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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares, you should at once hand this circular and the accompanying proxy form to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

AVIC International Holding (HK) Limited
中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF EASE TRIUMPH INTERNATIONAL LIMITED

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

ANGLO CHINESE
CORPORATE FINANCE, LIMITED 英高

A letter from the Board is set out on pages 7 to 23 of this circular. A letter from the Independent Board Committee containing its recommendations in respect of the Acquisition to the Independent Shareholders is set out on pages 24 to 25 of this circular. A letter from Anglo Chinese, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 40 of this circular.

A notice convening the SGM to be held at Harbour East & West Room, 28th Floor, The Park Lane Hong Kong, 310 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 30 December 2014 at 10:00 a.m. is set out on pages SGM-1 to SGM-2 of this circular. A proxy form for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

11 December 2014

CONTENTS

In this circular, the following terms and expressions shall have the following respective meanings unless the context otherwise requires:

"Acquisition"	the purchase of the Sale Shares pursuant to the Agreement;
"Agreement"	the share transfer agreement dated 1 December 2014 entered into between Onfield and Sanba Investment in respect of the Acquisition;
"Aviation Industry"	Aviation Industry Corporation of China (中國航空工業集團公司), an enterprise owned by the whole people (全民所有制企業) established in the PRC and holds 62.52% of the equity interest in AVIC International as at 30 June 2014, a controlling shareholder of the Company;
"Aviation Industry Group"	Aviation Industry and its subsidiaries, excluding the Group and the Target Group;
"AVIC International"	AVIC International Holding Corporation (中國航空技術國際控股有限公司), a company incorporated with limited liability in the PRC and a non-wholly owned subsidiary of Aviation Industry, a controlling shareholder of the Company;
"AVIC International (HK)"	AVIC International (HK) Group Limited, a company incorporated with limited liability in Hong Kong and is wholly-owned by AVIC International, a controlling shareholder of the Company;
"Board"	the board of Directors;
"BVI"	the British Virgin Islands;
"CAGR"	compound annual growth rate;
"CATIC"	CATIC International Finance Limited, a company incorporated in Hong Kong with limited liability and is wholly owned by AVIC International (HK);

"Chongqing Hanglong"	Chongqing Hanglong Real Estate Company Limited* (重慶航龍置業有限公司), a company incorporated in the PRC with limited liability, a member of the Target Group which is 99% owned by Ease Triumph and 1% owned by Chongqing Hang Yue Company Limited* (重慶航悅置業有限公司); Chongqing Hang Yue Company Limited is a company incorporated in the PRC with limited liability and wholly-owned by Chongqing Jianghang Investment Company Limited* (重慶江航投資有限公司), a company incorporated in the PRC with limited liability which is indirectly wholly-owned by Hangfa Investment;
"Company"	AVIC International Holding (HK) Limited, a company incorporated in Bermuda with limited liability and the issued shares of which are listed on the main board of the Stock Exchange (stock code: 232);
"Completion"	completion of the Acquisition pursuant to the terms of the Agreement;
"Consideration"	the total consideration of HK$325,881,324 for the Acquisition;
"Dalian Hanghua"	Dalian Hanghua Real Estate Company Limited* (大連航華置業有限公司), a company incorporated in the PRC with limited liability, a member of the Target Group which is 52.08% owned by Ease Triumph, 30% owned by Dalian Huabang and 17.92% owned by Hangfa Investment;
"Dalian Huabang"	Dalian Huabang Investment Development Company Limited* (大連華邦投資發展有限公司), a company incorporated in the PRC with limited liability and an independent third party;
"Directors"	the directors of the Company;
"Ease Triumph"	Ease Triumph International Limited (拓業國際有限公司), a company incorporated in Hong Kong with limited liability and is wholly-owned by Onfield as at the date of this circular;
"Enlarged Group"	the Group and the Target Group upon Completion;

"Ernst & Young"	Ernst & Young, Certified Public Accountants, Hong Kong, being the independent auditors of the Company and the independent reporting accountants of the Target Group;
"FIREEs"	foreign-invested real estate enterprises;
"GFA"	gross floor area;
"Group"	the Company and its subsidiaries;
"Hangfa Investment"	Hangfa Investment Limited* (航發投資管理有限公司), a company incorporated in the PRC with limited liability which is 80% owned by AVIC International and 20% owned by International Engineering Company;
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong;
"HKFRS"	Hong Kong Financial Reporting Standards;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	the independent board committee comprising all the independent non-executive Directors;
"Independent Financial Adviser" or "Anglo Chinese"	Anglo Chinese Corporate Finance, Limited, a corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders;
"Independent Shareholders"	Shareholders except for Speed Profit and Tacko, each of their associates and those who are required to abstain from voting at the SGM to be convened to approve the Acquisition and matters relating to it;

"International Engineering Company"	China National Aero-Technology International Engineering Corporation (中國航空技術國際工程有限公司), a limited liability company established in the PRC and a wholly-owned subsidiary of AVIC International Holdings Limited (中航國際控股股份有限公司) (formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司)), a joint stock limited company incorporated in the PRC with limited liability whose H shares are listed on the Stock Exchange;
"Kington"	Kington Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Hangfa Investment;
"Latest Practicable Date"	10 December 2014, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication;
"LCH"	LCH (Asia-Pacific) Surveyors Limited, being the independent professional surveyor;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"MOFCOM"	the Ministry of Commerce of the PRC;
"Onfield"	Onfield International Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of Kington;
"PBOC"	the People's Bank of China;
"PRC" or "China"	the People's Republic of China, which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"Relevant Periods"	the three financial years ended 31 December 2013 and the seven months ended 31 July 2014, being the periods of which the operations and financial position of the Target Group were reported in Appendix II – Accountants' Report of the Target Group in this circular;
"RMB"	Renminbi, being the lawful currency of the PRC;

"SAFE"	the State Administration of Foreign Exchange of the PRC;
"Sale Shares"	250,000,002 shares of Ease Triumph, representing the entire share capital of Ease Triumph;
"Sanba Investment"	Sanba Investment Limited, a company incorporated with limited liability in the BVI and is wholly-owned by Smartcon Investment;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"SGM"	the special general meeting of the Company to be held to approve, among other things, matters relating to the Acquisition;
"Shareholders"	holders of the Shares;
"Shares"	ordinary shares of HK$0.01 each in the share capital of the Company;
"Smartcon Investment"	Smartcon Investment Limited, a company incorporated with limited liability in the BVI and is wholly-owned by the Company;
"Speed Profit"	Speed Profit Enterprises Limited, a company incorporated with limited liability in the BVI and wholly-owned by Tacko;
"sq.m."	square meter;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Tacko"	Tacko International Limited, a company incorporated with limited liability in the BVI and wholly-owned by AVIC International (HK), a controlling shareholder of the Company; and
"Target Group"	Ease Triumph and Dalian Hanghua (collectively, for references to financial periods prior to 9 September 2014), and additionally includes Chongqing Hanglong (after its incorporation on 9 September 2014), and each of them a Target Group company.

In this circular, unless the context otherwise requires, the terms "associate(s)", "connected person(s)", "connected transaction(s)", "controlling shareholder(s)", "subsidiary(ies)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

For the purpose of this circular, unless the context otherwise requires, conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1 to HK$1.27. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in Hong Kong dollars or Renminbi have been, could have been or may be converted at such or any other rate or at all.

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

The English names of Chinese entities marked with "" are translations of their Chinese names and are included in this circular for identification purpose only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

AVIC International Holding (HK) Limited
中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

Executive Directors:
Mr. Wu Guangquan *(Chairman)*
Mr. Pan Linwu *(Deputy Chairman)*
Mr. You Lei
Mr. Ji Guirong *(Deputy Chairman and Chief Executive Officer)*
Mr. Zhang Chuanjun

Non-executive Director:
Mr. Ip Tak Chuen, Edmond

Independent non-executive Directors:
Mr. Chu Yu Lin, David
Mr. Li Ka Fai, David
Mr. Li Zhaoxi

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business in Hong Kong:
Unit B, 15th Floor
United Centre
95 Queensway
Hong Kong

11 December 2014

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF EASE TRIUMPH INTERNATIONAL LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 1 December 2014 relating to the Acquisition. On 1 December 2014, Sanba Investment, an indirect wholly-owned subsidiary of the Company, and Onfield entered into the Agreement, pursuant to which Sanba Investment conditionally agreed to acquire, and Onfield conditionally agreed to sell, the Sale Shares of Ease Triumph.

The Consideration is HK$325,881,324, which shall be satisfied by cash payment to Onfield on Completion which shall take place on the day when all the conditions precedent set out in the Agreement are fulfilled or, if applicable, waived by Sanba Investment. The Consideration will be settled by the then internal resources available to the Group. Ease Triumph holds equity interest in two companies, Dalian Hanghua and Chongqing Hanglong, which were set up for the development and sale of properties in Dalian and Chongqing respectively. Dalian Hanghua is currently engaged in the construction of a large scale development project in Dalian comprising offices, retail shops and residential buildings with a total planned GFA of approximately 434,461 sq.m. upon completion. Chongqing Hanglong was established in September 2014 for the purpose of developing a site which consists of 12 parcels of land in Chongqing with a total GFA of approximately 401,514 sq.m. upon completion for residential and commercial purposes.

The Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules as one of the applicable percentage ratios of the Acquisition exceeds 100%. Further, as Onfield is a connected person of the Company, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all of the three independent non-executive Directors has been formed to advise the Independent Shareholders on the Acquisition. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

The purpose of this circular is to provide the Shareholders with: (i) further details of the Acquisition; (ii) the recommendation of the Independent Board Committee in relation to the Acquisition; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition; (iv) financial information of Ease Triumph; (v) a property valuation of Ease Triumph; and (vi) the notice of SGM.

THE AGREEMENT

Date

1 December 2014

Parties

(1) Sanba Investment (as the purchaser); and

(2) Onfield (as the vendor).

Subject matter

Sanba Investment conditionally agreed to acquire, and Onfield conditionally agreed to sell, the Sale Shares of Ease Triumph subject to the terms and conditions of the Agreement. Ease Triumph holds 52.08% equity interest in Dalian Hanghua and 99% equity interest in Chongqing Hanglong, which are companies set up for the development and sale of properties in Dalian and Chongqing respectively. Upon Completion, Ease Triumph will become an indirect wholly-owned subsidiary of the Company.

Further information on Ease Triumph is set out in the section headed "Information on the Target Group" below.

Conditions precedent

The Completion is conditional upon the satisfaction (or, in respect of the conditions set out in (b), (e), (g) and (i), the waiver by Sanba Investment) of the following conditions precedent:

(a) the Independent Shareholders having approved the Agreement and the transactions contemplated thereunder in accordance with the Listing Rules;

(b) Sanba Investment having completed its legal, financial and business due diligence on each Target Group company and the results of such due diligence are satisfactory to Sanba Investment;

(c) all necessary approvals, authorisations and consents from Aviation Industry and/or from any third parties (including but not limited to the relevant governmental authorities) required for the Acquisition under the applicable rules and regulations in the applicable jurisdictions having been obtained by Onfield;

(d) Sanba Investment having completed all procedures and obtained all approvals under the applicable laws for the execution and performance of the Agreement and related documentation;

(e) the warranties given by Onfield set out in the Agreement having remained true and accurate in all material respects at Completion;

(f) the reporting accountants having completed the audit of and issued an unqualified opinion on the accountants' report of Ease Triumph in accordance with the requirements of the Listing Rules and the applicable accounting standards in relation to the Acquisition;

(g) Sanba Investment having received an opinion issued by Jia Yuan Law Offices, the PRC legal advisers to Sanba Investment, in respect of the Acquisition and each of Dalian Hanghua and Chongqing Hanglong in form and substance satisfactory to Sanba Investment;

(h) LCH having completed the valuation of the properties held by each of Dalian Hanghua and Chongqing Hanglong in accordance with the requirements of the Listing Rules and the content and results of such valuation being satisfactory to Sanba Investment; and

(i) there being no material adverse change, after 31 July 2014, in the business, operation, assets, financial positions or prospects of each of the Target Group companies.

If any of the conditions precedent set out in the Agreement has not been fulfilled or waived by Sanba Investment (in respect of the conditions set out in (b), (e), (g) and (i)) on or before 31 January 2015, Sanba Investment may, at its sole discretion and by giving written notice to Onfield, terminate the Agreement with immediate effect.

If any of the conditions is not fulfilled on or before Completion, Sanba Investment shall, with reference to the circumstances leading to and the extent of the non-fulfilment of such condition, assess its impact on the transaction structure and nature of the Acquisition, the business, financial position and valuation of the Target Group, and the potential adverse impact on the Company and Sanba Investment after Completion.

Sanba Investment may consider waiving the conditions set out in (b), (e), (g) and (i) and proceed to Completion if the Directors consider that the waiver of any of the conditions will not affect the substance of the Acquisition, and that the adverse impact on, and the potential liabilities or consequential losses to, the Company notwithstanding the non-fulfilment of the conditions is likely to be immaterial to the Enlarged Group, and that the Completion will be in the interests of the Company and its Shareholders. The right to waive these conditions gives Sanba Investment the flexibility to decide, having considered the circumstances and the above factors, whether to proceed to Completion in the event that any of these conditions are not satisfied.

As at the Latest Practicable Date, Sanba Investment had no intention to waive any of the conditions precedent.

The Consideration and the payment date

The Consideration is HK$325,881,324, which shall be satisfied by cash payment to Onfield on Completion which shall take place on the day when all the conditions precedent set out in the Agreement are fulfilled or, if applicable, waived by Sanba Investment. The Consideration will be settled by the then internal resources available to the Group.

Basis of the Consideration

The Consideration was determined after arm's length negotiation between the parties to the Agreement. Such Consideration reflects a 55.6% discount to the reassessed net asset value of the Target Group. Reassessed net asset value discount is one of the common methodologies used by investors when determining the valuation of real estate companies or assets. Reassessed net asset value discount of different real estate assets or companies can vary significantly depending on investors' perception of the risk levels associated with the specific property projects or activities involved. The implied reassessed net asset value discount provided above is meant to offer Independent Shareholders an additional reference point on valuation. The reassessed net asset value of the Target Group was determined based on the following formula:

	HK$
Consolidated net assets of the Target Group attributable to the entire equity interest in Ease Triumph owned by Onfield as at 31 July 2014	(62,959,883)
Add: Additional capital injection in cash to Ease Triumph by Onfield on 25 November 2014	250,000,000
Add: Property revaluation gain of the Dalian project attributable to Ease Triumph arising from the appraisal by LCH as at 31 October 2014 *(Note 1)*	484,803,637
Add: Property revaluation gain of the Chongqing project attributable to Ease Triumph arising from the appraisal by LCH as at 31 October 2014 *(Note 2)*	62,123,193
Reassessed net asset value of the Target Group	**733,966,947**

Notes:

1. This represents the revaluation surplus arising from the difference between the valuation of the Dalian project of HK$4,762,500,000 as at 31 October 2014 (equivalent to RMB3,750,000,000 based on the exchange rate of RMB1.00 to HK$1.27) and its book value of HK$3,831,617,441 as at 31 July 2014. Ease Triumph holds 52.08% of the Dalian project.

2. This represents the revaluation surplus arising from the difference between the valuation of the Chongqing project of HK$1,003,300,000 as at 31 October 2014 (equivalent to RMB790,000,000 based on the exchange rate of RMB1.00 to HK$1.27) and its land cost of HK$940,549,300 (equivalent to RMB740,590,000 based on the exchange rate of RMB1.00 to HK$1.27). Ease Triumph holds 99% of the Chongqing project.

The Directors consider that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole, taking into account, among other things, the terms and conditions of the Agreement and the quality and size of the property portfolio held by the Target Group.

Completion

Completion shall take place on the day when all the conditions precedent set out in the Agreement are fulfilled or waived by Sanba Investment at such time and place as the parties to the Agreement may agree.

INFORMATION ON THE TARGET GROUP

Dalian Hanghua is primarily engaged in the development and sale of properties in Dalian. Chongqing Hanglong was established in September 2014 for the purpose of development and sale of properties in Chongqing. Details of these property development projects relating to the use, GFA and development status as at 31 October 2014 are set out in the table below:

Company	Project	Planned use	Total site area *(sq.m.)*	Total planned GFA upon completion *(sq.m.)*	Estimated completion date	Equity interest held by Ease Triumph	Valuation in existing state attributable to the Target Group as at 31 October 2014 *(RMB)* *(Note 1)*
Dalian Hanghua	The International Square (中航國際廣場)	Residential and commercial	46,937.50	434,461	2015-2018	52.08%	3,750,000,000
Chongqing Hanglong	12 parcels of Chongqing land situated in a newly developed residential area *(Note 2)*	Residential and commercial	375,252	401,514	2018	99%	790,000,000

Notes:

(1) The values are based on the valuation by LCH of the fair value of the properties or rights to properties owned by the Target Group as at 31 October 2014.

(2) As at 31 October 2014, the contracts for the grant of state-owned land use rights with the Bureau of Land Resources and Housing of Chongqing* (重慶市國土資源和房屋管理局) had been signed and the deposit for the full cost of the acquisition of the land had been settled by the Target Group but the relevant land use rights certificates had not been obtained.

OVERVIEW OF THE PROPERTY PROJECTS OF THE TARGET GROUP

(a) Dalian – International Square (大連 – 中航國際廣場)

The International Square is a developing large scale development located at the Southeastern side of Zhongshang Road of the Shahekou District of the Dalian City, an area with ancillary facilities and a developed transportation system. It comprises four parcels of land having a total site area of approximately 46,937.50 sq.m. (excluding communal site area). The total consideration of RMB1,760,000,000 was fully paid by Dalian Hanghua in 2012. The International Square will be developed for commercial and residential purposes, comprising offices, retail shops and residential buildings. The total planned GFA of the development upon completion is approximately 434,461 sq.m..

Pre-sale of certain residential and office space of the International Square commenced in June 2013. As at 31 July 2014, the customer deposits, which represented the proceeds of the pre-sale of properties, amounted to HK$1,438,406,483.

The following table sets out an overview of the contracted sales:

	For the year ended 31 December 2013	For the ten months ended 31 October 2014
Contracted sales (RMB'000)	1,058,652	476,357
Contracted GFA (sq.m.)	48,731	25,468

(b) The Chongqing project

The project comprises 12 parcels of land with a total site area of approximately 375,252 sq.m. (the "**Chongqing Site**"), which are situated in a newly developed residential area with communal facilities in the Liangjiangxin District of Chongqing. The total planned GFA of the development upon completion is approximately 401,514 sq.m.. With regard to the Chongqing Site, Chongqing Hanglong entered into two contracts for the grant of state-owned land use rights with the Bureau of Land Resources and Housing of Chongqing* (重慶市國土資源和房屋管理局) (the "**Contracts**") on 29 September 2014 pursuant to which the land use rights of the Chongqing Site would be granted to Chongqing Hanglong based on the terms of the contracts. The consideration for the use of the Chongqing Site was already paid in full. Based on the advice of Sanba Investment's PRC legal adviser, Jia Yuan Law Offices, on the basis that the relevant procedures for the application for state-owned land use rights certificates for the Chongqing Site are being complied with, there will be no foreseeable legal impediments for Chonging Hanglong in obtaining the land use rights certificates of the Chongqing Site. The Directors expect that such land use rights certificates will be obtained in the first half of 2015.

As advised by Jia Yuan Law Offices, Chongqing Hanglong's right to occupy and use the Chongqing Site has been protected by PRC laws since the date it entered into the above contracts for the grant of state-owned land use rights with the Bureau of Land Resources and Housing of Chongqing. Therefore, the development progress of the Chongqing Site will not be affected by the application process of the land use rights certificates. As the application for the land use rights certificates is a procedural matter and as advised by Jia Yuan Law Offices, there are no foreseeable legal impediments for obtaining them, Sanba Investment did not make it a condition precedent for Onfield to procure Chongqing Hanglong to obtain the land use rights certificate. Further, as advised by Jia Yuan Law Offices, according to the Contract Law of the People's Republic of China and the Articles in the Reply of the Relevant Matters concerning Land Grant Contract by Bureau of Land and Resources* (國土資源廳關於土地出讓合同有關問題的覆函), Chongqing Hanglong and the Bureau of Land Resources and Housing of Chongqing shall perform the obligations as provided in the Contracts, which include the transfer of the right to use the Chongqing Site. Accordingly, in the event that the application for the land use rights certificates was terminated (except for any termination caused by any breach of the Contracts by Chongqing Hanglong), Chongqing Hanglong is entitled to ask the Bureau of Land Resources and Housing of Chongqing to return the consideration paid for the Chongqing Site and claim for any losses arising from the termination.

Based on the above, the Directors consider that the acquisition of Chongqing Hanglong at this stage is in the interests of the Company and its shareholders as a whole.

The project is still at an early planning stage. The Chongqing Site will be developed for residential and commercial use and it is expected that construction will commence in 2015 and be completed in 2018.

FINANCIAL INFORMATION OF EASE TRIUMPH

Set out below is the financial information of Ease Triumph, based on the consolidated financial statements of Ease Triumph.

	For the year ended		**Seven months ended**	
	31 December	**31 December**	**31 July**	
	2012	**2013**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Net loss before tax and extraordinary items	(54,902,908)	(37,951,843)	(14,742,448)	(38,568,622)
Net loss after tax and extraordinary items	(43,215,125)	(28,621,731)	(11,114,602)	(34,413,208)

The net assets of Ease Triumph and the net deficiency in assets of Ease Triumph attributable to the interest owned by Onfield as at 31 July 2014 (based on the consolidated financial statements of the Target Group for the seven months ended 31 July 2014) amounted to HK$263,772,451 and HK$62,959,883, respectively.

Note:

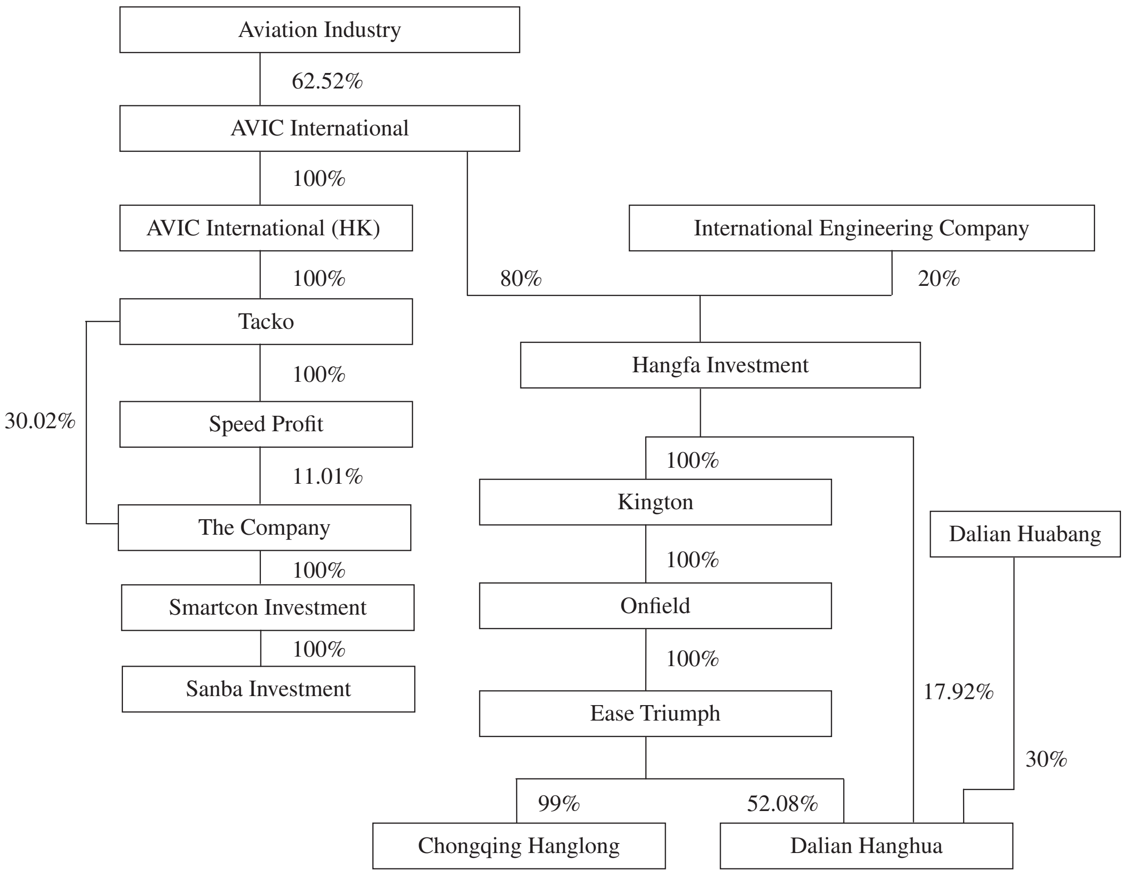
(1) On 9 September 2014, Chongqing Hanglong was incorporated in the PRC. Ease Triumph owns a 99% equity interest in Chongqing Hanglong. The registered share capital of Chongqing Hanglong amounting to US$62,530,000 has been fully paid up. On 29 September 2014, Chongqing Hanglong entered into two contracts with the Bureau of Land Resources and Housing of Chongqing under which Chongqing Hanglong was granted the right to use the Chongqing Site for commercial purposes for a term of 40 years and for residential purposes for a term of 50 years for a total consideration of RMB740,590,000. Such consideration has already been paid in full by Chongqing Hanglong in September 2014, part of which was settled by a deposit in the amount of RMB370,300,000 from Ease Triumph as at 31 July 2014. Based on the legal opinion from Jia Yuan Law Offices that there will be no foreseeable legal impediments for Chongqing Hanglong in obtaining the land use rights certificates of the Chongqing Site, the Directors expect that such land use rights certificate will be obtained in the first half of 2015.

Please refer to the section headed "Financial Information of the Target Group" and "Accountants' Report of the Target Group" set out in Appendix II to this circular for further financial information of the Target Group.

