Permits for Construction Works, the construction works of the development with a total gross floor area of 354,141.87 sq m are in compliance with the requirements for works commencement and have been permitted.

(6) The development value of the property when completed as at 30 September 2014 was RMB1,591,000,000.

(7) According to the Group, the residential portion of the property with a total gross floor area of 70,143 sq m has been pre-sold at a total consideration of approximately RMB319,210,000. We have included it in our valuation.

(8) According to the information provided by the Group, the expended construction cost as at 30 September 2014 was approximately RMB581,000,000. The estimated outstanding construction cost was approximately RMB348,000,000. In the course of our valuation, we have taken such costs into account.

(9) We have been provided with a legal opinion on the title which contains, inter-alia, the following information:–

(i) The Contracts for Grant of Land Use Rights are legal, valid, binding on both parties and enforceable under the PRC laws;

(ii) Liuzhou Zhenghe Huagui Real Estate Group Company Limited has lawfully owned the land use rights of the property and there is no pending or threatened legal, governmental or arbitrative proceeding or action against the land use rights;

(iii) Liuzhou Zhenghe Huagui Real Estate Group Company Limited is the legal land user of the property;

(iv) 2 parcels of land (State-owned Land Use Rights Certificate Nos. (2012) 110296 and (2012) 110297) with a total site area of 61,471.40 sq m are subject to a mortgage in favor of Zhongrong International Trust Co., Ltd. (中融國際信託有限公司); and

(v) Other than the above mentioned mortgage, the land use rights of the property are free from seizing, mortgage, limitation of any other rights and third party rights.

(10) In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:–

State-owned Land Use Rights Certificate	Yes
Contract for Grant of Land Use Rights	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permit for Construction Works	Yes
Commencement Permit for Construction Works	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2014
4.	A portion of Phase 2 under construction, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC	The property is erected upon 3 parcels of land with a total site area of approximately 141,217.50 sq m. The property, currently under construction, is a planned development of composite use. According to the information provided by the Group, the constituent planned gross floor areas of the property are as follows:–	As at the valuation date, the property was under construction.	RMB199,000,000

Use	Approximate Gross Floor Area *(sq m)*
Residential	125,879.15
Retail	2,600.00
Total:	128,479.15

The superstructure of the development is under construction and the whole development is scheduled to be completed in 2017.

The property is located in the rural area of Yufeng District of Liuzhou. Developments nearby are mainly residential developments. According to the information provided by the Group, the property is for composite use.

The land use rights of the property have been granted for terms due to expire on 12 December 2072 and 12 December 2082 respectively for residential use and due to expire on 12 December 2052 for commercial use.

Notes:

(1) According to State-owned Land Use Rights Certificates Nos. (2013) 122794, (2013) 122795 and (2013) 122796 issued by Liuzhou Land Resources Bureau on 26 September 2013, the land use rights of Phase 2 of the development with a total site area of 141,217.50 sq m have been vested in Liuzhou Zhenghe Huagui Real Estate Group Company Limited with terms due to expire on 12 December 2072 and 12 December 2082 respectively for residential use and due to expire on 12 December 2052 for commercial use.

(2) According to Contract for Grant of Land Use Rights No. 2012106 entered into between the State Land Resources Bureau of Liuzhou and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 13 December 2012, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Lot L-11-03, North of Menhu, Sanmenjiang Dongan, Liudong New District
(ii)	Site Area	:	141,217.57 sq m
(iii)	Use	:	Residential and commercial
(iv)	Plot Ratio	:	Lot A – 1.5-2.2 Lot B – 3.0-3.5 Lot C – 3.0-4.0
(v)	Building Covenant	:	Construction shall commence before 28 February 2014 and complete before 27 February 2017
(vi)	Land Premium	:	RMB361,250,000

(3) According to Planning Permit for Construction Use of Land, the construction site of Phase 2 of the development with a site area of 156,385.11 sq m is in compliance with the urban planning requirements.

(4) According to various Planning Permits for Construction Works, the construction works of Phase 2 of the development with a total gross floor area of 156,385.11 sq m are in compliance with the construction works requirements and have been approved.

(5) According to various Commencement Permits for Construction Works, the construction works of the development with a total gross floor area of 39,208.09 sq m are in compliance with the requirements for works commencement and have been permitted.