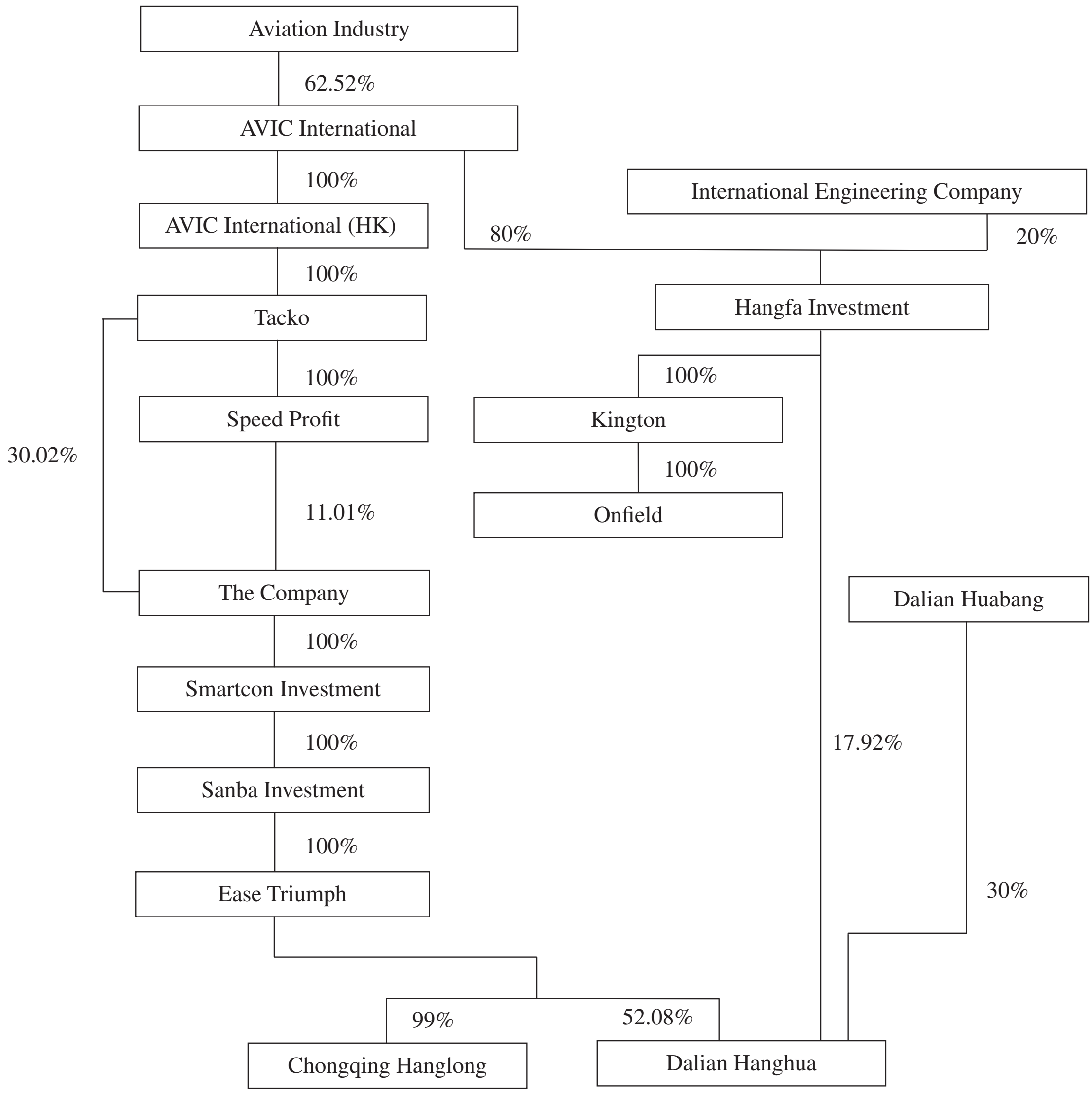
SHAREHOLDING STRUCTURE OF THE TARGET GROUP

Set out below is the shareholding structure of the Target Group immediately before and after Completion:

Shareholding structure of the Target Group as at the date of the Agreement



Shareholding structure of the Target Group immediately after Completion



INFORMATION ABOUT THE GROUP

The Company was incorporated in Bermuda whose ordinary shares are listed on the Main Board of the Stock Exchange which is indirectly held by AVIC International as to 41.03%. The Group's principal business activities include:

(a) production and distribution of knitting and textile products, knitted fabrics and clothing;

(b) aero-technology related business including the development, manufacture and distribution of helicopters; and

(c) trading business.

Currently, the Company and the Board do not have any plan to dispose of, terminate or scale-down the Company's existing principal business. Subject to the available resources of the Company, PRC regulatory environment and the economic conditions, the Company and the Board may consider to acquire other real estate assets or businesses in the future.

INFORMATION ABOUT ONFIELD, AVIATION INDUSTRY AND AVIC INTERNATIONAL

Onfield is an investment holding company incorporated in the BVI with limited liability. Onfield is indirectly held by Aviation Industry and AVIC International.

Aviation Industry is an enterprise owned by the whole people (全民所有制企業) established in the PRC. Aviation Industry's core businesses consist of transport aircraft, engine, helicopter, avionics and systems, general aviation, aviation research, flight test, trade and logistics, assets management, finance services, engineering planning and construction, automobile etc.

AVIC International is a state-owned enterprise in the PRC. As the comprehensive platform under Aviation Industry, AVIC International's core businesses consist of international aviation, trading and logistics, retail and luxurious goods, real estate and hotel, electronics technology, and resources investment and development.

THE MANAGEMENT OF THE BUSINESS OF THE TARGET GROUP

Although the Target Group is engaged in property development business, which is different from the Company's existing business, the Company will have sufficient management expertise to manage the business of the Target Group to be acquired.

The Company will conduct its project development and project management operations through Dalian Hanghua and Chongqing Hanglong, which will be responsible for the daily operations of the respective projects, including, among other things, the implementation of the project design management, pre-construction planning, construction management, quality control, pre-sale activities, sales, marketing, completion and delivery of completed properties. Dalian Hanghua has established and Chongqing Hanglong will establish their own operations departments for project development, finance, planning and design, construction and procurement, budgeting, marketing and sales. These departments are supported and monitored by a general manager who will report to the management of the Company and the Board.

Upon Completion, while Dalian Hanghua and Chongqing Hanglong will be responsible for the day-to-day running of the relevant projects, certain key planning and long-term development strategies of the Target Group, such as positioning, commercial assessment and project financing, will be carried out by the management of the Company and the Board.

At the Board level, Mr. Wu Guangquan and Mr. Pan Linwu, both executive Directors, possess relevant management experience in property development and will assist the Board to make strategic decisions for the business development of the Target Group. Further details of the management expertise are set out in the section headed "Business of the Target Group" of this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Directors consider that the Acquisition is in the interests of the Company for the following reasons:

(a) The Enlarged Group will be engaged in the development and sale of properties which will enhance its growth potential and benefit the existing Shareholders in the long run

Upon Completion, the Group will have acquired two property development projects located in Dalian and Chongqing at an attractive valuation of 55.6% discount to the reassessed net asset value. The Enlarged Group will be engaged in the development and sale of properties which enables the Enlarged Group to set up a potential growth business with long-term return.

(b) The projects in the Target Group are expected to deliver near term revenues and profits as well as a pipeline of future growth

Dalian Hanghua commenced pre-sale of certain units of the International Square in June 2013 and it is expected that revenue will be recognised in 2015. The project in Chongqing will commence construction in 2015 and is expected to be completed in 2018. The two projects provide an identifiable source of future revenues and asset growth to 2019 and 2020.

(c) The Enlarged Group will have strong capacity to raise funds for its property development business

It is expected that the Target Group will have a strong growth potential and will significantly increase the amount of real estate portfolio assets of the Group. This will enable the Enlarged Group to obtain equity and debt financing more easily, which will in turn enhance the Enlarged Group's profitability and facilitate further financing. The Enlarged Group will have strong capability to raise funds to develop its business so as to create value for its shareholders.

On the basis of the foregoing, the Directors (excluding all the independent non-executive Directors, who will provide their opinion based on the recommendation from the Independent Financial Adviser in this circular) are of the view that the terms of the Acquisition, which have been agreed after arm's length negotiations, are on normal commercial terms and such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RISKS ASSOCIATED WITH THE ACQUISITION

A number of conditions precedent to the Completion as set out in this circular involve decisions of third parties, including the approval by Independent Shareholders at the SGM. As fulfilment of these conditions precedent are not within the control of the parties involved in the Acquisition, there is no assurance that they can be fulfilled and/or the Acquisition will be completed as contemplated.

The risks relating to the business of the Target Group, the Group, the business, legal and regulatory environment for property development in the PRC and the general economic, legal and political climate of the PRC are set out in the section headed "Risk Factors".

FINANCIAL EFFECTS OF THE ACQUISITION

Following Completion, Ease Triumph will become an indirect wholly-owned subsidiary of the Company and will be accounted for as a subsidiary of the Company. Accordingly, its financial results (including earnings, assets and liabilities) will be consolidated into and reflected in the financial statements of the Group after Completion. Please refer to Appendix III of this circular for the unaudited pro forma financial information of the Enlarged Group, which is prepared for the purpose of illustrating the effects of the Acquisition on the Group's financial position as at 30 June 2014 and the Group's financial performance and cash flows for the year ended 31 December 2013 as if the Completion had taken place at 30 June 2014 and 1 January 2013, respectively.

Earnings

Following completion of the Acquisition, each of the Target Group companies will become a subsidiary of the Company. The financial results of the Target Group will be fully consolidated into the financial statements of the Company. As shown in the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group in Appendix III to this circular, assuming the Completion had taken place on 1 January 2013, profit attributable to the owners of the parent would increase from HK$397 million to HK$869 million, mainly due to discount on acquisition of approximately HK$495 million.

Customers deposits

As at 30 June 2014, the Group did not have any customer deposits. As shown in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to this circular, assuming the Completion had taken place on 30 June 2014, the customers deposits of the Enlarged Group would be HK$1,438 million.

Properties under development

As at 30 June 2014, the Group did not have any properties under development as it was not previously engaged in property development. As shown in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to this circular, assuming the Completion had taken place on 30 June 2014, the properties under development of the Enlarged Group would be HK$4,763 million.

Total assets

Since the assets and liabilities of the Target Group will be consolidated into the financial statements of the Company upon completion of the Acquisition, the equity attributable to the owners of the Company will be enhanced upon Completion. As shown in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to this circular, assuming completion had taken place on 30 June 2014, the Enlarged Group's total assets would increase from approximately of HK$2,182 million to HK$9,488 million.

Total liabilities

As shown in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to this circular, assuming Completion had taken place on 30 June 2014, the Enlarged Group would increase in total liabilities from HK$106,220,000 to HK$6,302,387,000.

Gearing

As at 30 June 2014, the Group's total borrowings was approximately HK$39 million and the total equity was approximately HK$2,076 million. With reference to the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to this circular, assuming the Acquisition had taken place on 30 June 2014, the Enlarged Group would have bank and other borrowings of approximately HK$4,094 million and total equity of approximately HK$3,186 million immediately upon Completion. Accordingly, the gearing ratio of the Enlarged Group would be 56%.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules as one of the applicable percentage ratios of the Acquisition exceeds 100%. Further, as Onfield is an indirect subsidiary of AVIC International (a controlling shareholder of the Company), Onfield is a connected person of the Company. Accordingly, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition is therefore subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Upon the Company acquiring the Target Group, any transaction between the Enlarged Group (comprising the Target Group) and Aviation Industry Group (including its associates) and/or Dalian Huabang will constitute a connected transaction or a continuing connected transaction of the Company. It is expected that, upon Completion, certain borrowings and advances from Hangfa Investment, CATIC and Dalian Huabang, which are connected persons of the Company, to the Target Group will constitute connected transactions of the Company exempt from the reporting, annual review, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

(a) Borrowings from Hangfa Investment

Hangfa Investment and Industrial Bank Co., Ltd ("**Industrial Bank**") has entered into an entrustment loan arrangement pursuant to which Hangfa Investment has entrusted Industrial Bank to provide borrowings to Dalian Hanghua. The aggregate outstanding amount of such borrowings is approximately RMB972 million.

Hangfa Investment has also provided borrowings to Chongqing Hanglong with an aggregate outstanding amount of approximately RMB360 million.

(b) Borrowings from CATIC

CATIC has provided borrowings to Ease Triumph with an aggregate outstanding amount of approximately US$80 million.

(c) Borrowings from Dalian Huabang

Dalian Huabang has provided borrowings to Dalian Hanghua with an aggregate outstanding amount of approximately RMB39 million.

The above outstanding borrowings and advances from each of Hangfa Investment, CATIC and Dalian Huabang constitute financial assistance received by the Enlarged Group from a connected person of the Company, under Rule 14A.90 of the Listing Rules.

The Directors (including the independent non-executive Directors) are of the view that all of the outstanding borrowings and advances from Hangfa Investment, CATIC and Dalian Huabang at Completion (i) will be conducted on normal commercial terms or better and (ii) will not be secured by any assets of the Enlarged Group, therefore, all of the outstanding borrowings and advances at Completion are fully exempt from the reporting, annual review, announcement and shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules. The interest rates of the outstanding borrowings and advances upon Completion are expected to range from approximately 8% to 10%, which are comparable to, if not more favourable than, normal interest rates granted by financial institutions to property developers in Dalian and Chongqing. The Directors consider that it is in the interests of the Enlarged Group and the Shareholders as a whole to retain such borrowings and advances from Hangfa Investment, CATIC and Dalian Huabang.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising Mr. Chu Yu Lin, David, Mr. Li Ka Fai, David and Mr. Li Zhaoxi, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders on matters in relation to the Acquisition.

The Company has, with the approval of the Independent Board Committee, appointed Anglo Chinese as the Independent Financial Adviser in accordance with the requirements under the Listing Rules to advise the Independent Board Committee and the Independent Shareholders on matters in relation to the Acquisition.

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 respects and is not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

SGM

A notice of SGM to be held at 10:00 a.m, on Tuesday, 30 December 2014 is set out on pages SGM-1 to SGM-2 of this circular for the purpose of considering and, if thought fit, approving the Agreement and the transaction contemplated thereunder.

A proxy form for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the SGM or any adjournment thereof if you so desire and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

VOTING AT THE SGM AND THE BOARD MEETING

Each of Tacko and Speed Profit and their respective associates, which together held approximately 41.03% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting at the SGM in respect of the resolutions to consider the Acquisition as a result of having a material interest therein.

Voting on the resolutions at the SGM will be taken by poll.

None of the Directors was considered to have a material interest in the Acquisition under the Bye-laws or the Listing Rules, therefore no Director was required to abstain from voting on the resolutions proposed in the meetings of the Board approving the Acquisition.

RECOMMENDATION BY THE INDEPENDENT BOARD COMMITTEE

The text of the letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 24 to 25 of this circular.

The text of the letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders with regard to the Acquisition and the principal factors and reasons which it has taken into account in arriving at its advice, is set out on pages 26 to 40 of this circular.

The Independent Board Committee, having considered the terms and conditions of the Agreement, and after taking into account the advice from the Independent Financial Adviser, considers that the Agreement is on normal commercial terms, fair and reasonable, and the Acquisition is for the purpose of the ordinary course of business of the Group and in the interests of the Company and the Shareholders as a whole. The Independent Board Committee accordingly recommends that the Independent Shareholders vote in favour of the resolutions to be proposed at the SGM to approve the Acquisition.

RECOMMENDATION OF THE BOARD

The Board considers the terms of the Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM, which are set out in the notice of SGM.

FURTHER INFORMATION

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

WARNING

Completion of the Acquisition is subject to the satisfaction and/or waiver of a number of conditions including Independent Shareholders' approval, which may or may not be fulfilled.

SHAREHOLDERS OF THE COMPANY AND POTENTIAL INVESTORS SHOULD EXERCISE CAUTION WHEN THEY DEAL OR CONTEMPLATE DEALING IN THE SHARES OR OTHER SECURITIES (IF ANY) OF THE COMPANY.

Yours faithfully,
By order of the Board
AVIC International Holding (HK) Limited
Wu Guangquan
Chairman

The following is the text of a letter from the Independent Board Committee to the Independent Shareholders in connection with the Acquisition for inclusion in this circular.

AVIC International Holding (HK) Limited
中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 232)

11 December 2014

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF EASE TRIUMPH INTERNATIONAL LIMITED

We refer to the circular dated 11 December 2014 of the Company of which this letter forms part (the "**Circular**"). Capitalised terms defined in the Circular shall have the same meaning herein unless the context otherwise requires.

We have been authorised by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders in respect of the Acquisition, details of which are set out in the section headed "Letter from the Board" contained in the Circular.

We wish to draw your attention to the letter from the Board set out on pages 7 to 23 of the Circular and the letter of advice from Anglo Chinese, the Independent Financial Adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Agreement, set out on pages 26 to 40 of the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Anglo Chinese as stated in its letter of advice, the terms and conditions of the Agreement, the business and financial effects of the Acquisition on the Company, the quality and size of the property portfolio held by the Target Group and the effect of the Acquisition on the Group, we consider that the terms and conditions of the Agreement are fair and reasonable and on normal commercial terms, and the Acquisition is for the purpose of the ordinary course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the SGM in respect of the Agreement and the transactions contemplated thereunder.

Yours faithfully,
The Independent Board Committee of
AVIC International Holding (HK) Limited
Mr. Chu Yu Lin, David **Mr. Li Ka Fai, David** **Mr. Li Zhaoxi**
Independent non-executive Directors

The following is the text of the letter from Anglo Chinese to the Independent Board Committee and the Independent Shareholders, prepared for the purpose of inclusion in this circular.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong
www.anglochinesegroup.com
英高財務顧問有限公司

To the Independent Board Committee
and the Independent Shareholders

11 December 2014

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
IN RELATION TO
THE ACQUISITION OF
EASE TRIUMPH INTERNATIONAL LIMITED**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, details of which, amongst other things, are set out in the letter from the Board contained in the circular of the Company dated 11 December 2014, of which this letter forms part. Terms defined in this circular shall have the same meanings when used in this letter unless the context requires otherwise.

Reference is made to the announcement of the Company dated 1 December 2014. On 1 December 2014, Sanba Investment, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with Onfield, pursuant to which Sanba Investment has conditionally agreed to acquire and Onfield has conditionally agreed to sell the entire share capital of Ease Triumph at the consideration of approximately HK$326 million, which will be satisfied by cash. Upon Completion, Ease Triumph will become an indirect wholly-owned subsidiary of the Company.

As at the Latest Practicable Date, Onfield is an indirect subsidiary of AVIC International, which is an indirect controlling shareholder of the Company holding approximately 41.03% of the issued share capital of the Company. Therefore, Onfield is a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio calculated pursuant to Chapter 14 of the Listing Rules in respect of the Acquisition exceeds 100%, the Acquisition also constitutes a very substantial acquisition of the Company. Therefore, the Acquisition is subject to, among other things, approval by the Independent Shareholders.

The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the Independent Shareholders on the Acquisition. Votes of the Independent Shareholders at the SGM shall be taken by poll. As Tacko and Speed Profit have material interest in the Acquisition, Tacko, Speed Profit and their respective associates will abstain from voting on the resolution in respect of the Acquisition at the SGM. In addition to the approval by the Independent Shareholders at the SGM, the Acquisition is also subject to the conditions precedent as set out on pages 9 to 10 of this circular.

BASIS OF OUR OPINION

In formulating our opinion, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules including the notes thereto to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information, statements, opinion and representations contained or referred to in this circular and all information and representations which have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board contained in this circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in this circular.

The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in this circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in this circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation into the business and affairs or the prospects of the Company, Onfield, the Target Group or any of their respective subsidiaries or associates.

Apart from normal professional fees for our services to the Company in connection with this appointment, no arrangement exists whereby Anglo Chinese will receive any benefits from the Company or any of its associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our opinion to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition, we have taken into account the following principal factors:

Background of the Acquisition

Business and financial information of the Group

The Company is an investment holding company. The Group's principal business activities include (i) production and distribution of knitting and textile products, knitted fabrics and clothing; (ii) aero-technology related business including the development, manufacture and distribution of helicopters; and (iii) trading business.

Tabulated below is a summary of the audited consolidated financial results of the Group for the five years ended 31 December 2013 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") as extracted from the Company's annual reports and the unaudited financial results of the Group for the six months ended 30 June 2014 as extracted from the Company's 2014 interim report:

Consolidated statements of profit or loss

	For the year ended 31 December					For the six months ended 30 June
(HK$ million)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
	(audited)	(audited)	(audited)	(audited)	(audited)	(unaudited)
Revenue	228.76	274.39	303.23	87.33	47.98	34.89
Profit/(Loss) before taxation	37.09	53.78	604.97	422.61	477.69	(133.51)
Profit/(Loss) attributable to owners of the parent	23.77	36.06	467.52	359.65	397.24	(134.84)
Earnings/(Loss) per Share (HK cents)	0.50	0.76	9.90	7.70	8.57	(2.92)

Consolidated statements of financial position

	As at 31 December					As at 30 June
(HK$ million)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
	(audited)	(audited)	(audited)	(audited)	(audited)	(unaudited)
Cash and cash equivalents	330.48	340.00	631.31	1,024.79	1,079.01	966.63
Total assets	1,198.61	4,071.56	2,551.85	2,086.45	2,348.35	2,181.96
Total liabilities	177.73	637.84	396.77	128.25	118.04	106.22
Equity attributable to owners of the parent	955.46	3,362.08	2,150.91	1,952.62	2,225.23	2,071.25

As illustrated above, revenue of the Group increased from approximately HK$229 million for the year ended 31 December 2009 to approximately HK$303 million for the year ended 31 December 2011, followed by a sudden drop to approximately HK$87 million for the year ended 31 December 2012 and a further fall to approximately HK$47.98 million for the year ended 31 December 2013. As pointed out in the Chairman's Statement of the Company's 2012 annual report, this regression in revenue was mainly attributable to the disposal of the Group's electric and steam power supply business in 2011.

Besides, we noted there is significant fluctuation in the Group's profit attributable to owners of the parent. For the year ended 31 December 2011, along with the gain attributable to the disposal of electric and steam power supply business which amounted to approximately HK$148 million, the Group had recorded a gain of approximately HK$331 million from the disposal of certain listed investment in Mainland China, which together, were the main drivers for the substantial profit achieved by the Group for the period. For the year ended 31 December 2012, despite its significant drop in revenue, the Group achieved a profit attributable to owners of the parent of approximately HK$360 million, which was mainly due to the gain on disposal of certain listed investments in Mainland China amounted to approximately HK$223 million and the share of profits of jointly-controlled entity and associates of approximately HK$208 million. For the year ended 31 December 2013, the Group recorded a profit attributable to owners of the parent of approximately HK$397 million, which was mainly driven by the gains on disposal of associates and certain listed investments, of approximately HK$358 million and approximately HK$140 million, respectively.

The loss attributable to owners of the parent increased significantly from approximately HK$27 million for the six months ended 30 June 2013 to approximately HK$135 million for the six months ended 30 June 2014, which was mainly attributable to the fair value loss recorded on derivative financial instruments for the period amounted to approximately HK$91.19 million.

The equity attributable to owners of the parent increased from approximately HK$955 million as at 31 December 2009 to approximately HK$3,362 million as at 31 December 2010, which was mainly caused by the fair value gain of approximately HK$1,839 million upon the successful listing, during that year, of the equity securities in which the Group had invested.

As at 31 December 2011, the equity attributable to owners of the parent declined to approximately HK$2,151 million, which was mainly attributable to the fair value loss of approximately HK$929 million in respect of the listed investment in Mainland China. From 31 December 2011 to 30 June 2014, the equity attributable to owners of the parent remained relatively stable at around HK$2,000 million. The Group's cash and cash equivalents increased from approximately HK$330 million as at 31 December 2009 to approximately HK$967 million as at 30 June 2014.

For further details of financial information and background of Group, please refer to pages 16 to 17 in the letter from the Board and Appendix I to this circular.

Business and financial information of the Target Group

Ease Triumph holds 52.08% equity interest in Dalian Hanghua and 99% equity interest in Chongqing Hanglong, which are companies set up for the development and sale of properties in Dalian and Chongqing, respectively.

The property project in Dalian, International Square, is a developing large scale development located at the Southeastern side of Zhongshang Road of the Shahekou District of the Dalian City, an area with ancillary facilities and a developed transportation system. It comprises four parcels of land having a total site area of approximately 46,937.50 sq.m. (excluding communal site area). The total consideration of RMB1,760 million was fully paid by Dalian Hanghua in 2012. The International Square will be developed for commercial and residential purposes, comprising offices, retail shops and residential buildings. The total planned GFA of the development upon completion will be approximately 434,461 sq.m.. The estimated completion date of the whole project is August 2018. The property is subject to a right to use the land for a term till 13 February 2052 for commercial usage and till 13 February 2082 for residential usage. Pre-sale of certain residential and office space of the International Square commenced in June 2013.

The property project in Chongqing comprises 12 parcels of land with a total site area of approximately 375,252 sq.m. (the "Chongqing Site"), which are situated in a newly developed residential area with communal facilities in the Liangjiangxin District of Chongqing. The total planned GFA of the development upon completion is approximately 401,514 sq.m.. With regard to the Chongqing Site, Chongqing Hanglong entered into two contracts for the grant of state-owned land use rights with the Bureau of Land Resources and Housing of Chongqing* (重慶市國土資源和房屋管理局) on 29 September 2014 pursuant to which the land use rights of the Chongqing Site would be granted to Chongqing Hanglong based on the terms of the contracts. The consideration for the use of the Chongqing Site was already paid in full. Based on the advice of Sanba Investment's PRC legal adviser, on the basis that the relevant procedures for the application for state-owned land use rights certificates for the Chongqing Site are being complied with, there will be no foreseeable legal impediments for Chongqing Hanglong in obtaining the land use rights certificates of the Chongqing Site. It is expected such land use rights certificates will be obtained in the first half of 2015. The project is still at an early planning stage. Chongqing Site will be developed for residential and commercial use and construction will commence in 2015 and be completed in 2018.

Tabulated below is a summary of the audited consolidated financial results of Ease Triumph as extracted from accountants' report of the Target Group for the three years ended 31 December 2013 and seven months ended 31 July 2014 prepared in accordance with HKFRSs:

Consolidated statements of profit or loss

	For the year ended 31 December			For the seven months ended 31 July
(HK$)	**2011**	**2012**	**2013**	**2014**
	(audited)	(audited)	(audited)	(audited)
Revenue	0	0	0	0
Profit/(Loss) before tax	(1,599,301)	(54,902,908)	(37,951,843)	(38,568,622)
Profit/(Loss) attributable to owners of the parent	(1,599,301)	(26,412,769)	(15,208,762)	(28,439,385)

Consolidated statements of financial position

	As at 31 December			As at 31 July
(HK$)	**2011**	**2012**	**2013**	**2014**
	(audited)	(audited)	(audited)	(audited)
Cash and bank balances	2,243	14,788,004	205,351,792	220,739,067
Total assets	155,412,445	3,335,431,475	5,498,905,689	5,935,168,998
Total liabilities	157,011,744	3,015,299,451	5,186,585,853	5,671,396,547
Equity attributable to the owner of the parent	(1,599,299)	(23,891,709)	(28,064,686)	(62,959,883)

The Target Group did not generate any revenue during the three years ended 31 December 2013 and seven months ended 31 July 2014. As at 31 July 2014, customers deposits received by the Target Group amounted to approximately HK$1,438 million, which are expected to be recognised as revenue upon the properties being transferred to customers. The project in Dalian is expected to recognise revenue in 2015.

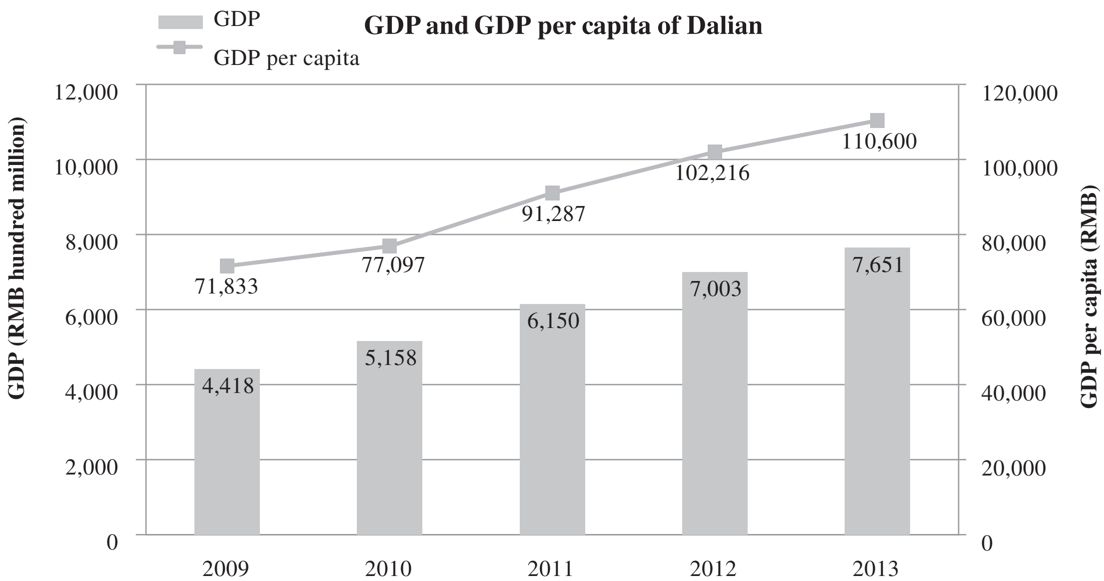
In September 2014, Chongqing Hanglong entered into an agreement with Hangfa Investment, an intermediate holding company of Ease Triumph, pursuant to which Hangfa Investment advanced a loan of RMB360 million to Chongqing Hanglong, which was used to pay the balance of the deposit for acquisition of the land by Chongqing Hanglong. The loan is unsecured, interest-bearing at 10% per annum and is repayable within one year.

On 25 November 2014, Onfield made capital injection of HK$250 million in aggregate to Ease Triumph. After such capital injection, the issued capital of Ease Triumph is increased from HK$2 to HK$250,000,002. Such balance in the amount of US$32 million was used to settle part of the loans from a fellow subsidiary. Balances due from a non-controlling shareholder of a subsidiary and an intermediate holding company as at 31 July 2014 of HK$919,588,146 and HK$255,921,096, respectively, were settled by cash in November 2014 and the aggregate amount of HK$1,175,509,242 were used to settle part of the loans from an intermediate holding company, Hangfa Investment.

For further details of financial information and background of Target Group, please refer to pages 12 to 16 in the letter from the Board, the sections headed "BUSINESS OF THE TARGET GROUP" and "FINANCIAL INFORMATION OF THE TARGET GROUP" of this circular and Appendix II to this circular.

Overview of property industry in Dalian and Chongqing

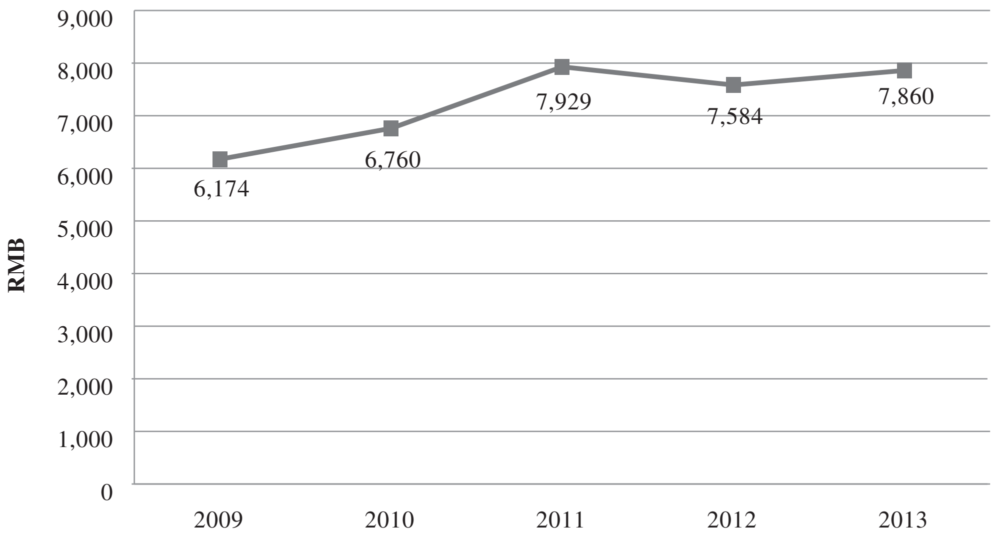
Dalian is located in the North-east of China and is the second largest city in Liaoning province. As shown in the chart below, the nominal gross domestic product ("GDP") and GDP per capita of Dalian have recorded a remarkably growth trend during the last five years, from approximately RMB442 billion and approximately RMB71,833 in 2009 to approximately RMB765 billion and approximately RMB110,600 in 2013, respectively.



Source: Dalian Municipal Bureau of Statistics

As shown in the chart below, the average selling price of residential properties in Dalian has grown moderately from approximately RMB6,174 per square metre in 2009 to approximately RMB7,860 per square metre in 2013, representing a compound annual growth rate ("CAGR") of around 6.22%.

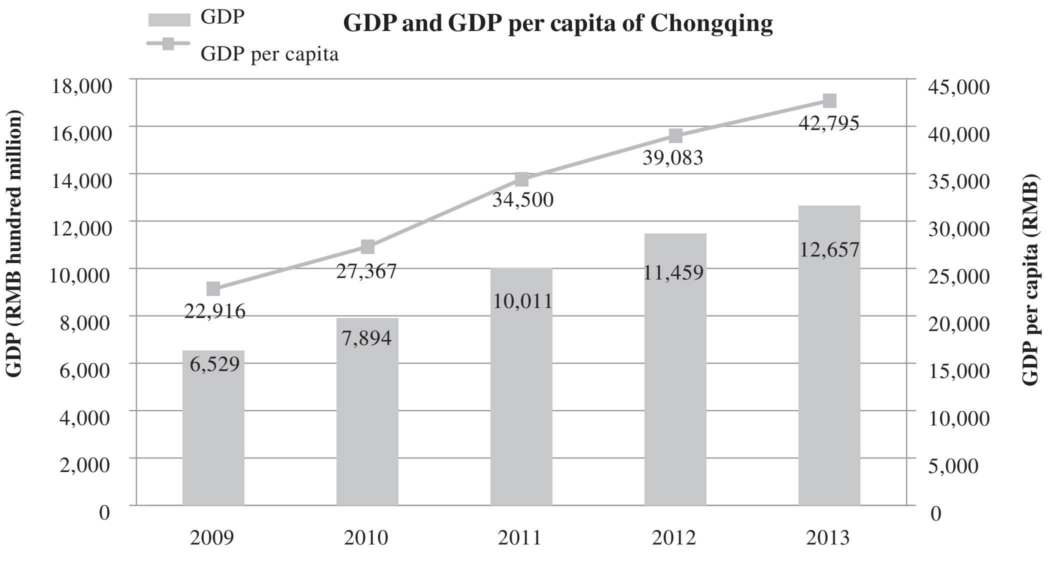
Dalian average residential sales price (per square metre)



Source: Dalian Municipal Bureau of Statistics

Chongqing sits in the South-west of China and is one of the four direct-controlled municipalities along with Beijing, Tianjin and Shanghai. As shown in the chart below, the nominal GDP and GDP per capita of Chongqing have recorded substantial growth during the last five years, from approximately RMB653 billion and approximately RMB22,916 in 2009 to approximately RMB1,266 billion and approximately RMB42,795 in 2013, respectively.

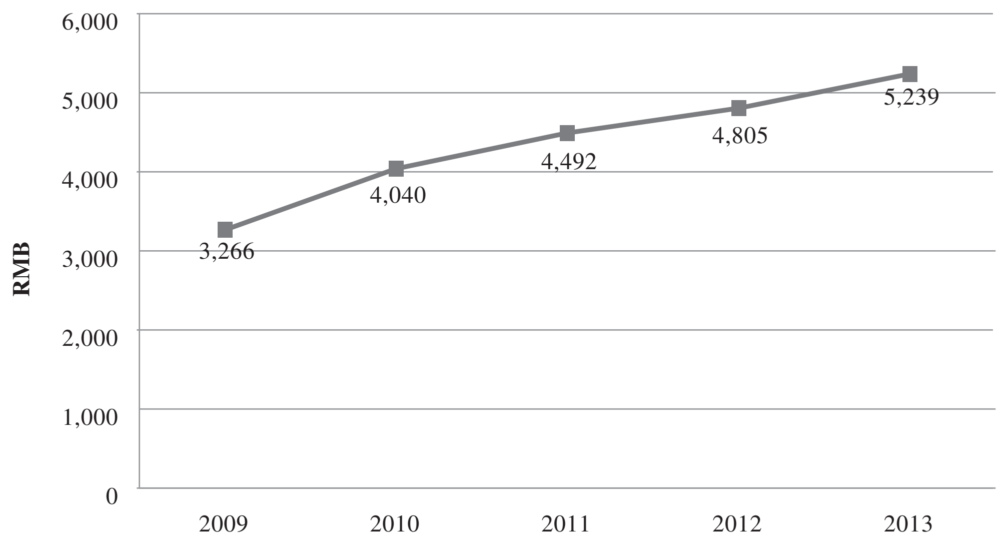
GDP and GDP per capita of Chongqing



Source: Chongqing Municipal Bureau of Statistics and National Bureau of Statistics of China

As shown in the chart below, the average selling price of residential properties in Chongqing has maintained stable growth during the last five years, from approximately RMB3,266 per square metre in 2009 to approximately RMB5,239 per square metre in 2013, representing a CAGR of around 12.54%.

Chongqing average residential sales price (per square metre)



Source: Chongqing Municipal Bureau of Statistics

Although the PRC government has imposed measures designed to temper property prices in addition to imposing greater regulatory oversight on the property market, concerns remain that further restrictive policy measures may be introduced in the future. Notwithstanding this, the Company anticipates that the property market in Dalian and Chongqing will remain strong in the longer term.

Principal terms of the Agreement

The consideration

The Consideration was approximately HK$326 million, which shall be satisfied at Completion by cash payment to Onfield.

i. Basis of the consideration

The Consideration was determined after arm's length negotiation between the parties to the Agreement. Such Consideration reflects a 55.6% discount to the reassessed net asset value of the Target Group. The reassessed net asset value of the Target Group was determined based on the following formula:

		HK$ million
	Unaudited consolidated net liabilities of the Target Group attributable to Onfield as at 31 July 2014	(63)
Add:	Additional capital injection in cash to Ease Triumph by Onfield on 25 November 2014	250
Add:	Property revaluation gain of Dalian project attributable to Ease Triumph	485
Add:	Property revaluation gain of Chongqing project attributable to Ease Triumph	62
	Reassessed net asset value of Ease Triumph attributable to Onfield	734

ii. Valuation methodology

We have reviewed the valuation report prepared by LCH, as set out in Appendix IV to this circular, and discussed with LCH regarding the method adopted and the assumptions used in arriving at the valuation of the properties attributable to the Target Group. We believe the assumptions used under the valuation report are fair, reasonable and complete. LCH has conducted inspections to the exterior, and where possible, the interior of the properties in respect of the Chongqing project and Dalian project in September and October of 2014. Sales Comparison Approach was adopted as the valuation method, which is a method commonly used in property appraisal in general.

In valuing the property in Dalian, which is under development in the PRC, LCH has adopted Sales Comparison Approach by making reference to comparable sales evidence as available in the relevant market to assess the market value when completed of the property. The market value when completed represents LCH's opinion of the aggregate values of the development assuming it would have been completed at the valuation date. In arriving at the concluded value of the property, LCH has also taken into account the development costs incurred and the cost to be spent to complete the development. LCH's valuation is carried out on the basis that property will be developed and completed in accordance with the latest development proposals available to them.

In valuing property in Chongqing, LCH has adopted the Sales Comparison Approach on vacant possession basis. This approach considers the sales, listings or offering of similar or substitute properties and related market data and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title.

In addition to reviewing the valuation report, we interviewed LCH regarding its expertise and understand that LCH is independent from the Company, Onfield and their core connected persons. We also inspected the qualification and licenses of the signing person of the valuation report regarding her expertise. In addition, we reviewed the terms of engagement particular regarding whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the valuation report, opinion or statement; and assessed whether representations made by the Group and Onfield to LCH are in accordance with our knowledge. Based on the above, we are of the view that the valuation methodology adopted by LCH is fair, reasonable and consistent with the market practice.

Comparable Companies

To assess the fairness and reasonableness of the consideration for Ease Triumph, we have searched for companies listed on the Stock Exchange comparable to Ease Triumph in terms of their size, business nature and geographical segment. To the best of our knowledge and as far as we are aware of, there are 7 companies, which are engaged in real estate development in the PRC and with total assets within the range of HK$3 billion to HK9 billion as shown in their latest published financial statements. Such list of comparable companies is an exhaustive list based on our selection criteria, and we are of the view that they are a fair and representative sample.

As real estate development is an asset based business, we have used price to book ratio implied by the closing prices of the comparable companies on 28 November 2014, being the last trading day immediately before the Agreement, which we consider appropriate for this comparison purpose. The reassessed net asset value attributable to the shareholders of Ease Triumph was approximately 734 million as at 31 July 2014. Based on the consideration of approximately HK$326 million, the price to book ratio implied by Ease Triumph was approximately 0.44 times.

Name	Business	Stock code	Total assets *(HK$ million)*	Price to book ratio *(times)*
Zhong Hua International Holdings Ltd.	Zhong Hua International Holdings Limited is principally engaged in the development and investment in properties of prime cities in China.	1064	3,977	0.24
Sino Harbour Property Group Ltd	Sino Harbour Property Group Ltd. is a property development company focused on residential properties in Jiangxi Province, the PRC.	1663	4,065	0.68
Chuang's China Investments Ltd	Chuang's China Investments Limited, through its subsidiaries, develops and invests in properties in China.	298	4,070	0.34
Sun Century Group Ltd	Sun Century Group Ltd. is a property development company. The Company develops mid-range residential and commercial properties in Guangdong Province in the Peoples Republic of China.	1383	5,077	1.46
China Water Property Group Ltd	The Company is involved in property development and investment in the Peoples Republic of China and food related businesses.	2349	5,477	0.87
Golden Wheel Tiandi Holdings Co Ltd	Golden Wheel Tiandi Holdings Company Limited develops, owns and operates integrated commercial and residential property in China. The Company manages shopping malls, mix of offices, residential properties and hotel-style apartments.	1232	8,302	0.34
Skyfame Realty Holdings Ltd	Skyfame Realty Holding Limited, through its subsidiaries, develops real estate properties in China.	59	8,359	0.77
	Average		5,618	0.67
	Median		5,077	0.68
	Maximum		8,359	1.46
	Minimum		3,977	0.24
Ease Triumph	The principal activities of Ease Triumph are investment holding and property development in China		5,935	0.44

As illustrated above, the implied price to book ratio of the Ease Triumph is below the average and median and falls within the range of those ratios of comparable companies, which indicates the consideration is relatively low and hence attractive to the Company as the buyer. It should also be borne in mind that such price comparisons do not include a premium for control which is often required to be paid where control of an asset is acquired, which makes the consideration more attractive to the Company. We consider that the consideration for the Ease Triumph is fair and reasonable and in the interests of the Company and the Shareholders as a whole. We have also analysed the financial impacts on the Company before and after completion of the Transaction Agreements under the section headed "POSSIBLE FINANCIAL EFFECTS" below.

Change of business

Upon Completion, the Group would have a fundamental change in its principal businesses to real estate development. Upon Completion, the Company will conduct its project development and project management operations through Dalian Hanghua and Chongqing Hanglong, which will be responsible for the daily operations of the respective projects. Dalian Hanghua has established and Chongqing Hanglong will establish their own operations departments for project development, finance, planning and design, construction and procurement, budgeting, marketing and sales. These departments are supported and monitored by a general manager who will report to the management of the Company and the Board. Certain key planning and long-term development strategies of the Target Group, such as positioning, commercial assessment and project financing, will be carried out by the management of the Company and the Board. At the Board level, Mr. Wu Guangquan and Mr. Pan Linwu, both executive Directors, possess relevant management experience in property development and will assist the Board to make strategic decisions for the business development of the Target Group. For further details of the management expertise, please refer to pages 17, 79 to 81 of this circular.

Reasons and benefits of entering into the Transaction Agreements

As disclosed in the 2013 annual report of the Company, as an investment holding company, the Group was committed to making investments in the aero-technology related business and other fields, and aimed to enhance its value and create long-term return for its shareholders in terms of returns on investments and operating profits. The Group would identify projects with a bright development prospect, and would continue to review and optimise its business portfolios.

Upon Completion, the Group will extend its business scope to the development and sale of properties which will enhance its growth potential and benefit the existing Shareholders in the long run. The Dalian and Chongqing projects under the Target Group are expected to deliver near term revenues and provide an identifiable source of future revenues and asset growth to 2019 and 2020. With the growth potential and the increased real estate portfolio assets of the Target Group, it is expected the Enlarged Group will be able to obtain equity and debt financing more easily and hence enhance the profitability of the Enlarged Group, facilitate its further financing to develop its business and create value for its Shareholders.

Having considered the above, we consider that the entering into the Acquisition is in line with the Group's strategy and will enable the Group to enlarge its business scale, maintain its sustainable development and hence increase the investment value of the Company. Therefore, we concur with the Board that entering into the Acquisition is in the interests of the Company and its Shareholders as a whole.

Possible Financial Effects

The following analysis is based on the audited and unaudited consolidated financial statements of the Company for the financial year ended 31 December 2013 and the six months ended 30 June 2014 as extracted from the Company's annual report 2013 and interim report 2014 and the unaudited pro forma consolidated statements of the Enlarged Group as set out in Appendix III to this circular. Upon completion of the Agreement, Ease Triumph will become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the accounts of the Enlarged Group. It should be appreciated that the pro forma profit attributable to Shareholders was prepared for illustrative purpose and may not reflect the actual financial positions and results of the operations of the Group.

Effects on net asset value

The unaudited equity attributable to Shareholders of the Group was approximately HK$2,071 million as at 30 June 2014. According to the unaudited pro forma consolidated statement of financial position of the Enlarged Group, equity attributable to Shareholders would have been approximately RMB2,559 million as at 30 June 2014.

Effects on earnings

The Group recorded profit attributable to owners of the Company of approximately HK$397 million for the year ended 31 December 2013. According to the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group, the profit attributable to owners of the parent would have been approximately HK$869 million for the year ended 31 December 2013. Such indicated increase in profit is mainly contributed by the discount on Acquisition.

Effects on gearing and working capital

As at 30 June 2014, the Group's total borrowings was approximately HK$39 million and the gearing ratio, calculated as total liabilities divided by total assets of the Company, was approximately 4.9%. According to the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the total borrowings of the Enlarged Group would have been HK$4,094 million as at 30 June 2014 and the gearing ratio would have been 66.4% as at 30 June 2014. The total borrowings and gearing ratio of the Group would increase significantly upon Completion, which is not unusual for property developers.

The Group had cash and cash equivalents of approximately HK$967 million and working capital of approximately HK$1,170 million as at 30 June 2014. According to the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the Enlarged Group would have had cash and cash equivalents of approximately HK$1,104 million and working capital of approximately HK$5,268 million as at 30 June 2014. In addition, the Board confirmed that the Enlarged Group shall have sufficient working capital to meet its present requirement for at least 12 months from the date of this circular in the absence of unforeseen circumstance.

RECOMMENDATION

We have considered the above principal factors and reasons and particularly (i) the terms of the Agreement; (ii) the strategic rationale of entering into the Acquisition; and (iii) the possible financial effects to the Group. Based on the above principal factors and reasons, we consider that the terms of Agreement are on normal commercial terms, and the entering of the Acquisition is in the ordinary and usual course of business of the Company, fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we also recommend that, the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited
Dian Deng
Assistant Director

Note: Ms Dian Deng is a licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over six years of experience in corporate finance industry.

This section and other sections of this circular contain information and statistics relating to the PRC economy and the industry in which the Group and the Target Group operate. Certain information has been derived from official governmental sources and other industry sources. The Company believes that the sources of this information are appropriate sources for such information and has taken reasonable care in extracting and reproducing such information. The Company has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Company, or any of their respective affiliates, directors, employees, agents or advisers. Such information may not be consistent with other information compiled within or outside China. The Company does not make any representation as to the completeness, accuracy, or fairness of such information, and accordingly, such information should not be unduly relied upon.

OVERVIEW OF THE PRC ECONOMY

Over the last quarter of a century, China's economy has been gradually transforming from a centrally planned model to a more market-orientated economy with the help of various market liberalization initiatives aimed at making China an economically developed country.

Overall Economic Growth

The PRC economy has achieved substantial growth since the country's transformation into a market-oriented economy in the mid-1990s. In recent years, China's nominal Gross Domestic Product ("**GDP**") increased at a CAGR of approximately 14.8% from RMB21,631 billion in 2006 to RMB56,885 billion in 2013, making China one of the fastest growing economies in the world.

The table below sets out GDP statistics for China over the period.

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Nominal GDP (RMB bn)	21,631	26,581	31,405	34,090	40,151	47,310	51,947	56,885
Real GDP growth rate (%)	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7
GDP per capita (RMB)	16,500	20,169	23,708	25,608	30,015	35,198	38,459	41,908
GDP per capita growth rate (%)	12.0	13.6	9.1	8.7	9.9	8.8	7.1	7.1

Source: China Statistical Yearbook 2013, National Bureau of Statistics of China

Urbanization

Growth in the economy has led to a significant increase in urbanisation of Chinese citizens in recent years. The urbanisation ratio increased from approximately 44.3% in 2006 to 53.7% in 2013. Rapid urbanization along with industrialization in various tiers of cities has created strong demand for commodity facilities and housing as well as public infrastructure facilities.

The table below shows China's urbanisation ratios over the period.

	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Total population (million)	131,448	132,129	132,802	133,450	134,091	134,735	135,404	136,072	0.5%
Urban population (million)	58,288	60,633	62,403	64,512	66,978	69,079	71,182	73,111	3.3%
Urbanization (%)	44.3	45.9	47	48.3	49.9	51.3	52.6	53.7	N/A

Source: China Statistical Yearbook 2013, National Bureau of Statistics of China

Disposable Income

Along with a growing economy and increasing urbanisation, per capita annual disposable income of urban households has grown from 11,759.5 RMB in 2006 to 26,955.1 RMB in 2013, representing a CAGR of 12.6% in this period. Disposable income has a direct impact on domestic consumption, which includes spending on residential properties and tourism.

The table below sets out the per capita disposable income levels of urban households for the periods indicated.

	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Per capita disposable income of urban households (RMB)	11,759.5	13,785.8	15,780.8	17,174.7	19,109	21,809.78	24,565	26,955.1	12.6%

Source: China Statistical Yearbook 2013, National Bureau of Statistics of China

OVERVIEW OF THE PROPERTY MARKET IN THE PRC

In recent years, demand and supply for properties in China has witnessed continued robust growth. From 2008 to 2013, investments in real estate development in the PRC grew from approximately RMB3,120.3 billion in 2008 to RMB8,601.3 billion in 2013, representing a CAGR of 22.5% during this period. Over the same period, total GFA of commodity properties sold increased from 659.7 million sq.m. in 2008 to 1,305.5 million sq.m. in 2013. Average selling price of commodity properties has increased at a CAGR of 10.4% from RMB3,804 per sq.m. in 2008 to RMB6,239 per sq.m. in 2013.

Real Estate Investment

Between 2008 and 2013, investment in real estate had increased on average 22.5% per annum, with the majority of funds being directed into residential properties. At the end of 2013, total investment in real estate was approximately RMB8.6 trillion, of which 68.5% and 13.9% was for new residential properties and retail space, respectively.

The tables below set out the real estate investments in China through this period:

Real Estate Investment (unit: RMB in billions)

	2008	2009	2010	2011	2012	2013	CAGR
Commodity Properties[1]	3,120.3	3,624.2	4,825.9	6,179.7	7,180.4	8,601.3	22.5%
Residential Properties	2,244.1	2,561.4	3,402.6	4,432.0	4,937.4	5,895.1	21.3%
Office Properties	116.7	137.7	180.7	255.9	336.7	465.2	31.9%
Retail Properties	335.4	418.1	564.8	742.4	931.2	1,194.5	28.9%
Other Properties[2]	424.1	507.0	677.7	749.5	975.1	1,046.5	19.8%

Source: China Statistical Yearbook 2013, National Bureau of Statistics of China

Real Estate Investment in China by Sectors, 2008-2013

	2008	2009	2010	2011	2012	2013
Residential Properties	71.9%	70.7%	70.5%	71.7%	68.8%	68.5%
Office Properties	3.7%	3.8%	3.7%	4.1%	4.7%	5.4%
Retail Properties	10.8%	11.5%	11.7%	12.0%	13.0%	13.9%
Other Properties	13.6%	14.0%	14.0%	12.1%	13.6%	12.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: China Statistical Yearbook 2013, National Bureau of Statistics of China

1 Commodity properties refer to properties that are developed by property development enterprises (including foreign enterprises) and granted with transferable land-use rights. Commodity properties can be sold or transferred freely in the market and comprise different types of properties from residential (excluding public houses, senior houses, low-rent housing or affordable housing), office, and retail to other uses such as industrial and ancillary services such as car parking lots.

Property development enterprises are defined under the "Regulations on Administration of Development and Operation of Urban Property (城市房地產開發經營管理條例) enacted by the State Council and enforced on July 20, 1998 and amendments thereafter.

2 Other properties refer to commodity properties other than for residential, retail or office uses. Examples of other properties include industrial space for production use, storerooms, godowns/warehouses, gymnasia or stadia, nursery and kindergarten, and etc.

New Property Starts

Total GFA of new projects start increased at a CAGR of 14.4% from 1,025.5 million sq.m. in 2008 to 2,012.1 million sq.m. in 2013. Of this total figure, 72.5% of the new starts' GFA is dedicated towards residential properties, 3.4% towards offices, 12.9% towards retail properties and 11.2% for other properties.

The table below sets out the GFA under construction in China through this period:

Total GFA of Properties under Construction (unit: million sq.m.)

	2008	2009	2010	2011	2012	2013	CAGR
Commodity Properties	1,025.5	1,164.2	1,636.5	1,912.4	1,773.3	2,012.1	14.4%
Residential Properties	836.4	933.0	1,293.6	1,471.6	1,307.0	1,458.5	11.8%
Office Properties	24.7	28.6	36.7	54.0	59.9	68.9	22.7%
Retail Properties	100.4	124.2	174.7	207.3	220.1	259.0	20.9%
Other Properties	64.0	78.5	131.5	179.4	186.4	225.7	28.7%

Source: China Statistical Yearbook 2013, National Bureau of Statistics of China

Supply of New Properties

Since 2008, total GFA of properties completed has grown at a CAGR of 8.8%, reaching 1,014.4 million sq.m. in 2013. Of the new properties completed in 2013, 77.6% of the new GFA was dedicated towards residential properties, 2.7% to offices, and 10.7% to retail properties.

The table below sets out the GFA of properties completed in China through this period:

Total GFA of Properties Completed in China (unit: million sq.m.)