(6) The development value of the property when completed as at 30 September 2014 was RMB753,000,000.

(7) According to the information provided by the Group, the expended construction cost as at 30 September 2014 was approximately RMB114,000,000. The estimated outstanding construction cost was approximately RMB315,000,000. In the course of our valuation, we have taken such costs into account.

(8) We have been provided with a legal opinion on the title which contains, inter-alia, the following information:–

(i) The Contract for Grant of Land Use Rights is legal, valid, binding on both parties and enforceable under the PRC laws;

(ii) Liuzhou Zhenghe Huagui Real Estate Group Company Limited has lawfully owned the land use rights of the property and there is no pending or threatened legal, governmental or arbitrative proceeding or action against the land use rights;

(iii) Liuzhou Zhenghe Huagui Real Estate Group Company Limited is the legal land user of the property;

(iv) The land portion of the property (State-owned Land Use Rights Certificates Nos. (2013) 122794, (2013) 122795 and (2013) 122796) with a total site area of 141,217.50 sq m is subject to a mortgage in favor of Guilin Bank Co., Ltd. (桂林銀行股份有限公司); and

(v) Other than the above mentioned mortgage, the land use rights of the property are free from seizing, mortgage, limitation of any other rights and third party rights.

(9) In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:–

State-owned Land Use Rights Certificate	Yes
Contract for Grant of Land Use Rights	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permit for Construction Works	Yes
Commencement Permit for Construction Works	Yes

VALUATION CERTIFICATE

Group III – Property held by the Group for future development in the PRC

<table>
<tr><th></th><th>Property</th><th>Description and tenure</th><th>Particulars of occupancy</th><th>Market value in existing state as at 30 September 2014</th></tr>
<tr><td>5.</td><td>A portion of Phase 2 held for future development, Zhenghe City, No. 102 Xinliu Avenue, Yufeng District, Liuzhou, Guangxi Zhuang Autonomous Region, the PRC</td><td>The property is erected upon 3 parcels of land with a total site area of approximately 141,217.50 sq m.

The property is a planned development of composite use. According to the information provided by the Group, the constituent planned gross floor areas of the property are as follows:–

<table>
<tr><th>Use</th><th>Approximate Gross Floor Area
(sq m)</th></tr>
<tr><td>Residential</td><td>64,355.00</td></tr>
<tr><td>Retail</td><td>38,821.60</td></tr>
<tr><td>Office</td><td>72,998.50</td></tr>
<tr><td>Hotel</td><td>46,916.50</td></tr>
<tr><td>Serviced Apartment</td><td>30,484.60</td></tr>
<tr><td>Carpark</td><td>133,200.00</td></tr>
<tr><td>Total:</td><td>386,776.20</td></tr>
</table>
The property is located in the rural area of Yufeng District of Liuzhou. Developments nearby are mainly residential developments. According to the information provided by the Group, the property is for composite use.

The land use rights of the property have been granted for terms due to expire on 12 December 2072 and 12 December 2082 respectively for residential use and due to expire on 12 December 2052 for commercial use.</td><td>As at the valuation date, the property was a vacant site.</td><td>RMB325,000,000</td></tr>
</table>

Notes:–

(1) According to State-owned Land Use Rights Certificates Nos. (2013) 122794, (2013) 122795 and (2013) 122796 issued by Liuzhou Land Resources Bureau on 26 September 2013, the land use rights of Phase 2 of the development with a total site area of 141,217.50 sq m have been vested in Liuzhou Zhenghe Huagui Real Estate Group Company Limited with terms due to expire on 12 December 2072 and 12 December 2082 respectively for residential use and due to expire on 12 December 2052 for commercial use.

(2) According to Contract for Grant of Land Use Rights No. 2012106 entered into between the State Land Resources Bureau of Liuzhou and Liuzhou Zhenghe Huagui Real Estate Group Company Limited on 13 December 2012, the land use rights of the property have been contracted to be granted to Liuzhou Zhenghe Huagui Real Estate Group Company Limited with details as follows:–

(i)	Location	:	Lot L-11-03, North of Menhu, Sanmenjiang Dongan, Liudong New District
(ii)	Site Area	:	141,217.57 sq m
(iii)	Use	:	Residential and commercial
(iv)	Plot Ratio	:	Lot A – 1.5-2.2 Lot B – 3.0-3.5 Lot C – 3.0-4.0
(v)	Building Covenant	:	Construction shall commence before 28 February 2014 and complete before 27 February 2017
(vi)	Land Premium	:	RMB361,200,000

(3) We have been provided with a legal opinion on the title which contains, inter-alia, the following information:–

(i) The Contract for Grant of Land Use Rights is legal, valid, binding on both parties and enforceable under the PRC laws;

(ii) Liuzhou Zhenghe Huagui Real Estate Group Company Limited has lawfully owned the land use rights of the property and there is no pending or threatened legal, governmental or arbitrative proceeding or action against the land use rights;

(iii) Liuzhou Zhenghe Huagui Real Estate Group Company Limited is the legal land user of the property;

(iv) The land portion of the property (State-owned Land Use Rights Certificate Nos. (2013) 122794, (2013) 122796) with a total site area of 141,217.50 sq m is subject to a mortgage in favor of Guilin Bank Co., Ltd.; and

(v) Other than the above mentioned mortgage, the land use rights of the property are free from seizing, mortgage, limitation of any other rights and third party rights.

(4) In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:–

State-owned Land Use Rights Certificate	Yes
Contract for Grant of Land Use Rights	Yes

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters, the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Interest of Directors and Chief Executive in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to notified to the Company and the Stock Exchange were as follows:

(i) Long position in shares and underlying shares of the Company

Ordinary shares of HK$0.001 each of the Company

Name of Director	Capacity in which interests are held	Number of Shares interested	Interests as to % to the issued share capital of the Company
Yuen Leong	Interest of a controlled corporation	12,887,473,880 *(Note 1)*	67.69%
Luan Li	Beneficial owner	6,000,000	0.03%

Notes:

(1) These 12,887,473,880 shares are held by Long Grand Limited which is legally and beneficially owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong. By virtue of his 30% direct interest in Long Grand Limited, Mr. Yuen Leong is deemed or taken to be interested in the 12,887,473,880 shares held by Long Grand Limited for the purposes of the SFO.

(ii) Long position in shares and underlying shares of the associated corporation

Name of Director	Name of associated corporation	Personal interest	Number of ordinary shares (long positions) Total number of shares held in associated corporation	Approximate percentage of issued share capital of associated corporation
Yuen Leong	Long Grand Limited	Beneficial owner	300	30%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to notified to the Company and the Stock Exchange.

Service Contracts

There is no existing or proposed service contract between any of the Directors and the Company or any member of the Enlarged Group (excluding contracts expiring or determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensations)).

Interests in other competing business and conflicts of interests

Ms. Luan Li, and her associates, is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the wine business of the Group, as defined in the Listing Rules, as set out below:

Name of company	Place of incorporation	Position held by Ms. Luan	Percentage of interest held by Ms. Luan and her associates	Principal activities
Inter Wealth Limited	BVI	Director	100%	Import wines from South Africa and wholesale and retail in the PRC

Name of company	Place of incorporation	Position held by Ms. Luan	Percentage of interest held by Ms. Luan and her associates	Principal activities
City Dragon Investments Ltd	BVI	None	50%	Import wines from Australia and wholesale and retail in the PRC

As the origin of the wines in the abovementioned companies are different from that of the wine business of the Group and there are sufficient internal controls procedures set out by the Group, the directors therefore consider that the Group is capable of carrying on its business independently of, and at arm's length from, the businesses of the abovementioned companies.

Save as disclosed above, each of the Directors has confirmed that so far as they are aware, the Directors and their respective associates do not have any interests in a business apart from the Enlarged Group's business which competes or likely to compete with the Enlarged Group.

Interests in assets

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets have been acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2014 being the date to which the latest published audited accounts of the Company were made up or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors is materially interested in contract or arrangement subsisting which is significant in relation to the business of the Enlarged Group.