	2008	2009	2010	2011	2012	2013	CAGR
Commodity Properties	665.4	726.8	787.4	926.2	994.3	1,014.4	8.8%
Residential Properties	543.3	596.3	634.4	743.2	790.4	787.4	7.7%
Office Properties	18.2	16.5	18.2	22.7	23.2	27.9	8.9%
Retail Properties	64.1	68.2	82.8	94.7	102.3	108.5	11.1%
Other Properties	39.8	45.7	52.0	65.6	78.4	90.5	17.9%

Source: China Statistical Yearbook 2013, National Bureau of Statistics of China

Properties Sold

From 2008 to 2013, sales of commodity properties grew at a CAGR of 14.6%, with a total GFA of 1.3 billion sq.m. being sold in 2013. Of this total, 88.6% of the transacted space was residential properties, while office, retail and other properties made up only 2.2%, 6.5%, and 2.7% respectively.

The table below sets out the GFA sold in China through this period:

Total GFA of Properties Sold in China (unit: million sq.m.)

	2008	2009	2010	2011	2012	2013	CAGR
Commodity Properties	659.7	947.6	1,047.6	1,093.5	1,113.0	1,305.5	14.6%
Residential Properties	592.8	861.8	933.8	965.3	984.7	1,157.2	14.3%
Office Properties	11.6	15.4	18.9	20.0	22.5	28.8	20.0%
Retail Properties	42.1	53.3	69.9	78.7	77.6	84.7	15.0%
Other Properties	13.3	17.0	25.0	29.6	28.2	34.8	21.3%

Source: China Statistical Yearbook 2013, National Bureau of Statistics of China

Average Selling Prices

From 2008 to 2013, average sale price for commodity properties increased at a CAGR of 10.4% to RMB6,239 per sq.m. in 2013. Amongst various real estate sectors, retail property market registered the most rapid growth in sale price at a CAGR of 10.7% during this period.

The table below sets out the average selling price of properties sold in China through this period:

Average selling price of Properties (unit: RMB per sq.m.)

	2008	2009	2010	2011	2012	2013	CAGR
Commodity Properties	3,800	4,681	5,032	5,357	5,791	6,239	10.4%
Residential Properties	3,576	4,459	4,725	4,993	5,430	5,850	10.3%
Office Properties	8,378	10,608	11,406	12,327	12,303	12,997	9.2%
Retail Properties	5,886	6,871	7,747	8,488	9,022	9,777	10.7%
Other Properties	3,219	3,671	4,099	4,182	4,307	4,951	9.0%

Source: China Statistical Yearbook 2013, National Bureau of Statistics of China

Performance of PRC Real Estate Market for the First Six Months of 2014

Real estate markets in China slowed during the first six months of 2014. During the first quarter of 2014, total contracted residential property sales declined 7.7% year-on-year[3]. The weakened sales continued into the second quarter of 2014, as residential property sales dropped 9.2% compared to the corresponding first six months of 2013. Overall property sales also declined 6.7% year-on-year in 1H 2014 to approximately RMB3.1 trillion. The overall sales decline was partly due to the strong sales recorded during the previous comparable period in 2013, when contracted sales rebounded strongly after a down cycle during late 2011 and 2012. The overall sales was also affected by tightening bank liquidity and weakened market sentiment towards the China property market, after news of price cuts in certain cities as well as an expectation of weaker economic growth. Despite the weakened market environment, retail properties continued to perform strongly with increased recorded sales in terms of both area and revenue of 7.7% and 9.8% respectively, reaching 33.7 million sq.m. and RMB337.3 billion respectively by the end of the first half of 2014.

Average selling price (ASP) of properties recorded a moderate decline while prices remained at a high level during 1H 2014. ASP of residential properties dropped 1.5% year-on-year to RMB6,033 per sq.m., whereas ASP of office properties dropped 9.6% to RMB12,211 per sq.m. during the same period, reflective of the economic slowdown in the office sector. ASP of retail properties however recorded a mild increase of 2.0% year-on-year to RMB10,221 per sq.m. in 1H 2014.

The table below sets out the key statistics of China's properties market in the first half of 2014 as compared with the first half of 2013:

	For the First Six Months of 2014	For the First Six Months of 2013	Year-on-year Change *(%)*
Real Estate Investment (REI)			
Total Investment in Real Estate (RMB billion)	4,201.9	3,682.8	14.1%
Investment in Residential Properties (RMB billion)	2,868.9	2,522.7	13.7%
Investment in Office Properties (RMB billion)	239.4	201.1	19.0%
Investment in Retail Properties (RMB billion)	617.2	501.0	23.2%

3 *Source: National Bureau of Statistics of China*

	For the First Six Months of 2014	For the First Six Months of 2013	Year-on-year Change *(%)*
GFA of Properties Under Construction (Million. sq.m.)			
Total GFA of Properties Under Construction	6,114.1	5,494.1	11.3%
Total GFA of Residential Properties Under Construction	4,372.0	4,035.2	8.3%
Total GFA of Office Properties Under Construction	247.4	200.6	23.3%
Total GFA of Retail Properties Under Construction	774.5	653.4	18.5%
GFA of Properties Newly Commences (Million sq.m.)			
Total GFA of Properties Newly Commences	801.3	959.0	-16.4%
Total GFA of Residential Properties Newly Commences	566.7	706.3	-19.8%
Total GFA of Office Properties Newly Commences	31.0	30.0	3.2%
Total GFA of Retail Properties Newly Commences	107.3	117.8	-8.9%
GFA of Properties Completed (Million sq.m.)			
Total GFA of Properties Completed	382.2	353.5	8.1%
Total GFA of Residential Properties Completed	291.7	274.3	6.3%
Total GFA of Office Properties Completed	9.8	8.6	14.0%
Total GFA of Retail Properties Completed	43.5	40.6	7.2%
GFA of Properties Sold (Million sq.m.)			
Total GFA of Properties Sold	483.7	514.3	-6.0%
Total GFA of Residential Properties Sold	424.9	460.9	-7.8%
Total GFA of Office Properties Sold	10.9	11.2	-2.8%
Total GFA of Retail Properties Sold	33.0	30.7	7.7%
Contracted Sales of Properties (RMB billion)			
Contracted sales of commodity properties	3,113.3	3,337.6	-6.7%
Contracted sales of residential properties	2,563.2	2,821.5	-9.2%
Contracted sales of office properties	133.1	151.4	-12.1%
Contracted sales of retail properties	337.3	307.2	9.8%
Average Selling Price (ASP)			
ASP of Commodity Properties (RMB/sq.m.)	6,437	6,489	-0.8%
ASP of Residential Properties (RMB/sq.m.)	6,033	6,122	-1.5%
ASP of Office Properties (RMB/sq.m.)	12,211	13,506	-9.6%
ASP of Retail Properties (RMB/sq.m.)	10,221	10,020	2.0%

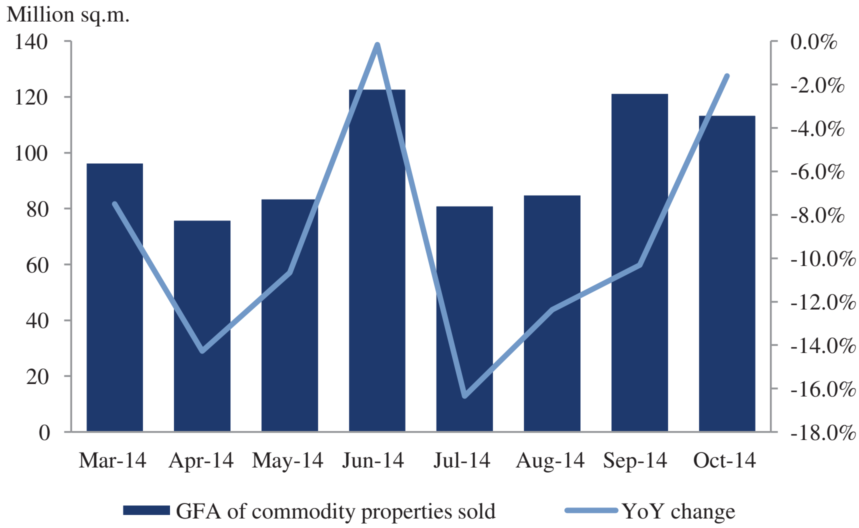
Source: National Bureau of Statistics of China

Key Trends and Recent Developments of the Property Market in the PRC

By the end of Q3 2014, with the exception of Beijing, Shanghai, Guangzhou, Shenzhen, and Sanya, all cities had relaxed or lifted the Home Purchase Restrictions (HPR) to release demand.

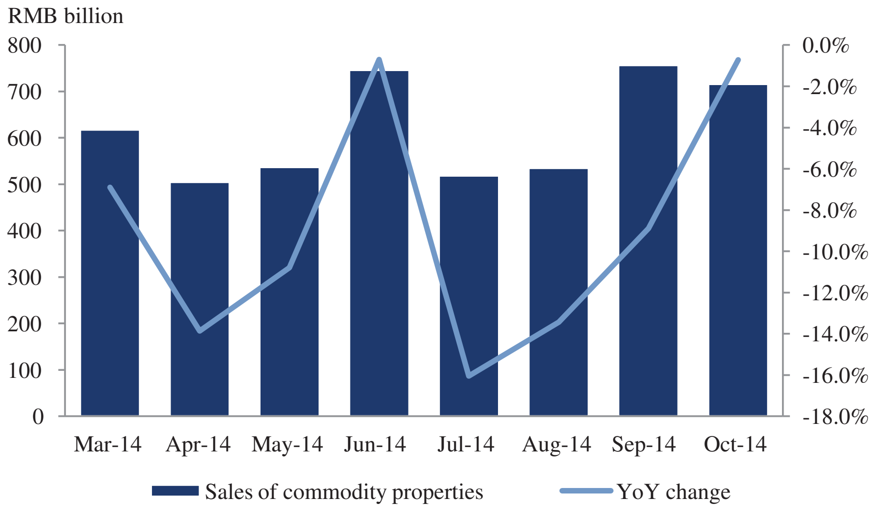
On 30 September 2014, PBOC and CBRC jointly issued a notice that they would support housing market-related financing by easing mortgage lending. According to the notice, homebuyers with one property unit but no mortgage outstanding will be viewed as first-time buyers and thus enjoy 70% loan-to-value, from 30-40% previously. Furthermore, on 26 November 2014, PBOC announced to cut 1-year deposit and loan benchmark rates by 25bp/40bp to 2.75% and 5.6%, respectively. These easing measures will likely lower the borrowing costs of either home purchasers or property developers.

Sales of commodity properties have rebounded since September 2014. The chart below sets out the GFA of commodity properties sold as well as the year-on-year change in each month of 2014.



Source: National Bureau of Statistics of China

The chart below sets out the sales of commodity properties as well as the year-on-year change in each month of 2014.



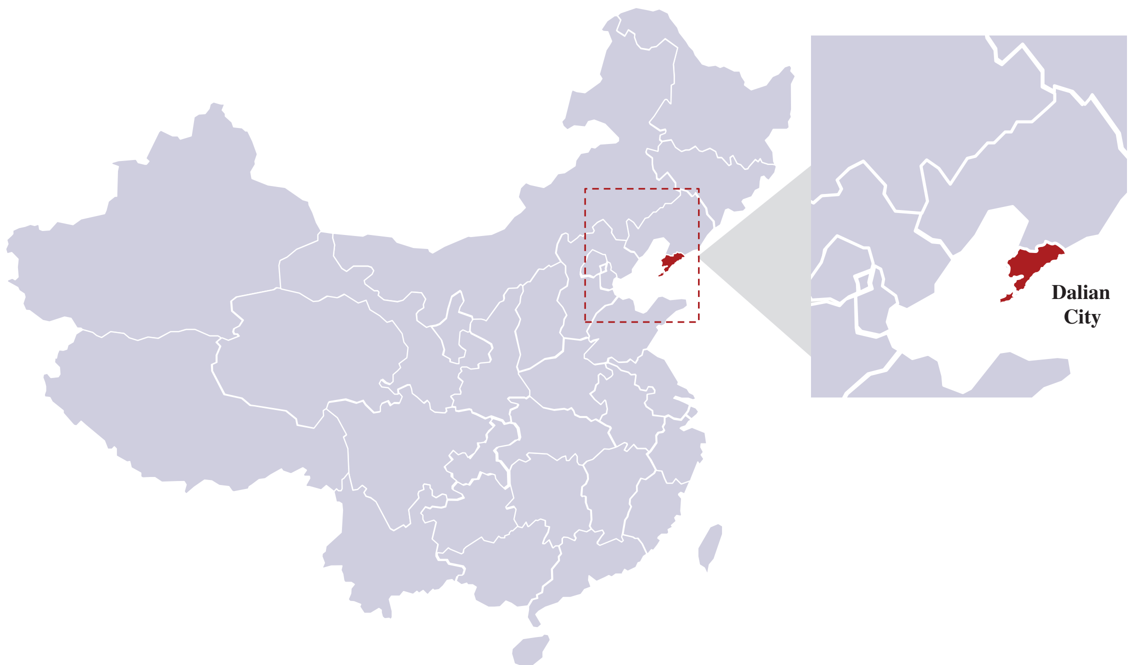
Source: National Bureau of Statistics of China

OVERVIEW OF TARGET CITIES

Dalian City

Overview of Dalian

Situated on the east coast of the Eurasia Continent and southernmost of Liaodong Peninsula, Dalian is the second largest city of Liaoning Province. Today, Dalian has become a shipping and logistics gateway for Northwestern, northern and Eastern China as well as Northeast Asia, and also an important financial center in the region.



From 2006 through 2013, Dalian has achieved high GDP growth as well as GDP per capita growth, with the nominal GDP tripled from 2006 to 2013.

The table below sets out selected major economic indicators of Dalian between 2006 and 2013:

	Unit	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Nominal GDP	RMB bn	257	313	386	435	516	615	700	765	16.9%
Real GDP growth	%	16.5	17.4	16.5	15.0	15.2	13.5	10.3	9.0	N/A
Population	thousand	5,721	5,782	5,834	5,848	5,864	5,885	5,903	5,914	0.5%
GDP per capita	RMB	44,918	54,146	66,137	74,376	87,957	104,507	118,632	129,368	16.3%

Source: CEIC

Property market in Dalian

The property market in Dalian has grown fast over the recent years. Total GFA of properties completed grew from 5.38 million sq.m. in 2006 to 10.47 million sq.m. in 2013, representing a CAGR of 10.0%; average selling price of properties grew from RMB4,525 per sq.m. in 2006 to RMB8,263 per sq.m. in 2013, representing a CAGR of 9.0%.

The table below sets out selected property market indicators of Dalian between 2006 and 2013:

	Unit	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
GFA of properties completed	1,000 sq.m.	5,378	4,283	7,556	5,497	5,710	9,429	7,500	10,466	10.0%
GFA of residential properties completed	1,000 sq.m.	4,124	3,563	6,364	4,721	4,613	7,977	5,881	8,507	10.9%
GFA of properties sold	1,000 sq.m.	6,288	8,282	8,227	11,527	12,153	9,099	10,764	12,221	10.0%
GFA of residential properties sold	1,000 sq.m.	5,702	7,839	7,708	10,934	11,267	8,334	9,669	11,040	9.9%
Sales of properties	mm RMB	28,454	46,114	47,505	72,032	85,604	73,266	86,147	100,987	19.8%
Sales of residential properties	mm RMB	24,270	42,467	43,298	67,513	76,155	66,082	73,329	86,767	20.0%
Average selling price of properties	RMB/sq.m.	4,525	5,568	5,774	6,249	7,044	8,052	8,004	8,263	9.0%
Average selling price of residential properties	RMB/sq.m.	4,256	5,417	5,617	6,175	6,759	7,929	7,584	7,859	9.2%

Source: CEIC

Shahekou District

Shahekou is one of the downtown districts in Dalian and has convenient public transportation access. As of 2010, Shahekou District has permanent population of 652,775 and ordinary resident population of 693,140. Shahekou District's economy mainly consists of secondary and tertiary industries; the Xing Hai Wan financial and commerce district in Shahekou District, with five plazas under construction for finance, insurance, securities, trust, and petroleum companies, lays a solid foundation for the fast development of modern services industry and cultivates tourism, information and intermediaries industries for the District. There are also a total of 14 famous universities and research academies in the District including Dalian University of Technology.

Chongqing City

Overview of Chongqing

Situated in the transitional area between the Yangtze River and its tributary Jialing River, Chongqing city covers a total land area of 82,400 square kilometers with a total population of 29.7 million in 2013. By permanent population, Chongqing is the 3rd largest city in China, after Shanghai and Beijing. Chongqing is one of the four direct-controlled municipalities (the other three being Beijing, Shanghai and Tianjin) of China, and also the only one in western region of China.

The economy of Chongqing has been growing very rapidly in recent years, due to the overall economic performance in China as well as the nation's Western Development strategy. From 2006 through 2013, Chongqing achieved double digit GDP growth every year.

The table below sets out selected major economic indicators of Chongqing between 2006 and 2013:

	Unit	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
Nominal GDP	RMB bn	391	468	579	653	793	1,001	1,141	1,266	18.3%
Real GDP growth	%	12.4	15.9	14.5	14.9	17.1	16.4	13.6	12.3	N/A
Population	thousand	28,080	28,160	28,390	28,590	28,846	29,190	29,450	29,700	0.8%
GDP per capita	RMB	13,915	16,606	20,407	22,840	27,475	34,297	38,742	42,615	17.3%

Source: CEIC

Property market in Chongqing

Fast urbanisation and rapid economic development have boosted the property market of Chongqing in recent years. From 2006 to 2013, total sales of properties in Chongqing and total sales of residential properties in Chongqing grew at a CAGR of 26.9% and 27.4%, respectively. The CAGR of average selling price of properties and average selling price of residential properties during the same period were 13.7% and 14.1%, respectively.

The table below sets out selected property market indicators of Chongqing between 2006 and 2013:

	Unit	2006	2007	2008	2009	2010	2011	2012	2013	CAGR
GFA of properties completed	1,000 sq.m.	22,248	22,531	23,679	29,070	26,266	34,243	39,906	38,044	8.0%
GFA of residential properties completed	1,000 sq.m.	17,000	17,692	19,513	23,845	21,798	28,268	33,864	28,675	7.8%
GFA of properties sold	1,000 sq.m.	22,285	35,529	28,722	40,029	43,144	45,335	45,224	48,176	11.6%
GFA of residential properties sold	1,000 sq.m.	20,117	33,101	26,699	37,712	39,863	40,634	41,051	43,592	11.7%
Sales of properties	mm RMB	50,569	96,731	80,000	137,776	184,694	214,609	229,735	268,276	26.9%
Sales of residential properties	mm RMB	41,870	85,673	70,482	123,171	161,064	182,541	197,242	228,357	27.4%
Average selling price of properties	RMB/sq.m.	2,269	2,723	2,785	3,442	4,281	4,734	5,080	5,569	13.7%
Average selling price of residential properties	RMB/sq.m.	2,081	2,588	2,640	3,266	4,040	4,492	4,805	5,239	14.1%

Source: CEIC

Chongqing Liang Jiang New Area

Established on June 18, 2010, Liangjiang New Area is the only development and opening zone at the national level in inland China, as well as the third development and opening zone at the national level approved by the State Council, after Shanghai Pudong New Area and Tianjin Binhai New Area. Situated in the main urban area of Chongqing, north of the Yangtze River, and east of Jialing River, Liangjiang New Area covers a planned area of 1,200 square kilometers, including 550 square kilometers for development. It includes three administrative districts: Jiangbei, Yubei and Beibei and the northward new district, and possesses the only inland free trade port area, the largest convention center and the largest financial and commerce area in Western China.

Liangjiang New Area was granted five functions by the State Council: a pilot region of coordination of the urban-rural comprehensive reform; a foundation for important advanced manufacturing industries and modern service industry in the inland; the financial and innovative center upstream of the Yangtze River; an important opening-up area of the inland; and a standard area for scientific development. According to the planning, by 2020, Liangjiang New Area will become an area with modern functions, high-end technologies, clustered headquarters, well ecologically livability, worldwide influences and role model effects of inland opening, and reach GDP of RMB640 billion.

You should carefully consider the following risk factors together with all other information contained in this circular in considering the Acquisition. If any of the possible events described below occurs, the business, financial condition, results of operations and prospects of the Enlarged Group could be materially and adversely affected. The risks and uncertainties described below may not be the only ones that are faced by the Enlarged Group. Additional risks and uncertainties that the Company is not aware of or that the Company currently believes are immaterial may also adversely affect the Enlarged Group's business, financial condition, results of operations and prospects.

RISKS RELATING TO THE ACQUISITION

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

A number of the conditions precedent to Completion as set out in the section headed "Letter from the Board – Conditions precedent" in this circular involve the decisions of third parties, including approvals by the Shareholders at the SGM. As fulfilment of these conditions precedent are not within the control of the parties involved in the Acquisition, there is no assurance that they can be fulfilled and/or the Acquisition will be completed as contemplated.

RISKS RELATING TO THE BUSINESS OF THE TARGET GROUP

The Target Group may not be able to effectively implement its business strategies in respect of its Chongqing project

The development of the Chongqing project is still at an early development stage. The development typically requires substantial capital investment and the progress can be adversely affected by many factors, including, but not limited to:

- shortages of construction and building materials, equipment, contractors or skilled labour;
- construction accidents;
- natural catastrophes;
- adverse weather conditions; and
- delay or failure in obtaining all necessary governmental and regulatory licences, permits, approvals and authorizations.

Consequently, any delay in completion or change in the business environment during the development period of the Chongqing project may affect the time and cost involved in the development, including the cost of financing. Uncertainties as to market demand or a loss of interest from consumers during the development period may also affect the profitability of the project.

There can be no assurance that the Chongqing project will be completed within the anticipated timeframe or budget, or at all, for any reason. The Target Group cannot assure you that this project will generate profit or positive cash flows at the levels originally planned.

The Target Group relied on borrowings from CATIC during the Relevant Periods and Hangfa Investment and such financial assistance may not be available in the future

Property development is capital intensive. During the Relevant Periods, the Target Group has relied on loans from CATIC and Hangfa Investment to finance its property projects.

The Target Group has been benefiting from loans and advances provided by CATIC and Hangfa Investment. As at 31 December 2011, 2012, 2013 and 31 July 2014, the aggregate amount owed by the Target Group to CATIC was HK$155,359,800 HK$387,545,000, HK$868,324,800 and HK$867,955,200, respectively and the aggregate amount owed by the Target Group to Hangfa Investment was nil, HK$2,450,084,952, HK$2,995,147,476 and HK$2,433,431,136, respectively. Please see the section headed "Financial Information of the Target Group – Indebtedness" in this circular for more details.

There is no assurance that CATIC and Hangfa Investment will continue to provide loans to the Enlarged Group in the future, or that the Enlarged Group will be able to obtain financings from third parties on terms comparable to those offered by CATIC and Hangfa Investment. In the event that the Target Group is not able to receive the financial assistance from CATIC and Hangfa Investment it has used to rely on in the future, there may be material adverse effect on the business, operations and financial conditions of the Enlarged Group.

The Target Group relied on loans and borrowings from financial institutions and the Enlarged Group's financing costs may increase due to increase in interest rates

During the Relevant Periods, the Target Group had relied on loans and borrowings from financial institutions. As at 31 December 2011, 2012, 2013 and 31 July 2014, the aggregate amounts of outstanding bank borrowings from financial institutions amounted to approximately nil, nil, HK$89,649,000, and HK$752,786,476, respectively.

In addition, the Target Group has substantial interest obligations for its borrowings. For each of the years ended 31 December 2011, 2012 and 2013, and for the seven months ended 31 July 2014, the Target Group's finance costs, which consisted primarily of interest costs on bank borrowings and loans, including the interest capitalised under property development projects amounted to approximately HK$1,647,944, HK$253,318,848, HK$380,133,222 and HK$224,507,417, respectively. Any increase in interest rates on the Enlarged Group's bank borrowings, including an increase in interest rates by the PBOC, may have a material adverse effect on its financial condition and results of operations. Please refer to the section headed "Financial Information of the Target Group – Qualitative and quantitative disclosure about market risk – Interest rate risk" in this circular for an interest rate sensitivity analysis.

There is no assurance that the Enlarged Group will be able to obtain bank loans or renew existing credit facilities in the future on acceptable terms or at all. The Enlarged Group's ability to do so will depend on a number of factors, many of which are beyond its control. For instance, the PRC property market has experienced significant volatility in recent years as a result of the recent deterioration in the PRC's economic growth and credit environment. Similarly, the global economic and financial crisis has reduced the general demand for properties, including those in the PRC, and as a consequence the banks and other financial institutions have become less willing to make credit available to companies in the property development industry. If the Enlarged Group is not able to raise new financing or refinance its existing borrowings at maturity on commercially acceptable terms or at all, its liquidity will be adversely affected and, as a result, its results of operations, financial condition and business prospects may be adversely affected.

In addition, the PRC government had in the past implemented a number of policy initiatives in the financial sector to further tighten lending requirements both generally and specifically in relation to property developers. There is no assurance that the PRC government will not introduce further initiatives which may limit the Enlarged Group's access to bank financing. The terms of the Enlarged Group's existing facilities may contain covenants which restrict the Enlarged Group's ability to secure new borrowings. The foregoing and other initiatives introduced by the PRC government may limit the Enlarged Group's flexibility and ability to use bank loans or other forms of financing to fund its land acquisitions or property developments and therefore may require the Enlarged Group to rely on internally sourced funds or equity financing.

The Enlarged Group's business and results of operations could be adversely affected if it does not have sufficient cash flow to service its capital commitments and current and non-current liabilities

The property development business is capital intensive, and typically requires substantial capital contribution for land acquisition and property development. The Target Group had capital commitments for property development expenditure and deposit for acquisition of land (contracted, but not provided for) of HK$550,793,609 and HK$466,565,400, respectively as of 31 July 2014.

The Enlarged Group's ability to repay the principal and interest on its borrowings and to service its capital commitments and current and non-current liabilities depends substantially on the cash flow and results of operations of its operating subsidiaries, which depend in part upon the social, political, economic, legal and other risks described herein, most of which are beyond its control. There is no assurance that the Enlarged Group will be able to achieve or maintain a net cash inflow from its operating activities in a sufficient amount or at all in the future. Any decline or under-performance of the Enlarged Group's pre-sale or sale activities and any other matter adversely impacting the net cash inflow of the Enlarged Group could significantly affect its cash flow position. The Enlarged Group may have difficulty in securing additional financing, and its working capital for the purpose of its business operations and expansions may be insufficient. There can be no assurance that the Enlarged Group will always be able to raise the necessary funding to finance its current liabilities and capital commitments.

The level of the Enlarged Group's indebtedness could also have an adverse effect on its operations. For instance, it may have to dedicate a large portion of its cash flow from operations to fund repayments of its debts, thereby reducing the availability of its cash flow to expand its business and limiting its flexibility in planning for, or reacting to, changes in its business or economic conditions. Any of the above factors and circumstances will adversely affect the Enlarged Group's business and results of operations.

The appraised value of the properties in the valuation reports may be different from the actual realisable value and is subject to change

The valuations of the Target Group's properties contained in the property valuation report set out in Appendix IV to this circular are prepared based on various valuation methodologies, bases and assumptions with reference to different property categorisations, natures, types, usages and development status. Please refer to the sections headed "Property Valuation of the Target Group – Basis of valuation and assumption" and "– Approach to value" set out in Appendix IV to this circular for further details of the valuation methodologies adopted by the independent property valuer.

Furthermore, the valuations of the Target Group's properties are based upon certain assumptions, which, by their nature, are subjective and uncertain, and may not be realised. Unless otherwise stated in this circular, such assumptions include:

1. each of Dalian Hanghua and Chongqing Hanglong has free and unencumbered rights to assign its relevant property interests for the whole of the unexpired terms as granted, and any premium payable have already been fully paid;

2. each of Dalian Hanghua and Chongqing Hanglong sells its relevant property interests in the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to increase the value of the property interest;

3. each of Dalian Hanghua and Chongqing Hanglong has absolute title to its relevant property interest;

4. each of Dalian Hanghua and Chongqing Hanglong has obtained the relevant government approvals for the sale of the relevant properties and is able to dispose of and transfer the properties free from all encumbrances (including but not limited to the cost of transaction) in the market; and

5. the properties can be freely disposed of and transferred free from all encumbrances as at 31 October 2014 for its existing use in the market to both local and overseas purchasers without payment of any premium to the government.

Further, unforeseen changes to property development projects as well as national and local economic conditions may affect the value of the Target Group's properties. In particular, the appraised value of these properties could remain stable or decrease in the event that the market for comparable properties experiences a downturn in the PRC, for example, as a result of the adoption and application of PRC government policies aimed at "cooling-off" the PRC property market or as a result of any global market fluctuations or economic downturn, or otherwise.

These valuations are not predictions of the actual value of the properties of the Target Group and may deviate from values that could be realised in a public market transaction as at the valuation date. Therefore, the appraised value of the properties may be different from their actual realisable value or a forecast of their realisable value.

The Target Group may be subject to potential risks because third party contractors may not always meet quality standards or provide services in a timely manner

The Target Group typically engages external qualified architectural and design firms, construction contractors, real estate agents, and suppliers to provide it with design and interior decoration, construction, sales, and related services.

There is no assurance that the services rendered or materials supplied by external contractors and suppliers will always be satisfactory or meet the quality requirements of the Enlarged Group. In the event that the performance of the external contractors and suppliers falls short of the required standard, or the external contractors encounter financial, operational or managerial difficulties or disputes, the construction progress, sales or operation of the Target Group's property developments may be disrupted or delayed. The Target Group may incur additional costs in respect of remedial action, such as the replacement of such contractors or suppliers, as well as potential damage to reputation and additional financial losses as a result of delay in completion. Any of the above factors could have a material adverse effect on the business, financial condition and results of operations of the Enlarged Group.

Increases in construction and development costs may have an adverse impact on the Enlarged Group's results of operations

The Enlarged Group's ability to derive profits from its property projects depends on how well it can control the relevant construction and development costs. Construction costs in the PRC are generally increasing as contractors face rising materials and labour costs even though the PRC government has tried to control the increase in labour cost on a macro-level. To ensure that it obtains the best price (i.e. the price with the best performance ratio among all the bidding contractors whose qualifications and bidding plans are satisfactory to the Enlarged Group) from its contractors, the Target Group typically holds competitive tenders for its projects. However, the Target Group does not always award contracts to the contractor with the lowest tender price as there are a number of other factors which must be taken into account, including the contractor's relevant skills and expertise as well as the design and deadline demands of the relevant project.

There is no assurance that the Enlarged Group would be able to get the best prices from its contractors. Further, there is no assurance that the actual construction costs incurred for a project will not exceed the initial estimate of the Enlarged Group. If the costs of labour or construction materials increase significantly, and the Enlarged Group cannot offset such increase by reducing other costs or is unable to pass on such increase to the buyers of its properties, the Enlarged Group's business, results of operations and financial position may be materially and adversely affected.

The Enlarged Group may face delay in completing its property development projects

Property development projects require substantial capital expenditures prior to completion and these projects typically take a long time to complete. The progress for a development project can be adversely affected by many factors, including:

- delays in obtaining necessary licences, permits or approvals from government agencies or authorities;
- relocation of existing residents and/or demolishment of existing structures;
- shortages of materials, equipment, contractors and skilled labour;
- labour disputes;
- construction accidents;
- natural catastrophes; and
- adverse weather conditions.

Any delays in progress for a development project will affect its costs and any delays or failure to complete the construction of a project according to its planned specifications, schedule or budget may affect the business, financial condition and results of operations of the Enlarged Group and may also cause damage to its reputation. In addition, if a pre-sold property development is not completed on time, the purchaser may be entitled to compensation for late delivery.

There is no assurance that the Enlarged Group will not experience any other delays in completion or delivery of property development projects or that it will not be subject to any liabilities for any such delays in the future. Any delay in completion of the property development projects of the Enlarged Group will have a material adverse impact on its reputation and its business, financial condition and results of operations.

The PRC government may impose sanctions and/or rectification order on the Enlarged Group if it has any project which is not developed in compliance with the conditions of the relevant construction works planning permit and/or applicable PRC laws

Under the PRC laws and regulations, if a property developer fails to develop a site in accordance with the construction works planning permit, including without limitation the situation where the actual GFA of a project constructed exceeds the GFA stipulated in the planning permit, the relevant government authorities may order a halt in the construction works. If measures for rectification can be adopted to eliminate the impact on the implementation of the plan, the development will be ordered to make rectification within a time limit and be fined not less than 5% but not more than 10% of the construction cost of the project; or, it may be ordered to demolish the relevant project within a time limit. If the relevant project cannot be demolished, the properties or the revenue generated therefrom will be confiscated, and it may, in addition, be fined not more than 10% of the construction cost of the relevant project.

If any project company of the Enlarged Group fails to comply with any conditions of the construction works planning permit and/or applicable PRC laws, the Enlarged Group will be subject to the above sanctions and consequences. Any demolition of any part of any property project of the Enlarged Group by the PRC government, any confiscation of any revenue and/or profits arising therefrom, any requirement for the Enlarged Group to pay penalties or revocation of the certificate of approval or business licence of any of the members of the Enlarged Group may adversely affect its business, results of operations or financial condition.

The Target Group may be exposed to certain risks that are not covered by its insurance

The Target Group will maintain insurance policies where practicable covering both its assets and employees in line with general practice in the real estate industry, with policy specifications and insured limits which it believes are reasonable. However, in certain cases it may be difficult to obtain adequate insurance coverage at all or at commercially acceptable rates. Certain types of losses, such as those resulting from wars, earthquakes or other acts of God, are generally not insured as a matter of industry practice.

There is no assurance that adequate insurance coverage against risks of the Target Group's projects and properties will be available in the future on commercially reasonable terms or at commercially competitive rates. Should an uninsured loss or a loss in excess of insured limits occur or should the Target Group's insurers fail to fulfil their obligations in relation to the sum insured, the Target Group could suffer loss, including loss of rent or future revenue, and/or may be required to pay compensation to third parties. The Target Group may also be liable for any debt or other financial obligation related to the relevant property or to third parties. Any such loss could adversely affect the Target Group's business, financial condition, results of operations and prospects.

The Target Group may be involved in potential legal and other proceedings arising out of its operations from time to time and may face significant liabilities as a result

As with other property developers, the Target Group is occasionally subject to legal or arbitration proceedings in its ordinary course of business as a property developer in the PRC. In the event of an unfavourable ruling in these proceedings, the Target Group may be liable for a substantial amount of damages, suffer loss of revenue or face other potential adverse consequences. It is also possible that the Target Group may be ordered to stop the development or sale of a particular project. In such cases, the Target Group would not be able to recover any costs or expenses already incurred in relation to such project, and will lose the revenue of the sale of such project.

In addition, any involvement in disputes would result in a diversion of resources and management's attention, regardless of their outcome. Further, the Target Group may have disagreements with the PRC regulatory bodies in the course of its operations, which may subject it to administrative proceedings and unfavourable decisions that result in penalties and/or delay in its property development schedule. If any such event occurs, the business, financial condition and results of operations of the Enlarged Group could be materially and adversely affected.

The Enlarged Group may not be able to obtain building ownership certificates for properties which are under construction

For properties that are developed for sale, a property developer must obtain building ownership certificates at a certain point of time when the relevant properties are under construction in accordance with PRC laws and regulations. If the Target Group fails to obtain building ownership certificates for its development projects, it may not be able to sell the relevant building or property, which could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and prospects.

RISKS RELATING TO PROPERTY DEVELOPMENT IN THE PRC

The Target Group is principally dependent on the performance of the real estate markets in the PRC, and the recent deterioration of the PRC's economic growth and the global financial crisis may affect the Target Group's business

As all of its projects and property developments are located in the PRC, the Target Group's property development business will be significantly affected by the state of the PRC real estate market.

The PRC property market has experienced significant volatility in recent years as a result of market conditions and fluctuations in property sales volumes and prices, especially as a result of the recent deterioration in the PRC's economic growth and the PRC credit environment and the global economic and financial crisis, which have reduced the general demand for the properties sold in the PRC. In particular, during an economic downturn or market slowdown, purchasers or potential purchasers of property tend to become more prudent and may even reverse or defer their decisions to purchase property.

The Target Group will also continue to generate substantial revenue from its leasing of commercial properties in the PRC, the demand for which is often affected by volatility in market conditions and fluctuation in property prices. If the Target Group does not respond to changes in market conditions and tenants' preferences in a timely and adequate manner, its business, financial condition and results of operations may be materially and adversely affected.

Furthermore, the PRC government may from time to time revise its fiscal and monetary policies to adjust the growth rate of the PRC national and local economies, and such policy changes may affect the real estate market in the relevant regions. There can be no assurance that the Target Group's property development or its sales, leasing and management activities will be maintained at the levels the Target Group had achieved in the past.

The Enlarged Group faces intense competition from other real estate developers

In recent years, a large number of property developers, including a number of leading PRC, Hong Kong and other overseas developers, have begun undertaking property development and investment projects primarily in the first and second-tier cities in the PRC. Some of these developers may have better track records, greater financial, land and other resources, wider brand recognition and greater economies of scale than the Enlarged Group. In the past, the PRC government has introduced various policies and measures in order to limit excessive growth and to curb speculation in the property development sector, which has further increased competition for land among property developers.

Competition among property developers may result in an increase in land acquisition costs and construction costs, an oversupply of properties, a decrease in rental and property prices in certain regions of the PRC, an inability to lease or sell such properties, a slowdown in the rate at which new property developments are reviewed or approved by the relevant PRC government authorities and an increase in administrative costs of hiring or retaining qualified personnel. In particular, competitors of the Enlarged Group may reduce the prices of their properties as a result of the prevailing economic or market conditions, which could result in increased pricing pressure on the Enlarged Group and further restrict the Enlarged Group's ability to generate revenue. Any of the above factors may adversely affect the Enlarged Group's business, financial position and results of operations.

The Target Group's business is subject to extensive PRC government policies, regulations and measures intended to discourage property speculation which may adversely affect the business of the Enlarged Group

The Target Group is subject to extensive government regulation in most aspects of its operations and is highly susceptible to changes in the regulatory environment in the PRC. If the Target Group fails to comply with the relevant laws and regulations, it could be subject to various regulatory or administrative penalties which could have a material adverse impact on the Target Group's business, results of operations and financial condition.

In the past, the PRC government has introduced several policies and measures intended to discourage speculation in the property market. These measures include, among other things, the following:

- tightening lending requirements for property developers;
- for commercial property buyers, (i) prohibiting banks from financing any purchase of pre-sold properties; (ii) increasing the minimum amount of down payment to 50% of the purchase price of the underlying property; (iii) increasing the minimum mortgage loan interest rate to 110% of the relevant PBOC benchmark lending interest rate; and (iv) limiting the terms of such bank loans to no more than ten years, although commercial banks are allowed flexibility based on their risk assessment;
- for buyers of commercial/residential dual-purpose properties, increasing the minimum amount of down payment to 45% of the purchase price of the underlying property;
- imposing a limitation on onward transfer of uncompleted properties;
- imposing an idle land fee for land which has not been developed for one year starting from the commencement date stipulated in the land use rights grant contract and cancellation of the land use rights for land left idle for two years or more;
- revoking approvals for projects which do not comply with planning permits;
- for residential property buyers (i) increasing the minimum amount of down payment of the purchase price of the residential property; (ii) increasing the minimum mortgage loan interest rate with respect to the relevant PBOC benchmark lending interest rate for second home buyers using mortgage loans; and (iii) declining loans for the purchase of (a) a third or subsequent residence and (b) local residences by non-local residents who are unable to provide certificates evidencing their payment of local taxes or social insurance for more than one year, which may make the Target Group's properties less affordable to its customers; and
- tightening control over commercial banks' loans to property developers in order to prevent these banks from granting excessive credit.

There can be no assurance that restrictive government policies and measures will not adversely affect the sale of units in the Target Group's developments. In addition, there can be no assurance that the PRC government will not introduce further policies and measures to regulate the rate of growth of the property market or to limit or even prohibit foreign investment in the PRC generally or in the property sector in particular. These existing policies and measures and any future policies and measures, or even rumours or threats of any new policies and measures could adversely affect the Target Group's business, results of operations and financial condition, such as by limiting the Target Group's access to capital, reducing consumer demand for the Target Group's properties and increasing operating costs. This may also lead to changes in market conditions, including price instability and imbalance between supply and demand in respect of office, residential, retail, entertainment and cultural properties, which may materially adversely affect the Target Group's business, financial condition and results of operations.

Changes in laws and regulations with respect to pre-sale of properties may adversely affect cash flow position and performance of the Enlarged Group

The Target Group depends on pre-sale of properties as an important capital resource for its property projects. Under current PRC laws and regulations, property developers must fulfil certain conditions before they can commence pre-sale of the relevant properties and may only use pre-sale proceeds to finance the development of such properties.

According to the Urban Real Property Law and the Administrative Measures governing the Pre-sale of Urban Real Estate, the following conditions must be fulfilled before the pre-sale of a particular property can commence:

- the land premium must be paid in full and the land use rights certificate must have been obtained;

- the construction work planning permit and the work commencement permit must have been obtained;

- the funds contributed to the development of the project shall amount to at least 25% of the total amount to be invested in the project, the standard of process of project image prescribed by local government must have been complied with and the project progress and the date of completion of the project for use must have been ascertained; and

- the pre-sale approval must have been obtained.

In August 2005, the PBOC in a report entitled "2004 Real Estate Financing Report" recommended discontinuing the practice of pre-selling unfinished properties because such practices, in the PBOC's opinion, had a tendency to create significant market risks. Although this and similar recommendations have not been adopted by the PRC government, there can be no assurance that the PRC government will not adopt such recommendations and ban the practice of pre-selling unfinished properties or implement further restrictions on the pre-sale practice, such as imposing additional conditions for obtaining a pre-sale permit or imposing further restrictions on the use of pre-sale proceeds. Any such measures could adversely affect the Enlarged Group's cash flow position and force it to seek alternative sources of funding for its property development business.

The Enlarged Group may not always be able to obtain sites that are suitable for property development

The Target Group will derive revenue principally from the sale of properties that it develops. This revenue stream depends on the completion of, and the Target Group's ability to sell, its property developments. To maintain or grow its business in the future, the Enlarged Group will need to acquire suitable development sites so as to replenish its land reserves. Its ability to identify and acquire suitable sites is subject to a number of factors, some of which are beyond its control.

The PRC government controls all new land supply in the PRC and regulates land sale in the secondary market. As a result, the policies of the PRC government towards land supply may adversely affect the ability of the Enlarged Group to acquire land use rights for sites it seeks to develop and could increase the costs of any acquisition. The business, financial condition and results of operations of the Enlarged Group may thus be adversely affected if it is unable to obtain or acquire suitable land sites for development at prices that allow the Enlarged Group to achieve reasonable returns upon the sale of developed properties to its customers.

The Target Group may face potential liability for environmental problems which could result in substantial costs

The Target Group is subject to a number of laws and regulations concerning environmental protection. The environmental laws and regulations that apply to any given project development site vary greatly according to the site's location, environmental condition and present and former uses, as well as the adjoining properties. Compliance or non-compliance with environmental laws and regulations may result in delays and/or the incurring of substantial costs and can severely restrict project development activities in environmentally sensitive areas.

The Target Group cannot assure you that its policies and procedures will be effective in preventing non-compliance with environmental laws and regulations. If any part of any of its development projects is found to be non-compliant with certain environmental laws or regulations, the Target Group may be subject to suspension of operations or a part of its operations as well as fines and other penalties, which may materially and adversely affect its business, financial condition and results of operations.

The Enlarged Group may be subject to stricter payment terms for land use rights with respect to land it acquires in the future as a result of any additional restrictive regulations promulgated by the PRC

Under the PRC regulations, property developers have to pay the relevant land grant fees in full according to the provisions of the relevant land use rights grant contract for all land parcels under the contract prior to receiving the land registration and land use rights certificates. As a result, property developers are not allowed to bid for a large piece of land, make partial payment, and then apply for land registration and a land use rights certificate for the corresponding portion of land in order to commence development, which had been the past practice in many Chinese cities.

In addition, property developers are required to provide a down payment of no less than 50% of the land grant fee and, generally, to pay the remaining balance in instalments within one year. Moreover, a land use rights grant contract shall be executed within ten business days of completing the public tenders, auctions and listing-for-sale process. All property developers who have defaulted on a land grant fee payment, left a land idle and unused, or were engaged in land speculation, or have otherwise defaulted on a land use rights grant contract are prohibited from acquiring land for a certain period. As a result, property developers, including the Target Group, are required to maintain a higher level of working capital and hence face restrictions when planning to expand their land reserve.

In addition, there is no assurance that the PRC government will not adopt any additional regulations to impose stricter payment terms for land acquisition by property developers. If this occurs, the Enlarged Group's business, financial condition or results of operations may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

As most of the Enlarged Group's operations are conducted in the PRC, any adverse change in China's political, economic and social conditions may have a material adverse effect on the Enlarged Group

The PRC government plays a significant role in regulating industries by imposing policies, including but not limited to the following areas:

- level of governmental involvement;
- level of development;
- growth rate;
- foreign exchange control; and
- allocation of resources.

It is uncertain whether changes in the PRC's political and social conditions, laws, regulations, policies and diplomatic relationships with other countries will have any adverse effect on the current or future business, results of operations or financial condition of the Enlarged Group.

The relevant PRC tax authorities may enforce the payment of land appreciation tax and may challenge the basis on which the Target Group calculates its respective land appreciation tax obligations

Under the PRC tax laws and regulations, properties developed for transfer are subject to land appreciation tax ("**LAT**"), which is payable to 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 ranging from 30% to 60% of the appreciation value as defined by the relevant tax laws. Pursuant to the Provisional Regulations of the PRC on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例》), the sale of ordinary standard residences is exempt from LAT if the appreciation derived from the sale does not exceed 20% of the sum of deductible items. Deductible items include acquisition costs of land use rights, development costs of the land, construction costs of new buildings and facilities or assessed value of used properties and buildings, taxes chargeable for or already imposed on the transfer of real estate and other deductible items as stipulated by the Ministry of Finance. Sales of commercial properties, however, are not eligible for such exemption. Pursuant to the Detailed Implementation Rules on the Provisional Regulations of the PRC on Land Appreciation Tax (《中華人民共和國土地增值稅暫行條例實施細則》), in respect of property developers, an additional 20% of deductible expenses may be deducted in the calculation of the land appreciation amount.

On 28 December 2006, the State Administration of Taxation issued the Notice on the Settlement Management of Land Appreciation Tax on Real Estate Enterprises (《關於房地產開發企業土地增值稅清算管理有關問題的通知》) with the intention of strengthening the collection of LAT. This notice, among other things, requires property developers to settle the final LAT payable in respect of development projects that meet any one of certain criteria, such as 85% of the development project having been pre-sold or sold. Local provincial tax authorities are authorised to formulate detailed implementation rules in accordance with this notice taking into account local conditions.

For the years ended 31 December 2011, 2012 and 2013 and the seven months ended 31 July 2014, the Target Group made prepayments for LAT in the amounts of nil, HK$62,195,000, HK$64,035,000 and HK$88,386,708, respectively. However, significant judgement may be required in determining the amount of land appreciation and its related income tax provisions, and the ultimate tax amount payable under the above laws and regulations is uncertain. In the event that more LAT is required to be paid by the Target Group, the cashflow and financial position of the Target Group will be adversely affected by such payment. Furthermore, in the event that the actual LAT to be paid (due to changes in local practices and interpretations of related regulations of local tax authorities) exceeds the amount that the Target Group has prepaid, the results of operations and financial position of the Enlarged Group will be adversely affected.

Changes to the PRC enterprise income tax law or its implementation could have a material adverse effect on the Enlarged Group, and dividends payable by us to our Shareholders may become subject to withholding taxes under the PRC tax law

Under the PRC enterprise income tax law ("**EIT Law**"), which came into effect on 1 January 2008, the exemption from withholding tax on dividends distributed by foreign-invested enterprises to their foreign investors under the previous tax law is no longer available. Foreign investors that are "non-resident enterprises" are subject to the PRC withholding tax at a rate 10%, to the extent any dividends distributed by PRC resident enterprises as well as any gain realized on the transfer of the shares or interests in PRC resident enterprises. According to the treaty between PRC and Hong Kong, such investors established in Hong Kong are subject to such tax at a rate of 5% under certain conditions.

In addition, the new tax law deems an enterprise established offshore but with "de facto management bodies" in the PRC as a "resident enterprise" which is subject to PRC enterprise income tax on its global income, excluding dividends, received from its PRC subsidiaries. Since some of the members of the Target Group's management team reside in the PRC, the non-PRC members of the Target Group may be considered PRC resident enterprises even though the Directors believe that the non-PRC members of the Target Group have real operations outside the PRC. If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, its global income, excluding dividends, received from its PRC subsidiaries, will be subject to the PRC enterprise income tax at a rate of 25%. There is no assurance that the relevant PRC tax authorities will not classify the Company as a resident enterprise under the EIT Law in the future.

The imposition of withholding tax on dividends payable from the PRC entities of the Target Group or the imposition of the PRC enterprise income tax on the Target Group's global income as a result of "resident enterprise" categorisation under the EIT Law may have a material adverse effect on the financial condition and results of operations of the Target Group.

In addition, based on the above, if the PRC tax authority classifies the Company as a resident enterprise, the Enlarged Group will be required under the EIT Law to withhold PRC income tax on its dividends payable to its "non-resident enterprise" Shareholders or such Shareholder will be required to pay the withholding tax on the transfer of our Share. The value of its investment in the Shares may be materially and adversely affected.

The Company is a holding company that relies on dividend payments from its subsidiaries for funding and dividends from its PRC subsidiaries which are subject to the PRC withholding tax

The PRC laws require dividends to be paid out of the net profit calculated according to the PRC accounting principles, which, in many aspects, differ from the generally accepted accounting principles in other jurisdictions, including the HKFRS. Foreign-invested enterprises, such as the Target Group's subsidiaries in China, are also required to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. Such dividends are also subject to the PRC withholding tax.

The Company is a holding company incorporated in Bermuda and, upon Completion, the operations of the Enlarged Group will be conducted through its subsidiaries, a number of which are incorporated in the PRC. Therefore, the availability of funds to pay dividends to the Shareholders and to service the Company's debts depends on dividends received from these subsidiaries. If the subsidiaries incur any debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to the Company. As a result, the Company's ability to pay dividends or other distributions and to service its debts will be restricted.

Government control of foreign currency conversion may materially and adversely affect the Enlarged Group and its ability to meet foreign exchange requirements

RMB is not a freely convertible currency. Upon Completion, most of the revenue of the Enlarged Group will be generated in the PRC and in RMB, and it will need to convert RMB into Hong Kong dollars and other foreign currencies for payment of dividends to the Shareholders and to service its debts. The exchange rates of the RMB against the Hong Kong dollar, the US dollar and other foreign currencies fluctuate and are affected by, among other things, the policies of the PRC government and changes in the PRC's and global political and economic conditions. There is significant international pressure on the PRC government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of RMB against the Hong Kong dollar, the US dollar or other foreign currencies. As the Enlarged Group needs to convert future financing into RMB for its operations, the continued appreciation of RMB against the relevant foreign currencies would reduce the RMB amount the Enlarged Group would receive from the conversion.

On the other hand, as dividends on the Shares, if any, and interest payment on certain debts of the Enlarged Group are paid in foreign currencies, any devaluation of RMB against the relevant foreign currencies would adversely affect the Enlarged Group's results of operations and financial condition, which may reduce the amount of any cash dividends on the Shares. In addition, the conversion of RMB into Hong Kong dollars and other foreign currencies is subject to a number of foreign exchange control rules, regulations and notices issued by the PRC government. In general, foreign investment enterprises are permitted to convert RMB to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks following prescribed procedural requirements. Control over conversion of RMB into foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations. The requirement for the Company to pay dividends in a currency other than RMB to the Shareholders may expose the Company to foreign exchange risk. Under the current foreign exchange control system, there is no assurance that the Company will be able to obtain sufficient foreign currency to pay dividends or satisfy other foreign exchange requirements in the future.

The Enlarged Group's investments in the PRC are subject to the PRC government's control over foreign investment in the property sector

The PRC government imposes restrictions on foreign investment in the property sector to curtail the speculation in the property sector by, among other things, increasing the capital and other requirements for establishing FIREEs, tightening foreign exchange control and imposing restrictions on the purchase of properties in China by foreign persons. For example, in May 2007, MOFCOM and SAFE jointly issued the Notice on Further Strengthening and Regulating the Approval and Administration regarding Foreign Direct Investment in the Real Estate Industry (《關於進一步加強、規範外商直接投資房地產業審批和監管的通知》) which, among other things, provides that:

- foreign investment in the luxury property sector in the PRC should be strictly controlled;
- prior to obtaining approval for the establishment of FIREEs, either (i) both the land use rights certificates and housing title certificates should be obtained or (ii) contracts for obtaining land use rights or housing titles should be entered into;
- FIREEs approved by local authorities must immediately register with MOFCOM through a filing made by the local authorities; and
- foreign exchange administration authorities and banks authorised to conduct foreign exchange business should not affect foreign exchange settlements of capital account items for those FIREEs which have not completed their filings with MOFCOM or have failed to pass the annual inspection.

With regard to the filing requirement, MOFCOM and SAFE jointly promulgated the Notice on Improving the Filing Process for Foreign-invested Real Estate Enterprises (《商務部、國家外匯管理局關於改進外商投資房地產備案工作的通知》) in June 2014, which provides that MOFCOM entrusts competent commerce departments at provincial level to conduct the verification and filing procedure of FIREEs. Nevertheless, MOFCOM will carry out random inspections against the filed FIREEs on a weekly basis and conduct a review of the projects that have been publicized but are not randomly inspected on a quarterly basis to strengthen the supervision of filing.

These restrictions may affect the Enlarged Group's ability to make further investments in its PRC subsidiaries and as a result may limit its business growth and have a material adverse effect on its business, prospects, financial condition and results of operations.