Interest of Substantial Shareholder

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had an interest or short position, in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of

Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class or share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Name of Shareholder	**Capacity in which interests are held**	**Number of Shares interested**	**Interests as to % to the issued share capital of the Company**
Long Grand Limited	Beneficial owner	12,887,473,880 (Note 1)	67.69

Note:

(1): Long position. Long Grand Limited is owned as to 70% by Mr. Yam Yu and as to 30% by Mr. Yuen Leong. By virtue of Mr. Yam's 70% interest in Long Grand Limited, Mr. Yam is deemed to be taken to be interested in the 12,887,473,880 Shares held by Long Grand Limited for the purpose of the SFO.

3. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group.

4. EXPERTS AND CONSENT

The qualifications of the experts who have given opinions and advice in this circular are as follows:

Name	**Qualification**
Octal Capital Limited ("Octal Capital")	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu ("Deloitte")	Certified Public Accountants
DTZ Debenham Tie Leung Limited ("DTZ")	Professional valuers and industry consultant
Hills and Co ("Hills")	PRC legal advisers

As at the Latest Practicable Date, each of Octal Capital, Deloitte, DTZ and Hills has no shareholding in any company in the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Enlarged Group and has no direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2014, being the date to which the latest published audited accounts of the Company were made up or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of Octal Capital, Deloitte, DTZ and Hills has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice and/or references to its name, in the form and context in which they respectively appear.

5. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within two years immediately preceding the date of this circular which are or may be material:

(a) the agreement dated 9 July 2013 entered into between Rising Vast Limited, a wholly-owned subsidiary of the Company, as purchaser, and Chung Ming Metal Resources Holdings Limited, as vendor, in respect of the acquisition of 100% interests in Hong Ming Investments Limited and Shi Yi Investments Limited, which are leading producers of stainless steel and scrap copper as raw materials, for a consideration of HK$10,000 million;

(b) the Agreement; and

(c) the Supplemental Agreement.

6. GENERAL

(a) The secretary of the Company is Mr. Chung Yau Tong. Mr. Chung is a Fellow Member of the Association of Chartered Certified Accountant and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants;

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda;

(c) The Company's principal place of business in Hong Kong is situated at Unit 3213, 32nd Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong;

(d) The Hong Kong branch share registrar of the Company is Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong;

(e) In the event of inconsistency, the English text shall prevail over the Chinese text.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during 9:00 a.m. to 5:00 p.m. at the head office and principal place of business in Hong Kong at Unit 3213, 32nd Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong up to and including the date of the SGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the three years ended 31 March 2014 and the interim report of the Company for the six months ended 30 September 2014;

(c) the accountants' report of the Target Group, the text of which is set out in Appendix II to this circular;

(d) the letter from Deloitte in respect of the pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this circular;

(e) the valuation report on properties of the Target prepared by DTZ, the text of which is set out in Appendix IV to this circular;

(f) the written consent referred to in the paragraph headed "Expert and Consent" in this appendix;

(g) the material contracts referred to under the section headed "Material Contracts" in this appendix;

(h) the PRC legal opinion issued by Hills;

(i) the Agreement and the Supplemental Agreement; and

(j) this circular.

* *for identification purpose only*

CHAOYUE GROUP LIMITED
超越集團有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 147)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a Special General Meeting (the "Meeting") of Chaoyue Group Limited (the "Company") will be held at 11:00 a.m. on Friday, 23 January 2015 at Unit 3213, 32nd Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"THAT:

(a) the Acquisition, the Agreement (including the supplemental agreement thereto) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) the Directors be and are hereby authorized to do all such acts and things and to sign and execute all such documents, instruments and agreements for and on behalf of the Company as they may consider necessary, appropriate and desirable or expedient to give effect to or in connection with paragraph (a) of this resolution."

Hong Kong, 31 December 2014

Principal Office:
Unit 3213, 32nd Floor
COSCO Tower
183 Queen's Road Central
Hong Kong

Notes:

1. A member entitled to attend and vote at the special general meeting is entitled to appoint one or more proxies to attend and on a poll vote instead of him. A proxy need not be a member of the Company.

2. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the Company's Hong Kong branch share registrar and transfer office, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time fixed for holding the Meeting or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude any member from attending and voting in person at the special general meeting or any adjourned meeting thereof should he so wishes.

3. In case of joint shareholdings, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purposes seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the joint shareholding.

4. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting if shareholders so wish.

5. The special resolution set out in this notice of special general meeting will be put to Shareholders to vote taken by way of a poll