Also, the PRC government has imposed restrictions on the ability of foreign-invested PRC property developers to receive offshore funds. In September 2006, SAFE and MOC (原建設部) issued the Notice on Regulating Foreign Exchange Measures of Real Estate Market (《關於規範房地產市場外匯管理有關問題的通知》). In May 2013, SAFE issued the Administrative Measures for Foreign Debt Registration (《外債登記管理辦法》) and the

Operational Guidelines on Administration of Foreign Debt Registration (《外債登記管理操作指引》). The above mentioned regulations stipulate, among other things, that (i) SAFE will not process foreign debt signing registrations for FIREE which obtained authorisation certificates from and registered with MOFCOM on or after 1 June 2007; (ii) only foreign-invested real estate companies established before 1 June 2007 can borrow foreign debt within the balance of its total investment amount and the registered capital; and (iii) if foreign-invested real estate companies do not have a registered capital that is fully paid up or have not obtained the relevant state-owned land use rights certificate, or the capital injected into the project is less than 35% of the total investment amount, such companies cannot borrow foreign debt. These regulations impose restrictions on FIREEs on raising funds offshore for the purpose of injecting such funds into the companies by way of shareholder loans. These regulations, however, do not restrict property developers from receiving foreign capital by way of increasing the registered capital of existing foreign-invested companies or through the establishment of new FIREEs, provided that such increase of registered capital or establishment of new company has been duly approved by MOFCOM or its relevant local branch and registered with MOFCOM.

As a foreign-invested PRC property developer, the Enlarged Group is subject to this notice. However, there can be no assurance that the Enlarged Group will be able to obtain in a timely manner, if at all, all necessary foreign-exchange approval certificates for the deployment of offshore funds, any registration of new foreign-invested subsidiaries or additional registered capital increases in the future. Further, there can be no assurance that the PRC government will not introduce new policies that further restrict the ability of the Enlarged Group to repatriate funds to the PRC. Should there be any limitation on the Enlarged Group's ability to repatriate funds to the PRC, its liquidity and ability to fund and expand its business could be adversely and materially affected.

In addition, any capital contributions made to the Enlarged Group's operating subsidiaries in the PRC are subject to foreign investment regulations and foreign exchange regulations in the PRC. For example, in accordance with the Notice on Relevant Business Operations Issues on the Improvement of the Administration of Payment and Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) (the "**Notice 142**") promulgated by SAFE in August 2008 which is aimed at strengthening the administration of payment and settlement of foreign exchange capital of foreign-invested enterprises, unless otherwise permitted by the PRC laws or regulations, RMB capital converted from foreign exchange capital contributions can only be applied to the activities within the approved business scope of such foreign-invested enterprise and cannot be used for domestic equity investment or acquisition. In July 2011, SAFE issued a supplementary notice to the Notice 142, which provides more detailed procedures and additional requirements for the administration over the settlement of foreign exchange capital. As a result of the Notice 142 and the supplementary notice, the Enlarged Group may encounter difficulties in increasing the capital contribution to its project companies and subsequently converting such capital contribution into RMB for equity investment or acquisition in the PRC. If the Enlarged Group fails to obtain such approvals, its ability to fund its operations or to make capital contributions to its project companies as general working capital may be negatively affected, which could materially and adversely affect its business, prospects, financial condition and results of operations.

Natural disasters, public health and public security hazards in the PRC may severely disrupt the Target Group's business and operations, and may have a material and adverse effect on its business, financial condition and results of operations

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, on its overall GDP growth. As all of the Target Group's revenue is derived from its operations in the PRC, any contraction or slowdown in the growth of domestic consumption or slowdown in the growth of GDP may materially and adversely affect the financial condition, results of operations and future growth of the Target Group. In addition, if employees are affected by a severe communicable disease, the Target Group may be required to institute measures to prevent the spread of the disease. The spread of any severe communicable disease in the PRC may also affect the operations of the Target Group's general contractors and construction service providers.

Moreover, the PRC has experienced natural disasters like earthquakes, floods, landslides and droughts in the past few years, resulting in deaths of people, significant economic losses and significant and extensive damage to factories, power lines, homes, automobiles, crops, and other properties, as well as blackouts, transportation and communications disruptions and other losses in the affected areas.

Any future natural disasters and public health and public security hazards may, among other things, materially and adversely affect or disrupt the Target Group's operations and the progress of its projects. Furthermore, such natural disasters and public health and public security hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect the business, results of operations and prospects of the Enlarged Group.

RISK RELATING TO THIS CIRCULAR

Statistics, industry data and other information relating to the economy and the PRC property development industry contained in this circular have been derived from various official government publications with information provided by Chinese and other government agencies. Although the Company believes that the sources of the information and statistics are appropriate sources for such information and statistics and has taken reasonable care in extracting and reproducing such information and statistics, and has no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading, the Company or its Directors, agents and advisers cannot assure you or make any representation as to the accuracy or completeness of such information and statistics. None of the Company, the Directors, or their respective agents or advisers have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official government sources might be inaccurate or might not be comparable to statistics produced from other sources and should not be unduly relied upon. Shareholders should give careful consideration as to how much weight and importance you should attach or place on such statistics, projected industry data and other information relating to the economy and the industry.

OVERVIEW

Ease Triumph is an investment holding Company that holds 52.08% equity interest in Dalian Hanghua and 99% equity interest in Chongqing Hanglong, which are companies set up for the development and sale of properties in Dalian and Chongqing respectively. Upon Completion, Ease Triumph will become an indirect wholly-owned subsidiary of the Company.

Dalian Hanghua is primarily engaged in the development and sale of properties in Dalian and is currently engaged in the construction of a large scale development project in Dalian comprising offices, retail shops and residential buildings with a total planned GFA of approximately 434,461 sq.m. upon completion.

Chongqing Hanglong was established in September 2014 for the purpose of the development and sale of properties in Chongqing and is currently at the early stage of developing a site which consists of 12 parcels of land in Chongqing for residential and commercial purposes, with a total GFA of approximately 401,514 sq.m. upon completion.

Details of the property development projects relating to the use, GFA and development status as at 31 October 2014 are set out in the table below:

Company	**Project Location**	**Planned use**	**Total site area** *(sq.m.)*	**Total planned GFA upon completion** *(sq.m.)*	**Estimated completion date**	**Equity interest held by Ease Triumph**	**Valuation in existing state attributable to the Target Group as at 31 October 2014** *(RMB)* *(Note 1)*
Dalian Hanghua	The International Square (中航國際廣場)	Residential and commercial	46,937.50	434,461	2015-2018	52.08%	3,750,000,000
Chongqing Hanglong	12 parcels of Chongqing land situated in a newly developed residential area *(Note 2)*	Residential and commercial	375,252	401,514	2018	99%	790,000,000

Notes:

(1) The values are based on the valuation by LCH of the fair value of the properties or rights to properties owned by the Target Group as at 31 October 2014.

(2) As at 31 October 2014, the contracts for the grant of state-owned land use rights with the Bureau of Land Resources of Housing of Chongqing* (重慶市國土資源和房屋管理局) had been signed and the deposit for the full cost of the acquisition of the land had been settled by the Target Group but the relevant land use rights certificates had not been obtained.

PROPERTY MARKET IN DALIAN AND CHONGQING

The property market in Dalian has grown rapidly over the recent years. Total GFA of properties completed grew from 5.38 million sq.m. in 2006 to 10.47 million sq.m. in 2013, representing a CAGR of 10.0%; GFA of properties sold grew from 6.29 million sq.m in 2006 to 12.22 million sq.m in 2013, representing a CAGR of 10.0%; average selling price of properties grew from RMB4,525 per sq.m. in 2006 to RMB8,263 per sq.m. in 2013, representing a CAGR of 9.0%. According to the Property Valuation of the Target Group which is set out in Appendix IV to this circular, the sale price of residential and commercial units of the Dalian Project are both approximately RMB20,000 per sq.m., which is in line with similar developments located in the city.

The property market in Chongqing has also been boosted in recent years by rapid urbanisation and economic development. Total GFA of properties completed grew from 22.25 million sq.m. in 2006 to 38.04 million sq.m. in 2013, representing a CAGR of 8.0%; GFA of properties sold grew from 22.29 million sq.m in 2006 to 48.18 million sq.m in 2013, representing a CAGR of 11.6%. The CAGR of average selling price of properties and average selling price of residential properties during the same period were 13.7% and 14.1%, respectively.

For further details of the Dalian and Chongqing property markets, please refer to the section headed "Industry Overview".

THE PROPERTY PROJECTS OF THE TARGET GROUP

(a) Dalian – International Square (大連 — 中航國際廣場)

The International Square is a developing large scale development located at the Southeastern side of Zhongshan Road of the Shahekou District of the Dalian City, an area with ancillary facilities and a developed transportation system. It comprises four parcels of land having a total site area of approximately 46,937.50 sq.m. (excluding communal site area). The total consideration of RMB1,760,000,000 was fully paid by Dalian Hanghua in 2012. The International Square will be positioned as a landmark of the city. It will be developed for commercial and residential purposes, comprising offices, retail shops and residential buildings targeting a wide range of buyers such as mid to senior corporate management executives, owners of private enterprises and government officials. The total planned GFA of the development upon completion is approximately 434,461 sq.m..

Pre-sale of certain residential and office space of the International Square commenced in June 2013. As at 31 July 2014, the unaudited customer deposits, which represented the proceeds of the pre-sales of properties, amounted to HK$1,438,406,483.

The following table sets out an overview of the contracted sales:

	For the year ended 31 December 2013	For the ten months ended 31 October 2014
Contracted Sales (RMB'000)	1,058,652	476,357
Contracted GFA (sq.m.)	48,731	25,468

(b) The Chongqing project

The project comprises 12 parcels of land with a total site area of approximately 375,252 sq.m. (the "**Chongqing Site**"), which are situated in a newly developed residential area with communal facilities in the Liangjiangxin District of Chongqing. The total planned GFA of the development upon completion is approximately 401,514 sq.m. With regard to the Chongqing Site, Chongqing Hanglong entered into two contracts for the grant of state-owned land use rights with the Bureau of Land Resources and Housing of Chongqing* (重慶市國土資源和房屋管理局) on 29 September 2014 pursuant to which the land use rights of the Chongqing Site would be granted to Chongqing Hanglong based on the terms of the contracts. The consideration for the use of the Chongqing Site was already paid in full. Based on the advice of Sanba Investment's PRC legal adviser, Jia Yuan Law Offices, on the basis that the relevant procedures for the application for state-owned land use rights certificates for the Chongqing Site are being complied with, there will be no foreseeable legal impediments for Chongqing Hanglong in obtaining the land use rights certificates of the Chongqing Site. The Directors expect that such land use rights certificates will be obtained in the first half of 2015.

As advised by Jia Yuan Law Offices, Chongqing Hanglong's right to occupy and use the Chongqing Site has been protected by PRC laws since the date it entered into the above contracts for the grant of state-owned land use rights with the Bureau of Land Resources and Housing of Chongqing. Therefore, the development progress of the Chongqing Site will not be affected by the application process of the land use rights certificates. As the application for the land use rights certificates is a procedural matter and as advised by Jia Yuan Law Offices, there are no foreseeable legal impediments for obtaining them, Sanba Investment did not make it a condition precedent for Onfield to procure Chongqing Hanglong to obtain the land use rights certificate.

Further, as advised by Jia Yuan Law Offices, according to the Contract Law of the People's Republic of China and the Articles in the Reply of the Relevant Matters concerning Land Grant Contract by Bureau of Land and Resources* (國土資源廳關於土地出讓合同有關問題的復函), Chongqing Hanglong and the Bureau of Land Resources and Housing of Chongqing shall perform the obligations as provided in the Contracts, which include the transfer of the right to use the Chongqing Site. Accordingly, in the event that the application for the land use rights certificates was terminated (except for any termination caused by any breach of the Contracts by Chongqing Hanglong), Chongqing Hanglong is entitled to ask the Bureau of Land Resources and Housing of Chongqing to return the consideration paid for the Chongqing Site and claim for any losses arising from the termination.

Based on the above, the Directors consider that the acquisition of Chongqing Hanglong at this stage is in the interest of the Company and its shareholders as a whole.

The project is still at an early planning stage. It will be developed as a more high-end commercial and residential real estate project targeting mid to senior corporate management executives and government officials.

DEVELOPMENT PLAN OF EACH PROPERTY PROJECT

Details of the development schedules of these projects are set out below:

Project	Phase	Total planned GFA upon completion (sq.m.)	Commencement of construction work	Commencement of pre-sale	Completion
Dalian	A	78,961	March 2013	September 2013	December 2014
	B	129,661	October 2015	October 2016	December 2018
	C	95,036	March 2013	June 2013	December 2015
	D	130,803	April 2014	March 2015	December 2017
Chongqing	I	83,709	March 2015	October 2015	December 2016
	II	229,140	September 2015	April 2016	December 2016
	III	46,930	September 2016	April 2017	December 2017
	IV	16,083	December 2016	July 2017	December 2018
	V	25,652	March 2017	October 2017	December 2018

Note:

The above schedules represent the current expectation of the Target Group but may be subject to change.

LICENSES AND PERMITS FOR PROPERTY DEVELOPMENT IN DALIAN AND CHONGQING

Licenses

Each of Dalian Hanghua and Chongqing Hanglong is required under PRC laws to obtain the following licenses for the property development operation in the PRC:

- business license (營業執照);
- organization code certificate (組織機構代碼證);
- tax registration certificate (稅務登記證);
- certificate for Chinese-foreign joint venture (中外合資企業證書); and
- certificate for real estate development (房地產企業開發資質證書).

Dalian Hanghua has already obtained all the above licenses. Chongqing Hanglong has obtained all the above licenses except for the certificate for real estate development and it is expected that Chongqing Hanglong will be able to obtain it by February 2015.

Permits

Each of Dalian Hanghua and Chongqing Hanglong is required under PRC laws to obtain the following permits for the land use, construction and pre-sale of properties in the PRC:

- land use rights certificate (國有土地證);
- planning permit for using construction usage land (建設用地規劃許可證);
- construction planning permit (建設工程規劃許可證);
- permit to commence construction (建築工程施工許可證); and
- permit for pre-sale of properties (預售許可證).

Dalian Hanghua has obtained all the above permits. The expected timing for Chongqing Hanglong to obtain these permits is set out below:

• land use rights certificate	March 2015
• planning permit for using construction usage land	March 2015
• construction planning permit	March 2015
• permit to commence construction	March 2015
• permit for pre-sale of properties	October 2015

SOURCE OF FUNDING

The Target Group generally finances its property projects through capital contribution from shareholders, bank loans, other borrowings and internal cash flows. The Target Group will generally take into account a number of factors including availability of internal resources, cost of financing and cash inflow from its operating activities from time to time, for the purpose of determining whether and when external financing should be sought. While the relevant loan documents are generally entered into by the relevant project companies, for the purpose of centralising and standardising the management functions, it is expected that the negotiation of bank loans and other financing arrangements in relation to the Target Group's property projects will be consolidated with and be conducted by the central management of the Enlarged Group upon Completion.

Proceeds from pre-sale activities forms an integral source of operating cash inflows during the project development stage. Under the current PRC laws and regulations, property developers must fulfill certain conditions (including obtaining pre-sale permit) before they can commence pre-sale of the relevant properties and may only use pre-sale proceeds to finance the development of such properties.

To the extent necessary and subject to the guidelines issued by the China Banking Regulatory Commission, the Target Group may also finance some of its projects through external borrowings from bank loans. As at 31 July 2014, the Target Group's total outstanding bank borrowings amounted to approximately HK$752,786,476.

Please refer to the section headed "Financial Information of the Target Group – Indebtedness" in this circular for further details. During the Relevant Periods and up to the Latest Practicable Date, there had been no material default of any of the bank loans by the Target Group.

The Target Group has also been benefitting from loans provided by Hangfa Investment and CATIC for the funding of its projects during the Relevant Periods. As at 31 July 2014, the Target Group had aggregate outstanding loans of approximately HK$3,301,386,336 owed to Hangfa Investment and CATIC. Please see the section headed "Financial Information of the Target Group – Indebtedness" of this circular for further details.

MANAGEMENT EXPERTISE

Although the Target Group is engaged in property development business, which is different from the Company's existing business, the Company will have sufficient management expertise to manage the business of the Target Group to be acquired.

The Company will conduct its project development and project management operations through Dalian Hanghua and Chongqing Hanglong, which will be responsible for the daily operations of the respective projects, including, among other things, the implementation of the project design management, pre-construction planning, construction management, quality control, pre-sale activities, sales, marketing, completion and delivery of completed properties. Dalian Hanghua has established and Chongqing Hanglong will establish their own operations departments for project development, finance, planning and design, construction and procurement, budgeting, marketing and sales. These departments are supported and monitored by a general manager who will report to the management of the Company and the Board.

Upon Completion, Dalian Hanghua and Chongqing Hanglong will be responsible for the day-to-day running of the relevant projects. Certain key planning and long-term development strategies of the Target Group, such as positioning, commercial assessment and project financing, will be carried out by the central management of the Company and the Board. Set out below are the biographies of the Target Group's director and senior management who will operate the new business of the Enlarged Group upon Completion.

Mr. Liu Zhijian, aged 38, is a director of Ease Triumph. Mr. Liu graduated from Wuhan University with a Bachelor's degree in July 1998, and graduated from Zhongnan University of Economics and Law with a Master's degree in Management (Accounting) in June 2001. From November 2000 to December 2002, Mr. Liu worked at the Finance Department of China Vanke Co., Ltd.. From December 2002 to March 2004, he was the financial controller and the manager of the Finance Department of 成都萬科房地產有限公司 (translated as Chengdu Vanke Real Estate Company Limited). From April 2004 to August 2005, Mr. Liu acted as a supervisor and the assistant to chief financial officer of China Merchants Properties Holdings Co., Ltd., and concurrently was the chief accountant of the Management Area (the deputy manager of the Management Area) of Guangzhou and the chief financial officer of 重慶招商房地產有限公司 (translated as Chongqing China Merchants Properties Company Limited). From August 2005 to March 2007, Mr. Liu served as a director, the chief financial officer and the deputy general manager of 深圳市中航地產發展有限公司 (translated as Shenzhen CATIC Real Estate Development Co., Ltd.). Mr. Liu has been a director, the deputy general manager, the financial controller of 中航萬科有限公司 (translated as AVIC International Vanke Company Limited) (authorized by the general manager to take charge of the routine work) since March 2007, and has concurrently been the deputy general manager of the Real Estate Investment Business Division of AVIC International since 2011 and the financial controller and secretary to the board of directors of 中航里城有限公司 (translated as AVIC Licheng Co., Ltd.) since 2013.

Mr. Leng Qianli, aged 40, is the general manager of Dalian Hanghua. Mr. Leng graduated from Harbin University of Civil Engineering and Architecture with a Bachelor's degree in Architecture in July 1997. From 1998 to 2004, Mr. Leng served as the principal architect of China Northeast Architecture Design and Research Institute. He acted as a senior professional manager of the Design Management Department of Shenzhen Vanke Real Estate Co., Ltd. from 2004 to September 2008, and was a senior professional manager of the Design Management Department (at group level) of China Vanke Co., Ltd. from October 2008 to February 2010. From March 2010 to January 2012, he worked as the design director of Xi'an Vanke Real Estate Co., Ltd.. Mr. Leng has been the general manager of Dalian Hanghua since February 2012.

Mr. Luo Peng, aged 37, is the general manager of Chongqing Hanglong. Mr. Luo studied in the School of Urban Construction of Chongqing Jianzhu University from September 1995 to July 1999 and graduated with a Bachelor's degree in Environment and Equipment. From 1999 to November 2005, Mr. Luo was a management member of the Development Department of Shenzhen Jian'an (Group) Co., Ltd.. He acted as a senior professional manager of the Design Management Department of Shenzhen Vanke Real Estate Co., Ltd. from November 2005 to September 2008, and was a senior product manager of the Design Management Department (at group level) of China Vanke Co., Ltd. from October 2008 to October 2010. From November 2010 to July 2012, Mr. Luo served as the general manager of Nanjing Branch of 深圳市里城投資發展有限公司(translated as Shenzhen Licheng Investment and Development Co., Ltd.). Mr. Luo has been the general manager of 重慶航悅置業有限公司 (translated as Chongqing Hangyue Real Estate Company Limited) since August 2012, and has been the general manager of Chongqing Hanglong since September 2014.

At the Board level, Mr. Wu Guangquan and Mr. Pan Linwu, both Executive Directors, possess relevant management experience in property development and will assist the Board to make strategic decisions for the business development of the Target Group. Further details of their experience are set out below.

Mr. Wu Guangquan, aged 51, has been an Executive Director and the Chairman of the Company since March 2010. He is also a member of the Remuneration Committee of the Company. Mr. Wu holds a Master's degree in Business Administration and is a senior accountant. He is the president of AVIC International (a company which is engaged in real estate development and hotel management) and a director of AVIC International (HK), both of which are substantial shareholders of the Company. Mr. Wu has extensive experience in finance, administration and management. He is also an executive director and the Chairman of AVIC International Holdings Limited (中航國際控股股份有限公司) (formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司)), and was a director and the chairman of Tianma Microelectronics Co., Ltd., a company listed on Shenzhen Stock Exchange, until 16 June 2013.

Mr. Pan Linwu, aged 49, has been an Executive Director of the Company since February 2008 and appointed Deputy Chairman of the Company with effect from 28 January 2013. He holds a Master's degree in Aeronautical Engineering, a Bachelor's degree in Engineering and a Postgraduate Diploma in Financial Accounting, and is a professional senior accountant. Mr. Pan served at the Ministry of Aviation Industry and the audit department of the Ministry of Aero-Space Industry. In 1993, he was transferred to AVIC International (a company which is engaged in real estate development and hotel management) and served as deputy director and director of the audit division. Mr. Pan is an executive vice president and the chief financial officer of AVIC International, and a director of AVIC International (HK) and Tacko, which is a substantial shareholder of the Company. He has many years' experience in financial management, supervision and audit, and has substantial experience in the area of finance, capital operation and risk management. Mr. Pan is also an executive director of AVIC International Holdings Limited (中航國際控股股份有限公司) (formerly known as CATIC Shenzhen Holdings Limited (深圳中航集團股份有限公司)).

The following discussion should be read in conjunction with the Target Group's consolidated financial statements and the accompanying notes set out in the Accountants' Report of the Target Group in Appendix II to this circular, which contains the Target Group's audited consolidated financial information as at and for the period from 16 November 2010 (date of incorporation) to 31 December 2011, years ended 31 December 2012 and 2013 and the seven months ended 31 July 2014. The consolidated financial information of the Target Group has been prepared in accordance with Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and the disclosure requirements of the Listing Rules and the Companies Ordinance. This discussion contains forward-looking statements that reflect the current views of the Target Group's management and involve risks and uncertainties. The Target Group's actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to, those described under "Risk Factors" and factors described elsewhere in this circular.

OVERVIEW

Within the Target Group, Ease Triumph holds 52.08% equity interest in Dalian Hanghua and 99% equity interest in Chongqing Hanglong. Dalian Hanghua is primarily engaged in the development and sale of properties in Dalian. Chongqing Hanglong was established in September 2014 for the purpose of the development and sale of properties in Chongqing. The Target Group has the International Square project and Chongqing project located in Dalian and Chongqing, respectively. As at 31 October 2014, the total planned GFA upon completion of the Dalian – International Square and the Chongqing project was 434,461 sq.m. and 401,514 sq.m. respectively.

For the period from 16 November 2010 (date of incorporation) to 31 December 2011, years ended 31 December 2012 and 2013 and the seven months ended 31 July 2014, the Target Group did not generate any revenue. The net loss for the year or period attributable to owner of the parent was HK$1,599,301, HK$26,412,769, HK$15,208,762 and HK$28,439,385, respectively.

However, Dalian Hanghua commenced pre-sale of certain units of the International Square in June 2013 and it is expected that revenue will be recognised in 2015 in accordance with the Target Group's revenue recognition policy, thereby creating near term revenue and net income. The project in Chongqing will commence construction in 2015 and is expected to be completed in 2018. The two projects are expected to provide an identifiable source of revenues to 2019 and 2020.

As at 31 July 2014, customers deposits received by the Target Group amounted to HK$1,438,406,483. These customers deposits represent proceeds received on property sales that have not been recognised as revenue and are expected to be recognised as revenue when the properties are transferred to customers in accordance with the Target Group's revenue recognition policy.

FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE TARGET GROUP

General economic and real estate market conditions

The Target Group's revenue from property development and its results of operations are significantly affected by volatility in general economic conditions, as well as conditions of the PRC property market, in particular in Dalian and Chongqing where the relevant property projects are located. Changes in consumption spending, consumer confidence level and general business environments can affect the business of existing and potential tenants, which in turn may result in changes in their demand for the Target Group's commercial properties. In addition, the PRC government has implemented a number of policy initiatives to adjust the growth of the PRC national and local economies and selected industry sectors, and such policy changes may affect the real estate market in the relevant regions. For example, the Target Group's results of operations could be affected by PRC governmental policies that affect development of commercial and residential properties, including those that have tightened credit on financing and mortgage loans. As a result, the Target Group's selling prices of properties may fluctuate from period to period.

Development schedule

Property development projects typically require substantial capital expenditure and a substantial amount of time to complete. The development schedule of a property development project can be affected by many factors, including but not limited to relocation of existing residents, availability of construction and building materials, progress of construction works, construction accidents, natural catastrophes and adverse weather conditions. The Target Group may encounter delays in obtaining the necessary land use, building, development and other required governmental and regulatory licenses, permits, approvals and authorisations for its projects. Projects under development may also be subject to construction risks which include, among others, default by contractors or other third-party service and goods providers of their obligations or financial difficulties faced by such contractors and providers. As pre-sale, delivery of properties depend to a large extent on the timing of the development schedule, the Target Group's revenue, results of operations and cash flows for a particular period are significantly affected by the development schedule of the Target's Group's property development projects.

Under the current development schedules, the project in Dalian is expected to complete GFA of 434,461 sq.m. by 2018. Pre-sale of certain units of the International Square commenced in June 2013 and it is expected that revenue will be recognised in 2015 in accordance with the Target Group's revenue recognition policy. The project in Chongqing will commence construction in 2015 and is expected to be completed in 2018.

Property projects

The Target Group will generate revenue from the development of the Dalian – International Square and Chongqing project. These property projects comprise a combination of retail space, offices and residential space.

The following table sets out an overview of Dalian project's contracted sales in 2013 and 2014:

	For the year ended 31 December 2013	For the ten months ended 31 October 2014
Contracted Sales (RMB'000)	1,058,652	476,357
Contracted GFA (sq.m.)	48,731	25,468

In accordance with the Target Group's revenue recognition policy, the proceeds of pre-sales of properties have not been recognised as revenue in the statement of profit or loss and other comprehensive income. As at 31 July 2014, customers deposits received by the Target Group amounted to HK$1,438,406,483.

The average selling prices of properties and their gross profit margins will depend on, among other factors, their property types and the location of the relevant property projects. Accordingly, the results of operations and cash flows of the Target Group may vary from period to period, depending on, among other factors, the amounts of various types of properties delivered and their locations.

Competition

Competition among property developers may result in increases in land acquisition costs and construction costs, oversupply of properties, slowdowns in the rate at which new property developments are reviewed or approved by the relevant PRC government authorities and increases in administrative costs of hiring or retaining qualified personnel. These and other changes in the competitive landscape can result in pressures on pricing, transaction volume, operating costs and capital appreciation.

CRITICAL ACCOUNTING POLICIES

The preparation of the Target Group's financial information requires selecting accounting policies and making estimates and judgements that affect reported items in the consolidated financial statements. The determination of accounting policies is fundamental to the Target Group's results of operations and financial condition and requires the management of the Target Group to make judgements, estimates and assumptions about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involve the use of subjective judgements and estimates as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on the Target Group's financial condition, results of operations and cash flows. For more information regarding the Target Group's significant accounting policies and judgements and key sources of estimation and uncertainty, see Notes 2.3 and 3 to the Accountants' Report of the Target Group set forth in Appendix II to this circular.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Target Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts. Interest income is recognised using the effective interest rate method.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowing pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Target Group incurs in connection with the borrowing of funds.

DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

The Target Group did not generate any revenue during the Relevant Periods. However, the projects in Dalian are expected to complete GFA of 434,461 sq.m. and recognise its revenue in 2015 in accordance with the Target Group's revenue recognition policy, thereby creating near term revenue. The project in Chongqing will commence construction in 2015 and is expected to be completed in 2018. The two projects are expected to provide an identifiable source of revenues to 2019 and 2020.

Furthermore, as at 31 July 2014, customers deposits received by the Target Group amounted to HK$1,438,406,483. Customers deposits represent proceeds received on property sales that have not been recognised as revenue and are expected to be recognised as revenue when the properties are transferred to customers in accordance with the Target Group's revenue recognition policy.

Selling expenses

Selling expenses comprise advertising expenses, promotion expenses, sales commissions and other expenses relating to sales and marketing. For the period from 16 November 2010 (date of incorporation) to 31 December 2011, the years ended 31 December 2012 and 2013 and the seven months ended 31 July 2014, selling expenses were nil, HK$6,816,235, HK$37,928,492 and HK$16,219,512, respectively.

Administrative and other operating expenses

Administrative and other operating expenses comprise depreciation expenses, professional fees, office expenses and other miscellaneous expenses. For the period from 16 November 2010 (date of incorporation) to 31 December 2011, years ended 31 December 2012 and 2013 and the seven months ended 31 July 2014, administrative and other operating expenses were HK$1,888, HK$5,084,116, HK$177,728 and HK$403,244, respectively.

Finance costs

Finance costs consist of interest expenses on bank borrowings and loans from related parties. The Target Group capitalises a portion of its costs of borrowings to property under development to the extent that such costs are directly attributable to construction. The following table sets out a breakdown of finance costs of the Target Group for the years/periods indicated:

	Period from 16 November 2010 (date of incorporation) to 31 December 2011	**Year ended 31 December**		**Seven months ended 31 July**
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Interest on bank loan, wholly repayable within five years	–	–	821,678	26,514,448
Interest on other loans, wholly repayable within five years	1,647,944	253,318,848	379,311,544	197,992,969
Gross finance costs	1,647,944	253,318,848	380,133,222	224,507,417
Less: Interest capitalised under property development projects	–	(210,316,291)	(379,606,389)	(202,181,199)
Total finance costs	1,647,944	43,002,557	526,833	22,326,218

Finance costs are primarily affected by the amount of borrowings, interests on borrowings and the amount and timing of capitalisation. For the period from 16 November 2010 (date of incorporation) to 31 December 2011, years ended 31 December 2012 and 2013 and the seven months ended 31 July 2014, gross finance costs including capitalised interest were HK$1,647,944, HK$253,318,848, HK$380,133,222 and HK$224,507,417, respectively. Excluding capitalised interest, total finance costs for the period from 16 November 2010 (date of incorporation) to 31 December 2011, years ended 31 December 2012 and 2013 and the seven months ended 31 July 2014 were HK$1,647,944, HK$43,002,557, HK$526,833 and HK$22,326,218, respectively.

Income tax

Income tax expense comprises the current PRC enterprise income tax charge and deferred tax. Under the EIT Law, the tax rate of the PRC companies in the Target Group was 25% during the Relevant Periods.

No provision for Hong Kong profits tax has been made as the Target Group did not generate any assessable profits in Hong Kong during the Relevant Periods.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets out the consolidated results of operations of the Target Group for the years/periods indicated:

	Period from 16 November 2010 (date of incorporation) to 31 December	Year ended 31 December		Seven months ended 31 July	
	2011	2012	2013	2013	2014
	HK$	*HK$*	*HK$*	*HK$* (unaudited)	*HK$*
REVENUE	–	–	–	–	–
Other income and gains	50,531	–	681,210	627,600	380,352
Selling expenses	–	(6,816,235)	(37,928,492)	(15,066,178)	(16,219,512)
Administrative and other operating expenses	(1,888)	(5,084,116)	(177,728)	(303,870)	(403,244)
Finance costs	(1,647,944)	(43,002,557)	(526,833)	–	(22,326,218)
LOSS BEFORE TAX	(1,599,301)	(54,902,908)	(37,951,843)	(14,742,448)	(38,568,622)
Income tax credit	–	11,687,783	9,330,112	3,627,846	4,155,414
LOSS FOR THE YEAR/PERIOD	(1,599,301)	(43,215,125)	(28,621,731)	(11,114,602)	(34,413,208)
Attributable to:					
Owners of the parent	(1,599,301)	(26,412,769)	(15,208,762)	(5,899,212)	(28,439,385)
Non-controlling interests	–	(16,802,356)	(13,412,969)	(5,215,390)	(5,973,823)
	(1,599,301)	(43,215,125)	(28,621,731)	(11,114,602)	(34,413,208)
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit and loss in subsequent periods:					
Exchange differences on translation of foreign operation	–	3,922,186	20,809,543	12,261,362	(14,134,177)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX	–	3,922,186	20,809,543	12,261,362	(14,134,177)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD	(1,599,301)	(39,292,939)	(7,812,188)	1,146,760	(48,547,385)
Attributable to:					
Owners of the parent	(1,599,301)	(22,292,410)	(4,172,977)	684,680	(34,895,197)
Non-controlling interests	–	(17,000,529)	(3,639,211)	462,080	(13,652,188)
	(1,599,301)	(39,292,939)	(7,812,188)	1,146,760	(48,547,385)

Seven months ended 31 July 2014

Revenue

The Target Group did not generate any revenue during the period.

As at 31 July 2014, customers deposits amounting to HK$1,438,406,483 representing proceeds received on property sales that have not been recognised as revenue and are expected to be recognised as revenue when the properties are transferred to customers in accordance with the Target Group's revenue recognition policy.

Selling expenses

Selling expenses for the seven months ended 31 July 2014 were HK$16,219,512, which represented advertising expenses, promotion expenses, sales commissions, and other expenses relating to sales and marketing during the period. This increase in selling expenses relative to prior period was mainly attributable to increasing advertising expenses and the enhanced marketing efforts of the Target Group for brand building in Dalian.

Administrative and other operating expenses

Administrative and other operating expenses for the seven months ended 31 July 2014 were HK$403,244. This increase in administrative and other operating expenses relative to prior period was mainly attributable to the expansion of the Target Group's business in Dalian.

Finance costs

Finance costs for the seven months ended 31 July 2014 were HK$22,326,218 and gross finance costs including capitalised interest for the seven months ended 31 July 2014 were HK$224,507,417. Finance costs were mainly attributable to the loans from a fellow subsidiary and an intermediate holding company during the seven months ended 31 July 2014.

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

Revenue

The Target Group did not generate any revenue during the periods.

As at 31 December 2013, customers deposits amounting to HK$1,101,366,908 representing proceeds received on property sales that have not been recognised as revenue and are expected to be recognised as revenue when the properties are transferred to customers in accordance with the Target Group's revenue recognition policy.

Selling expenses

Selling expenses for the year ended 31 December 2013 were HK$37,928,492, which represented an increase from HK$6,816,235 for the year ended 31 December 2012. This increase was mainly attributable to the increase in advertising campaign during the year ended 31 December 2013.

Administrative and other operating expenses

Administrative and other operating expenses for the year ended 31 December 2013 were HK$177,728, which represented a decrease of 96.5% from HK$5,084,116 for the year ended 31 December 2012. This decrease was mainly due to foreign exchange loss arose from the capital injection made to Dalian Hanghua in 2012.

Finance costs

Finance costs for the year ended 31 December 2013 were HK$526,833, which represented a decrease of 98.8% from HK$43,002,557 for the year ended 31 December 2012. The decrease was mainly attributable to the increase in capitalised interest from HK$210,316,291 for the year ended 31 December 2012 to HK$379,606,389 for the year ended 31 December 2013.

Year ended 31 December 2012

Revenue

The Target Group commenced property development activity and did not generate any revenue during the period.

Finance costs

Finance costs for the year ended 31 December 2012 were HK$43,002,557, which represented an increase from HK$1,647,944 for the period ended 31 December 2011 and gross finance costs including capitalised interest were HK$253,318,848. This increase was mainly attributable to new loans from an intermediate holding company and a fellow subsidiary for the commencement of property development activity.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Target Group's principal cash requirements are to pay for capital expenditures and working capital needs in connection with the investment in and development of its residential and commercial property projects. The Target Group has historically financed its cash requirements through using cash generated from financing activities, capital contribution from non-controlling shareholder of a subsidiary, bank loans, loans from a fellow subsidiary and loans from an intermediate holding company. After the Completion, the Enlarged Group expects cash generated from operating activities (which included cash generated from the sale and pre-sale of properties), loans from group companies and bank borrowings to be the main sources of funding and may consider the issuance of bonds or other securities. The Directors have confirmed that, after considering the foregoing sources of funding, the proceeds to be received from the various arrangements the Target Group has made to settle certain borrowings from and amounts due to a fellow subsidiary and an intermediate holding company as discussed in further detail under the section headed "– Net Current Assets/(Liabilities)" below, the Enlarged Group will have sufficient working capital for its requirements for at least the next 12 months from the date of this circular.

Cash flows

The following table sets forth selected information of the Target Group's consolidated cash flow statements for the years/periods indicated:

	Period from 16 November 2010 (date of incorporation) to 31 December	Year ended 31 December		Seven months ended 31 July	
	2011	**2012**	**2013**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Net cash flows from/(used in) operating activities	(155,357,559)	(2,353,828,084)	210,754,778	163,197,877	76,243,732
Net cash flows used in investing activities	–	(425,346,090)	(705,084,239)	(150,899,990)	(43,982,415)
Net cash flows from/(used in) financing activities	155,359,802	2,793,787,574	681,617,084	259,423,605	(12,777,721)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,243	14,613,400	187,287,623	271,721,492	19,483,596
Cash and cash equivalents at beginning of year	–	2,243	14,788,004	14,788,004	205,351,792
Effect of foreign exchange rate changes, net	–	172,361	3,276,165	2,440,797	(4,096,321)
Cash and cash equivalents at the end of year/period	2,243	14,788,004	205,351,792	288,950,293	220,739,067

Cash flows from operating activities

Net cash generated from operating activities for the seven months ended 31 July 2014 was HK$76,243,732. This was mainly attributable to increase in customer deposits.

Net cash generated from operating activities for the year ended 31 December 2013 was HK$210,754,778. This was mainly attributable to increase in customer deposits.

Net cash used in operating activities for the year ended 31 December 2012 was HK$2,353,828,084. This was mainly attributable to cash used in property development.

Net cash used in operating activities for the period from 16 November 2010 to 31 December 2011 was HK$155,357,559. This was mainly attributable to cash used in prepayments, deposits and other receivables.

Cash flows from investing activities

Net cash used in investing activities for the seven months ended 31 July 2014 was HK$43,982,415. This was mainly attributable to the movement in balance with the intermediate holding company.

Net cash used in investing activities for the year ended 31 December 2013 was HK$705,084,239. This was mainly attributable to the movement in balance with the intermediate holding company and increase in amount due from non-controlling shareholders of a subsidiary.

Net cash used in investing activities for the year ended 31 December 2012 was HK$425,346,090. This was mainly attributable to purchases of items of property, plant and equipment and the movement in balance with the intermediate holding company.

Cash flows from financing activities

Net cash used in financing activities for the seven months ended 31 July 2014 was HK$12,777,721. This was mainly attributable to repayment of loans from an intermediate holding company and drawdown of a new bank loan less interest paid.

Net cash generated from financing activities for the year ended 31 December 2013 was HK$681,617,084. This was mainly attributable to loans from a fellow subsidiary and an intermediate holding company less interest paid.

Net cash generated from financing activities for the year ended 31 December 2012 was HK$2,793,787,574. This was mainly attributable to loans from an intermediate holding company and a fellow subsidiary, capital contribution from non-controlling shareholder of a subsidiary less interest paid.

Net cash generated from financing activities for period from 16 November 2010 to 31 December 2011 was HK$155,359,802. This was mainly attributable to loans from a fellow subsidiary.

CERTAIN BALANCE SHEET ITEMS

Properties under development

As at 31 December 2012, 2013 and 31 July 2014, the Target Group's properties under development amounted to HK$2,708,661,693, HK$3,501,062,282, and HK$3,831,617,441, respectively.

Deposits

As at 31 December 2011, 2012 and 2013 and 31 July 2014. The Target Group's deposits amounted to HK$155,410,200, HK$621,950, HK$480,606,077 and HK$480,539,641, respectively. The deposits classified as non-current portion were HK$155,410,200, HK$Nil, HK$479,904,510 and HK$479,904,510, respectively.

The Company's deposit included in non-current assets represented deposit of capital contribution for investments in subsidiaries in the PRC to be established at the respective period/year end date. The deposit was intended to be used for acquisition of land by the relevant subsidiary for development and was accordingly classified under current assets in the Target Group's consolidated statements of financial position at the respective period/year end date.

Other payables and accruals

Other payables and accruals comprise construction cost payables, other payables and deferred government grants. These balances mainly include construction costs and other project-related expenses which are payable based on project progress measured by the Target Group. The other payables are non-interest-bearing and are normally settled on 30-day terms.

As at 31 December 2012, 2013 and 31 July 2014, the Target Group's construction cost payables amounted to HK$11,965,690, HK$45,965,925 and HK$30,801,837, respectively.

As at 31 December 2012, 2013 and 31 July 2014, the Target Group's other payables amounted to HK$1,918,184, HK$2,774,320 and HK$9,343,887, respectively.

As at 31 December 2012, 2013 and 31 July 2014, the Target Group's deferred government grants amounted to HK$18,658,500, HK$19,210,500 and HK$26,359,200, respectively.

Customers deposits

Customers deposits represent proceeds received on property sales that have not been recognised as revenue and are expected to be recognised as revenue when the properties are transferred to customers in accordance with the Target Group's revenue recognition policy.

As at 31 December 2013 and 31 July 2014, customers deposits received by the Target Group amounted to HK$1,101,366,908 and HK$1,438,406,483, respectively.

NET CURRENT ASSETS/(LIABILITIES)

The following table sets out the Target Group's current assets and current liabilities as at the dates indicated:

	At 31 December			At 31 July
	2011	2012	2013	2014
	HK$	*HK$*	*HK$*	*HK$*
CURRENT ASSETS				
Properties under development	–	2,708,661,693	3,501,062,282	3,831,617,441
Due from the immediate holding company	2	2	2	2
Due from an intermediate holding company	–	–	216,297,883	255,921,096
Due from non-controlling shareholder of a subsidiary	–	535,614,391	938,270,028	919,588,146
Prepayments, deposits and other receivables	155,410,200	639,343	536,618,463	561,462,858
Prepaid taxes	–	63,890,596	79,650,856	120,469,349
Cash and bank balances	2,243	14,788,004	205,351,792	220,739,067
Total current assets	155,412,445	3,323,594,029	5,477,251,306	5,909,797,959
CURRENT LIABILITIES				
Other payables and accruals	–	32,542,374	67,950,745	66,504,924
Customers deposits	–	–	1,101,366,908	1,438,406,483
Due to fellow subsidiaries	1,651,944	14,612,373	43,921,679	82,944,508
Due to an intermediate holding company	–	128,819,156	20,225,245	29,367,820
Loans from a fellow subsidiary	155,359,800	387,545,000	868,324,800	867,955,200
Loans from an intermediate holding company	–	–	–	697,489,536
Tax payable	–	1,695,596	–	–
Total current liabilities	157,011,744	565,214,499	2,101,789,377	3,182,668,471
NET CURRENT ASSETS/(LIABILITIES)	(1,599,299)	2,758,379,530	3,375,461,929	2,727,129,488

The Target Group had net current liabilities as at 31 December 2011, and net current assets as at 31 December 2012, 2013 and 31 July 2014.

The net current liabilities position as at 31 December 2011 was mainly attributable to (i) amounts due to fellow subsidiaries which were unsecured, interest free and had no fixed terms of repayment and (ii) loans from a fellow subsidiary, CATIC. The loans were unsecured, wholly-repayable within 1 year and were classified as current liabilities. The loans bear interest at 6.56%, 6.56 to 8%, 6.56 to 8%, and 6.56 to 8% for the period from 16 November 2010 (date of incorporation) to 31 December 2011, the years ended 31 December 2012 and 2013, and the seven months ended 31 July 2014, respectively.

The net current assets position as at 31 December 2012 and 2013 were HK$2,758,379,530 and HK$3,375,461,929, respectively. Total current assets amounted to HK$3,323,594,029 and HK$5,477,251,306 as at 31 December 2012 and 2013, respectively. Total current liabilities amounted to HK$565,214,499 and HK$2,101,789,377 as at 31 December 2012 and 2013, respectively.

As at 31 July 2014, the Target Group had net current assets in the amount of HK$2,727,129,488. The current liabilities amounted to HK$3,182,668,471, mainly including customers deposits of HK$1,438,406,483, other payables and accruals of HK$66,504,924, loans from a fellow subsidiary of HK$867,955,200 and loans from an intermediate holding company of HK$697,489,536. The current assets amounted to HK$5,909,797,959, mainly including properties under development of HK$3,831,617,441, cash and bank balances of HK$220,739,067 and prepayments, deposits and other receivables of HK$561,462,858 and due from non-controlling shareholder of a subsidiary of HK$919,588,146. After taking into consideration these arrangements, the Target Group's cash flows generated from operations and the Target Group's available banking facilities, the Directors believe that the Enlarged Group has sufficient financial resources to meet its financial obligations and finance its operations in the foreseeable future.

INDEBTEDNESS

Bank borrowings

The Target Group obtains bank borrowings as one of its principal sources of funding. As at 31 December 2013 and 31 July 2014, the Target Group had total bank borrowings of HK$89,649,000 and HK$752,786,476, respectively. The general increase in bank borrowings was primarily due to increased capital needs in connection with property development activities.

The Target Group's bank loans are wholly-repayable in October 2016. The bank borrowings are denominated in Renminbi and bears average effective interest rate per annum at 3-year RMB loan rate plus 5%. The Target Group's bank loans are secured by pledges over certain of the Target Group's properties under development with an aggregate carrying value of HK$1,762,048,417 and HK$1,888,568,669 as at 31 December 2013 and 31 July 2014, respectively.

During the Relevant Periods, the Target Group obtained all of its bank borrowings from China Merchant Bank, and its bank loan agreements substantially followed the standard terms adopted by this bank. The Directors are of the view that there are no material covenants in the Target Group's bank borrowings that impose a substantial limitation on the Target Group's ability to obtain further financing. During the Relevant Periods, and up to the Latest Practicable Date, the Directors have confirmed that the Target Group had no material default or breaches of covenants under its bank borrowings.

Interest-bearing loans from related parties

As at 31 December 2011, 2012, 2013 and 31 July 2014, the Target Group had interest-bearing loans from related parties of HK$155,359,800, HK$2,966,449,108, HK$3,863,472,276 and HK$3,301,386,336, respectively. As at 31 December 2012, the amount due to an intermediate holding company of HK$128,819,156 was interest-bearing. These loans and the amount due to the intermediate holding company were obtained primarily to fund the capital needs in connection with property development activities. The following table sets out the Target Group's outstanding interest-bearing loans from and the amount due to related parties as at the dates indicated:

	At 31 December			At 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Amount due to:				
An intermediate holding company	–	128,819,156	–	–
Current loans from:				
A fellow subsidiary	155,359,800	387,545,000	868,324,800	867,955,200
An intermediate holding company	–	–	–	697,489,536
	155,359,800	387,545,000	868,324,800	1,565,444,736
Non-current loans from:				
An intermediate holding company	–	2,450,084,952	2,995,147,476	1,735,941,600
Total	155,359,800	2,966,449,108	3,863,472,276	3,301,386,336

The loans from a fellow subsidiary are from CATIC. The loans are unsecured and wholly-repayable within 1 year. The loans bear interest at 6.56%, 6.56 to 8%, 6.56 to 8%, and 6.56 to 8% for the period from 16 November 2010 (date of incorporation) to 31 December

2011, the years ended 31 December 2012 and 2013, and the seven months ended 31 July 2014, respectively. On 27 November 2014, part of the loans from CATIC was repaid and the loans were reduced from HK$867,955,200 as at 31 July 2014 to HK$622,000,000.

The loans from an intermediate holding company are from Hangfa Investment and are secured. Except for the amount of HK$697,489,536 as at 31 July 2014 which is repayable within one year, all the remaining loans from an intermediate holding company are not repayable within one year. The loans bear interest at 15%, 10 to 15% and 10% for the years ended 31 December 2012, 2013, and the seven months ended 31 July 2014, respectively. On 14 November 2014, part of these loans was repaid, and the loans were reduced from HK$2,433,431,136 as at 31 July 2014 to HK$1,691,601,900.

CONTRACTUAL OBLIGATIONS AND CAPITAL EXPENDITURES

The following table shows the amounts of commitment and certain contractual obligations of the Target Group as at 31 July 2014:

	At 31 July 2014 *HK$*
Operating lease arrangement for a property	125,520
Contracted, but not provided for property development expenditure	550,793,609
Contracted, but not provided for acquisition of land	466,565,400
Total	1,017,484,529

The Target Group plans to finance the above project by using internally generated cash. As at the Latest Practicable Date, the Company had no definite plan to conduct specific fund raising activities on the capital market to finance such capital expenditures.

The Target Group may plan for additional project developments in the future which would require additional capital expenditures. However, currently there are no definitive project development plans and there are no firm requirements for capital expenditures other than those disclosed above.

OFF-BALANCE SHEET ARRANGEMENTS

During the Relevant Periods and as of the Latest Practicable Date, the Target Group had not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. The Target Group does not have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to the Target Group.

KEY FINANCIAL RATIO

The following financial ratio is calculated based on the financial information extracted from the Accountants' Report of the Target Group in Appendix II to this circular.

Total debt to total capital ratio

The Target Group's total debt to total capital ratio, which is calculated by dividing total debt (comprising bank borrowings, loans from related parties and amounts due to related parties) by the sum of total debt and total equity, was 101%, 90%, 93% and 94% as at 31 December 2011, 2012 and 2013 and 31 July 2014, respectively.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

The Target Group is exposed to various types of market risks, including currency risk, interest rate risk and liquidity risk in its normal course of business.

Currency risk

The Target Group reports its financial results in Hong Kong dollars, while substantially all of its revenue and most of its costs are denominated in Renminbi. As a result, the Target Group is exposed to the risk of fluctuations in foreign exchange rates. The Target Group currently does not have a foreign currency hedging policy. However, the management of the Target Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table details Dalian Hanghua's sensitivity to a 5% increase and decrease in Renminbi against Hong Kong dollars while all other variables are held constant, which represents the assessment of management of the Target Group of the reasonably possible change in foreign exchange rate:

	Year ended 31 December			Seven months ended 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Increase/(Decrease) in Net Assets of Dalian Hanghua				
– if Renminbi weakens against Hong Kong dollars by 5%	–	(35,889,815)	(35,530,775)	(34,200,754)
– if Renminbi strengthens against Hong Kong dollars by 5%	–	35,889,815	35,530,775	34,200,754

Interest rate risk

The Target Group's exposure to the risk of changes in market interest rates relates primarily to the Target Group's debt obligations with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates at the end of each of the Relevant Periods, with all other variables held constant, of the Target Group's loss after tax and the Target Group's equity/deficiency in assets (through the impact on floating rate borrowings) and after the effect of interest being capitalised under property development projects of HK$210,316,291, HK$379,606,389, and HK$202,181,199 during the years ended 31 December 2012 and 2013, and the seven months ended 31 July 2014, respectively.

	Increase/(decrease) in basis points	**Increase/(decrease) in profit after tax and equity**
		HK$
31 December 2011		
USD	100	(251,637)
USD	(100)	251,637
31 December 2012		
USD	100	(1,551,320)
USD	(100)	1,551,320
31 December 2013		
USD	100	(65,876)
USD	(100)	65,876
31 July 2014		
USD	100	(2,790,885)
USD	(100)	2,790,885

Liquidity risk

As at 31 December 2011, 2012 and 2013 and 31 July 2014, the Target Group's total assets less current liabilities amounted to HK$(1,599,299), HK$2,770,216,976, HK$3,397,116,312 and HK$2,752,500,527, respectively, and the net current assets/(liabilities) amounted to HK$(1,599,299), HK$2,758,379,530, HK$3,375,461,929 and HK$2,727,129,488, respectively. The Target Group's net current liabilities position as at 31 December 2011 was mainly attributable to the loans from a fellow subsidiary. The Target Group has made various arrangements to settle certain of these amounts prior to or upon the Completion, as discussed in further details under the section headed "– Current Net Assets/(Liabilities)" above. On 14 November 2014, part of these loans to the intermediate holding company was repaid, and the loans from the intermediate holding company were reduced from HK$2,433,431,136 as at 31 July 2014 to HK$1,685,617,987. After considering the foregoing factors, the cash flows from operations and the available banking facilities, the management of the Target Group considers that the Target Group has sufficient financial resources to meet its financial obligations and to finance its operations in the foreseeable future.

RELATED PARTY TRANSACTIONS

The related party transactions of the Target Group during the Relevant Periods are set out in note 27 to the Accountants' Report on the Target Group in Appendix II of this circular. Some of these related party transactions which are expected to continue after the Completion and will constitute continuing connected transactions of the Company are set out in the section headed "Connected Transactions" under the Letter from the Board in this circular.

DIVIDENDS AND DIVIDEND POLICY

During the Relevant Periods, the Target Group did not declare any dividends. The Directors may recommend a payment of a dividend in the future after taking into account various relevant factors, including the financial condition, capital requirements and earnings of the Enlarged Group. There is no guarantee that dividends will be paid in the future. Any cash dividend will be paid in Hong Kong dollars and other distributions (if any) will be paid to the Shareholders by any means as the Directors deem legal, fair and practical.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The unaudited financial information of the Enlarged Group, which illustrates the impact of the Acquisition on the Group's financial position as at 30 June 2014 as if the Acquisition had taken place on 30 June 2014 and on the Group's financial performance and cash flows for the year ended 31 December 2013 as if the Acquisition had taken place on 1 January 2013, is set out in "Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group" in this circular.

PROPERTY VALUATION

Reconciliation of the value of the Target Group's properties under development and the rights to properties as at 31 July 2014 from the Accountants' Report per Appendix II to the valuation as at 31 October 2014:

	Properties under development *HK$'000*	**Deposit paid for acquisition of land** *HK$'000*	**Total** *HK$'000*
Net book value as at 31 July 2014	3,831,617	479,905	4,311,522
Additional development costs for properties under development and additional deposit paid for acquisition of land from 1 August 2014 to 31 October 2014 per management accounts	174,492(i)	460,644(i)	635,136
Net book value as at 31 October 2014 per management accounts	4,006,109	940,549	4,946,658
Add: revaluation surplus, before taxes	756,391	62,751	819,142
Valuation as at 31 October 2014	4,762,500(ii)	1,003,300(ii)	5,765,800(ii)

Notes:

(i) The additional development costs for properties under development from 1 August 2014 to 31 October 2014 refer to the construction cost for the Dalian project, which amounted to approximately RMB137,395,000. The additional deposit paid for acquisition of land refers to the consideration in the amount of RMB370,290,000 paid for the Chongqing Site in September 2014.

(ii) The conversion of Renminbi into Hong Kong dollars is based on the approximate exchange rate of RMB1 to HK$1.27.

MATERIAL ACQUISITIONS AND DISPOSALS

The Target Group did not have material acquisitions and disposals of subsidiaries and associated companies during the Relevant Periods.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the Target Group's financial or trading position or prospects since 31 July 2014 and up to the date of this circular.

EMPLOYEES AND REMUNERATION POLICY

During the Relevant Periods, the Target Group carried out its operations through three full-time employees and relied on project management services provided by a subsidiary of AVIC International.

For the period from 16 November 2010 (date of incorporation) to 31 December 2011, the years ended 31 December 2012 and 2013 and the seven months ended 31 July 2014, the aggregate staff salaries and pension scheme contributions amounted to approximately nil, HK$615,111, HK$667,940 and HK$388,149 respectively.

By 14 November 2014, the Target Group had recruited 66 employees from the subsidiary of AVIC International and it no longer needed to engage AVIC International to provide project management services. The Target Group's hiring policy is based on the relevant requirements of the position and the relevant property projects, the experience and qualifications of the employees and prevailing market conditions at the relevant time. The remuneration packages for full-time employees of the Target Group typically comprise basic salaries, certain allowances, medical benefits and discretionary year-end bonuses. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme and training programmes. The Target Group had complied with applicable laws and regulations relating to the registration of social insurance and housing fund in the PRC in all material respects up to the Latest Practicable Date.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCES OF FUNDING IN THE COMING YEAR

Subject to the available resources of the Target Group, PRC regulatory environment and the economic conditions, the Target Group may consider to acquire other real estate assets or businesses in the future.

The expected sources of funding of the Target Group in the coming year are property sales, bank loans and other borrowings.

FINANCIAL STATEMENTS OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2013 AND SIX MONTHS ENDED 30 JUNE 2014

The annual report and the audited consolidated financial statements of the Group for each of the three financial years ended 31 December 2011, 2012 and 2013 and the interim review report and the condensed consolidated financial statements of the Group for the six months ended 30 June 2014 were disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkex.com.hk) and the Company's website (http://www.avic-intl.cn):

- Interim report of the Group for the six months ended 30 June 2014 published on 26 August 2014 (pages 14 to 40);
- Annual report of the Group for the year ended 31 December 2013 published on 18 March 2014 (pages 39 to 197);
- Annual report of the Group for the year ended 31 December 2012 published on 18 March 2013 (pages 41 to 185); and
- Annual report of the Group for the year ended 31 December 2011 published on 16 March 2012 (pages 37 to 185).

STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31 October 2014, being the latest practicable date for the purpose of determining the indebtedness prior to the printing of this circular, the total indebtedness on an Enlarged Group basis for the purpose of this indebtedness statement which includes the Group and the Target Group, amounted to approximately HK$4,589 million and comprised interest-bearing bank borrowings of approximately HK$802 million, secured loans from fellow subsidiaries of approximately HK$1,715 million and unsecured loans from a fellow subsidiary of approximately HK$2,072 million.

The Enlarged Group's bank facilities are secured by (i) a pledge of the Enlarged Group's properties under development; (ii) pledges of certain of the Enlarged Group's land and buildings including certain of the land use rights; (iii) pledges of certain of the Group's short term time deposits; (iv) a pledge of the equity interest in Dalian Huabang owned by one of its non-controlling shareholders; (v) pledges of certain properties owned by a director of a subsidiary, his spouse, his spouse's family member and his acquaintance; and (vi) corporate guarantee from a fellow subsidiary of the Enlarged Group.

Contingent liabilities

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance creditors, or any guarantees, or other material contingent liabilities outstanding at the close of business on 31 October 2014.

FINANCIAL AND TRADING PROSPECT

Upon Completion, the Enlarged Group will have acquired two property development projects located in Dalian and Chongqing. The Enlarged Group will be engaged in the development and sale of properties which enables the Enlarged Group to set up a potential growth business with a long-term return. Dalian Hanghua had already commenced pre-sale of certain units of the International Square in June 2013 and it is expected that revenue will be recognised in 2015. The project in Chongqing will commence construction in 2015 and is expected to be completed in 2018. The two projects are expected to provide an identifiable source of future revenues and asset growth to 2019 and 2020. It is expected that the Target Group will have a strong growth potential and will significantly increase the amount of real estate portfolio assets of the Group. This will enable the Enlarged Group to obtain equity and debt financing more easily, which will in turn enhance the Enlarged Group's profitability and facilitate further financing. The Enlarged Group will have strong capability to raise funds to develop its business so as to create value for its Shareholders.

As regards the Company's existing business, currently, the Company and the Board do not have any plan to dispose of, terminate or scale-down the Company's existing principal business. As disclosed in the Interim Report 2014, the Company is committed to making investments in the aero-technology related business and other fields, and aims to enhance its value and create long-term return for the Shareholders in terms of returns on investments and operating profits. Given that China is encouraging the development of its aviation industry, particularly the reform of low-altitude airspace management, the aero-technology related business will have a golden opportunity for development in the future. The knitting and textiles business segment recorded a loss in 2013 and the first half of 2014 due to a downturn in the industry. As the prosperity of the knitting and textile business continues to decline as a result of the condition of the macro economy, the Company is cautiously optimistic about the prospect of the business. Although there is currently no plan to dispose of or scale-down the knitting and textile business, given the downturn in the industry, the Company will carefully observe market trends and continue to review the prospect of this segment in the coming year. In respect of the Company's trading business, it is possible that further development can be attained after more experience has been accumulated. The Company will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolios.

FINANCIAL EFFECTS OF THE ACQUISITION

Following Completion, Ease Triumph will become an indirect wholly-owned subsidiary of the Company and will be accounted for as a subsidiary of the Company. Accordingly, its financial results (including earnings, assets and liabilities) will be consolidated into and reflected in the financial statements of the Group after Completion. Please refer to Appendix III of this circular for the unaudited pro forma financial information of the Enlarged Group, which is prepared for the purpose of illustrating the effects of the Acquisition on the Group's financial position as at 30 June 2014 and the Group's financial performance and cash flows for the year ended 31 December 2013 as if the Completion had taken place on 30 June 2014 and 1 January 2013, respectively.

Earnings

Following completion of the Acquisition, each of the Target Group Companies will become a subsidiary of the Company. The financial results of the Target Group will be fully consolidated into the financial statements of the Company. As shown in the unaudited pro forma consolidated statement of profit or loss of the Enlarged Group in Appendix III to the circular, assuming the Completion had taken place on 1 January 2013, profit attributable to owners of the parent would increase from HK$397 million to HK$869 million, mainly due to discount on acquisition of approximately HK$495 million.

Customers deposits

As at 30 June 2014, the Group did not have any customer deposits. As shown in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to the circular, assuming the Completion had taken place on 30 June 2014, the customers deposits of the Enlarged Group would be HK$1,438 million.

Properties under development

As at 30 June 2014, the Group did not have any properties under development as it was not previously engaged in property development. As shown in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to the circular, assuming the Completion had taken place on 30 June 2014, the properties under development of the Enlarged Group would be HK$4,763 million.

Total assets

Since the assets and liabilities of the Target Group will be consolidated into the financial statements of the Company upon completion of the Acquisition, the equity attributable to the owners of the Company will be enhanced upon Completion. As shown in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to the circular, assuming completion had taken place on 30 June 2014, the Enlarged Group's total assets would increase from approximately of HK$2,182 million to HK$9,488 million.

Total liabilities

As shown in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to this circular, assuming Completion had taken place on 30 June 2014, the Enlarged Group would increase in total liabilities from HK$106,220,000 to HK$6,302,387,000.

Gearing

As at 30 June 2014, the Group's total borrowings was approximately HK$39 million and the total equity was approximately HK$2,076 million. With reference to the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to this circular, assuming the Acquisition had taken place on 30 June 2014, the Enlarged Group would have bank and other borrowings of approximately HK$4,094 million and total equity of approximately HK$3,186 million immediately upon Completion. Accordingly, the gearing ratio of the Enlarged Group would be 56%.

WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the completion of the Acquisition, the Enlarged Group's internal resources, the presently available banking and other facilities, in the absence of unforeseen circumstances, the Enlarged Group will have sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

MATERIAL ACQUISITIONS AFTER THE LATEST FINANCIAL STATEMENTS

There were no material acquisitions after 31 December 2013, being the date to which the latest published audited financial statements of the Group were made up.

MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest published audited financial statements of the Group were made up.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the results of the Group for the financial years ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014. The information is extracted from the annual and interim reports of the Company for the relevant financial years and financial period, respectively, published on both the website of the Stock Exchange (www.hkex.com.hk) and the Company's website (http://www.avic-intl.cn).

The management discussion and analysis for each financial year or the financial period should be read in conjunction with the financial information of the Group included in the respective annual or interim reports of the Company.

For the six months ended 30 June 2014

Business Review

Overall review

For the first half of 2014, the Group recorded turnover of HK$34,886,000 (2013: HK$16,529,000). During the period, the Group commenced to engage in the trading business which contributed HK$8,464,000 to the Group's turnover for the period. Nevertheless, the loss attributable to owners of the parent increased substantially from HK$26,943,000 of 2013 to HK$134,836,000 of 2014, which was mainly resulted from a fair value loss on derivative financial instruments of HK$91,191,000 recorded for the period as compared to the fair value gain of HK$7,796,000 for the corresponding period in 2013. Basic losses per share amounted to HK¢2.92 (2013: HK¢0.58).

Knitting and textile business

For the first half of 2014, the turnover of 浙江東陽金牛針織製衣有限公司 ("Zhejiang Dongyang Jinniu") was HK$26,422,000 (2013: HK$16,529,000) and the sales volume was approximately 1,193 tonnes (2013: 714 tonnes). The gross profit rate dropped from 19% to 10% because several purchase orders with high gross profit rate were received in 2013. The knitting and textile business segment recorded loss of HK$1,051,000 (2013: HK$522,000) for the period.

Trading business

During the period, the Group commenced to engage in the trading of raw materials and auxiliary materials such as electronic components, electronic products and metal materials in Zhejiang Province. The turnover and gross profit rate for the period was HK$8,464,000 and 1% respectively. The trading business segment recorded profit of HK$62,000 for the period.

Aero-technology related business

The Group is entitled to share 80% of the net income in relation to Project EC120 operated by AVIC International Holding Corporation ("AVIC International"), a substantial shareholder of the Company. 3 EC120 helicopters were sold in the first half of 2014. No turnover (2013: Nil) was recorded by the Group for the period as a breakeven was recorded by AVIC International from the operations of Project EC120 which was because AVIC International agreed that its indirect expenses allocated to Project EC120, if any, shall not exceed its share of income net of direct costs and expenses from the operations of Project EC120. As a result, the aero-technology related business segment did not contribute any profit to the Group for the period (2013: Nil).

Others

During the six months ended 30 June 2014, the Group recorded a fair value loss on derivative financial instruments of HK$91,191,000 (2013: fair value gain of HK$7,796,000). The fair values of the derivative financial instruments were determined based on the valuation performed by an independent professionally qualified valuer. The fair value loss represented the decrease in the fair values of the derivative financial instruments as at 30 June 2014 as compared with those as at 31 December 2013, which was mainly due to the substantial drop in the share prices of the underlying securities. The Group also recorded a loss of HK$19,410,000 (2013: Nil) on derecognition of an available-for-sale investment. In addition, the Group recorded share of losses of the joint venture and associates in an aggregate of HK$19,513,000 (2013: HK$20,843,000).

For further information, please refer to the Company's announcement dated 23 September 2014.

Prospects

The Group, as an investment holding company, is committed to making investments in the aero-technology related business and other fields, and aims to enhance its value and create long-term return for its shareholders in terms of returns on investments and operating profits. Given that China is encouraging the development of its aviation industry, particularly the reform of low-altitude airspace management, the aero-technology related business will have a golden opportunity for development in the future. Zhejiang Dongyang Jinniu owns extensive industry experience and established customer base. Nevertheless, as the prosperity of the knitting and textile business declines as a result of the condition of the macro economy, the Group is cautiously optimistic about the prospect of the business. In respect of the Group's new trading business, it is possible that further development can be attained after more experience has been accumulated. The Group will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolios.

Financial Review

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 30 June 2014, the Group had current assets of HK$1,275,269,000 (31 December 2013: HK$1,243,325,000), including cash and bank balances and time deposits in an aggregate of HK$966,998,000 (31 December 2013: HK$1,079,390,000). The Group's current liabilities as at 30 June 2014 were HK$105,301,000 (31 December 2013: HK$117,059,000).

As at 30 June 2014, the Group's equity attributable to owners of the parent amounted to HK$2,071,249,000 (31 December 2013: HK$2,225,230,000), comprising issued capital of HK$461,959,000 (31 December 2013: HK$461,959,000) and reserves of HK$1,609,290,000 (31 December 2013: HK$1,763,271,000). The Group's outstanding bank borrowings as at 30 June 2014 amounted to HK$39,379,000 (31 December 2013: HK$40,382,000). The Group's gearing ratio, calculated on the basis of total bank borrowings as a percentage of equity attributable to owners of the parent, was 2% (31 December 2013: 2%).

The Group's banking facilities are mainly utilised for general working capital requirements.

Charges on the Group's assets

As at 30 June 2014, the following Group's assets were pledged to secure the Group's banking facilities:

(a) certain of the Group's land and buildings with an aggregate net book value of approximately HK$3,663,000 (31 December 2013: HK$3,879,000);

(b) the Group's leasehold land with a net book value of approximately HK$3,057,000 (31 December 2013: HK$3,140,000); and

(c) certain of the Group's short term time deposits amounting to approximately HK$373,000 (31 December 2013: HK$382,000).

Exposure to fluctuations in exchange rates

The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the unit's functional currency. In view of the fact that the Group tries to match its assets and liabilities with the same currency, the Group's exposure to foreign currency risk is minimal.

Material Acquisitions and Disposals

The Group had no material acquisitions or disposals during the period.

Contingent Liabilities

As at 30 June 2014, the Company had given financial guarantees to a bank for banking facilities granted to a subsidiary of HK$93,000,000 (31 December 2013: HK$93,000,000) which were not utilised.

Employees and Remuneration Policy

As at 30 June 2014, there were 92 (31 December 2013: 68) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

For the financial year ended 31 December 2013

Business Review

Overall review

In 2013, the Group recorded turnover of HK$47,979,000 (2012: HK$87,328,000) and profit attributable to owners of the parent of HK$397,242,000 (2012: HK$359,651,000). Basic earnings per share amounted to HK¢8.57 (2012: HK¢7.70).

Knitting and textile business

In 2013, the purchase orders received by 浙江東陽金牛針織製衣有限公司 ("Zhejiang Dongyang Jinniu") reduced obviously as compared to 2012 due to a downturn in the industry of knitting and textile business. The turnover was HK$47,979,000 (2012: HK$87,328,000) and the sales volume was approximately 2,219 tonnes (2012: 3,135 tonnes). The gross profit rate was 11% (2012: 12%). The knitting and textile business segment recorded loss of HK$1,157,000 (2012: profit of HK$2,743,000) for the year.

Aero-technology related business

The Group is entitled to share 80% of the net income in relation to Project EC120 operated by AVIC International Holding Corporation ("AVIC International"), a substantial shareholder of the Company. 9 EC120 helicopters were sold in 2013. No turnover was recorded by the Group for both 2013 and 2012 as a breakeven was recorded by AVIC International from the operations of Project EC120 which was because AVIC International agreed that its indirect expenses allocated to Project EC120, if any, shall not exceed its share of income net of direct costs and expenses from the operations of Project EC120. As a result, the aero-technology related business segment did not contribute any profit to the Group for the year (2012: Nil).

Others

As disclosed in the announcement and circular of the Company dated 10 April 2013 and 6 May 2013, respectively, the Group and all other shareholders of Sinbo Investment Limited ("Sinbo") entered into a sale and purchase agreement on 8 April 2013 with Peace Map Holding Limited (formerly known as Mongolia Investment Group Limited) and its directly wholly-owned subsidiary, Jichang Investments Limited ("Jichang"), to dispose of their entire equity interests in Sinbo to Jichang (the "Disposal"). The Group held 22.66% equity interest in Sinbo which had been classified as asset held for sale at its net carrying value of HK$60,000,000 as at 31 December 2012. On 2 August 2013, the Disposal was completed as disclosed in the announcement dated 2 August 2013. As a result, a gain on disposal of associates of HK$358,423,000 (2012: HK$19,958,000) was recorded by the Group.

During the year, the Group disposed of certain listed investments and recorded net gain on disposal of available-for-sale investments of HK$140,209,000 (2012: HK$223,313,000). In addition, the Group recorded share of profits of the joint venture and associates in an aggregate of HK$28,838,000 (2012: HK$207,650,000). The decrease was mainly because the joint venture recorded a profit drop for the year as there was a decrease in the gain arising from the disposal of its available-for-sale investments during the year. The Group also recorded bank interest income of HK$17,642,000 (2012: HK$14,137,000) for the year. Nevertheless, during the year, a provision for impairment of loans to an associate of HK$19,000,000 (2012: Nil) was made as the associate has been loss-making in recent years.

Prospects

The Group, as an investment holding company, is committed to making investments in the aero-technology related business and other fields, and aims to enhance its value and create long-term return for its shareholders in terms of returns on investments and operating profits. Given that China is encouraging the development of its aviation industry, particularly the reform of low-altitude airspace management, the aero-technology related business will have a golden opportunity for development in future. Zhejiang Dongyang Jinniu owns extensive industry experience and established customer base. Nevertheless, as the prosperity of the knitting and textile business declines as a result of the condition of the macro economy, the Group is cautiously optimistic about the prospect of the business. The Group will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolios.

Financial Review

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 31 December 2013, the Group had current assets of HK$1,243,325,000 (2012: HK$1,180,482,000), including cash and bank balances and time deposits in an aggregate of HK$1,079,391,000 (2012: HK$1,031,415,000). The Group's current liabilities as at 31 December 2013 were HK$117,060,000 (2012: HK$92,972,000).

During the year, the Company repurchased a total of 31,190,000 shares of the Company on The Stock Exchange of Hong Kong Limited at prices ranging from HK$0.305 to HK$0.36 per share for an aggregate consideration with the relevant expenses totalling HK$10,600,000. All of these repurchased shares were cancelled during the year. Furthermore, 10,616,000 shares of the Company repurchased in 2012 were also cancelled during the year.

As at 31 December 2013, the Group's equity attributable to owners of the parent amounted to HK$2,225,230,000 (2012: HK$1,952,617,000), comprising issued capital of HK$461,959,000 (2012: HK$466,140,000) and reserves of HK$1,763,271,000 (2012: HK$1,486,477,000). The Group's outstanding bank borrowings as at 31 December 2013 amounted to HK$40,382,000 (2012: HK$14,625,000). The Group's gearing ratio, calculated on the basis of total bank borrowings as a percentage of equity attributable to owners of the parent, was 2% (2012: 1%).

The Group's banking facilities are mainly utilised for general working capital requirements.

Charges on the Group's assets

As at 31 December 2013, the Group's banking facilities were secured by:

(i) pledges of certain of the Group's land and buildings with an aggregate net book value of approximately HK$3,879,000 (2012: HK$4,111,671);

(ii) pledges of the Group's leasehold land with a net book value of approximately HK$3,140,054 (2012: HK$3,178,592);

(iii) pledges of certain of the Group's short term time deposits amounting to approximately HK$382,166 (2012: HK$6,625,000); and

(iv) pledges of certain properties owned by a director of a subsidiary, his spouse, his spouse's family member and his acquaintance.

As at 31 December 2013, a director of a subsidiary, the spouse of the director, the spouse's acquaintances and the companies controlled by the acquaintances have guaranteed repayment of certain of the Group's bank borrowings amounting to HK$30,573,248 (2012: HK$5,000,000).

Exposure to fluctuations in exchange rates

The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the units' functional currency. In view of the fact that the Group tries to match its assets and liabilities with the same currency, the Group's exposure to foreign currency risk is minimal.

Material Acquisitions and Disposals

Save for the transactions described elsewhere in the relevant annual report, the Group had no other material acquisitions or disposals during the year.

Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2013	**2012**	**2013**	**2012**
	HK$	*HK$*	*HK$*	*HK$*
Guarantees given to banks in connection with facilities granted to:				
Companies controlled by acquaintances of a director of a subsidiary	–	25,000,000	–	–
A subsidiary	–	–	93,000,000	–
	–	25,000,000	93,000,000	–

As at 31 December 2013, the banking facility granted to a subsidiary subject to guarantees given to the bank by the Company was not utilised.

As at 31 December 2012, the banking facilities granted to the companies controlled by acquaintances of a director of a subsidiary subject to guarantees given to banks by the Group were utilised to the extent of HK$15,000,000.

Employees and Remuneration Policy

As at 31 December 2013, there were 68 (2012: 105) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

For the financial year ended 31 December 2012

Business Review

Overall review

In 2011, the Group disposed of its electric and steam power supply business by disposing 53% out of its 56% equity interest in Zhejiang Sealand Thermoelectric Share-Holding Co. ("Zhejiang Sealand"). Details of the disposal were set out in the circular of the Company dated 7 December 2011. Upon the disposal, the electric and steam power supply segment became discontinued.

In 2012, the Group recorded turnover of HK$87,328,000 (2011: HK$303,233,000 (including the discontinued operation)). The profit attributable to equity holders dropped from HK$467,519,000 to HK$359,651,000 which was mainly due to the gain on disposal of Zhejiang Sealand of HK$148,489,000 recorded in 2011. Basic earnings per share amounted to HK¢7.70 (2011: HK¢9.90).

Knitting and textile business

On 28 December 2011, the Group acquired a 51% equity interest in 浙江東陽金牛針織製衣有限公司 ("Zhejiang Dongyang Jinniu") which is engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing in Zhejiang Province, the PRC. As such, the knitting and textile business segment becomes a new reportable operating segment of the Group.

In 2012, the turnover of Zhejiang Dongyang Jinniu was HK$87,328,000 and the sales volume of knitting and textile products for the year was approximately 3,135 tonnes. The overall gross profit rate was 12%. The knitting and textile business segment recorded profit of HK$2,743,000 for the year.

Aero-technology related business

One EC120 helicopter was sold in 2012. No turnover was recorded by the Group as a breakeven was recorded by AVIC International Holding Corporation ("AVIC International"), a substantial shareholder of the Company, from the operations of Project EC120 in 2012 of which the Group shares 80%. The aero-technology related business segment recorded profit of HK$5,289,000 (2011: HK$541,000) for the year.

Others

During the year, the Group completed its disposal of its entire 47.91% equity interest in Fidelity Finance Leasing Limited ("Fidelity Finance") and its subsidiary, and the assignment of the shareholder's loan due and owing to the Group by Fidelity Finance, to Sino Gas Finance Limited, a wholly-owned subsidiary of China Environmental Investment Holdings Limited

("CEIH"), an associate of the Group, at an aggregate consideration of HK$51,776,000 which was satisfied by convertible bonds issued by CEIH. As a result, a gain on disposal of associates of HK$19,958,000 (2011: Nil) was recorded by the Group. In addition, in respect of the derivative embedded in the convertible bonds, the Group also recorded fair value loss on derivative financial instrument of HK$12,672,000 in 2012. The fair value of the derivative financial instrument was determined based on the valuation performed by independent professionally qualified valuer. The fair value loss represented a decrease in the fair value of the derivative financial instrument as at 31 December 2012 as compared with that on the issue date which was mainly due to the reduction in the time value of the derivative financial instrument and the drop in share price of CEIH.

During the year, the Group disposed of certain listed investments and recorded net gain on disposal of available-for-sale investments of HK$223,313,000 (2011: HK$331,047,000). In addition, the Group recorded share of profits of jointly-controlled entity and associates of HK$207,650,000 (2011: HK$127,951,000). The increase was mainly attributable to the satisfactory results achieved by the jointly-controlled entity as it recorded a substantial gain on disposal of its available-for-sale investments. The Group also recorded bank interest income of HK$14,137,000 (2011: HK$3,361,000) and dividend income from an available-for-sale listed investment of HK$4,377,000 (2011: HK$5,250,000) for the year.

Prospects

The Group, as an investment holding company, is committed to making investments in the aero-technology related business and other fields, and aims to enhance its value and create long-term return for its shareholders with returns on investments and operating profits. Given that China is encouraging the development of its aviation industry, particularly the reform of low-altitude airspace management, the aero-technology related business will have a golden opportunity for development in future. Meanwhile, with the extensive industry experience and established customer base of Zhejiang Dongyang Jinniu, the Group is optimistic about the prospect of its knitting and textile business. The Group will identify the projects with a bright development prospect, and will continue to review and optimise its business portfolios.

Financial Review

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 31 December 2012, the Group had current assets of HK$1,180,482,000 (2011: HK$1,245,575,000), including cash and bank balances and time deposits in an aggregate of HK$1,031,415,000 (2011: HK$796,308,000). The Group's current liabilities as at 31 December 2012 were HK$92,972,000 (2011: HK$268,209,000).

During the year, the Company repurchased a total of 30,070,000 shares of the Company on The Stock Exchange of Hong Kong Limited at prices ranging from HK$0.227 to HK$0.255 per share for an aggregate consideration with the relevant expenses totalling HK$7,288,000. 19,454,000 repurchased shares were cancelled during the year while 10,616,000 repurchased shares were subsequently cancelled.

As at 31 December 2012, the Group's equity attributable to equity holders of the parent amounted to HK$1,952,617,000 (2011: HK$2,150,907,000), comprising issued capital of HK$466,140,000 (2011: HK$468,085,000) and reserves of HK$1,486,477,000 (2011: HK$1,682,822,000). The Group's outstanding bank borrowings as at 31 December 2012 amounted to HK$14,625,000 (2011: HK$37,073,000). The Group's gearing ratio, calculated on the basis of total bank borrowings as a percentage of equity attributable to equity holders of the parent, was 1% (2011: 2%).

The Group's banking facilities are mainly utilised for general working capital requirements.

Charges on the Group's assets

As at 31 December 2012, the Group's banking facilities were secured by:

(i) pledges of certain of the Group's land and buildings with an aggregate net book value of approximately HK$4,111,671 (2011: HK$3,964,146);

(ii) pledges of the Group's leasehold land with an aggregate net book value of approximately HK$3,178,592 (2011: HK$3,205,171);

(iii) pledges of certain of the Group's short term time deposits amounting to HK$6,625,000 (2011: HK$365,854); and

(iv) pledges of certain properties owned by a director of a subsidiary, his spouse, his spouse's family member and his acquaintance.

As at 31 December 2012, a director of a subsidiary, the spouse of the director, the spouse's acquaintances and the companies controlled by the acquaintances have guaranteed repayment of certain of the Group's bank borrowings amounting to HK$5,000,000 (2011: HK$30,487,805).

Exposure to fluctuations in exchange rates

The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the units' functional currency. In view of the fact that the Group tries to match its assets and liabilities with the same currency, the Group's exposure to foreign currency risk is minimal.

Material Acquisitions and Disposals

Save for the transactions described elsewhere in the relevant annual report, the Group had no other material acquisitions or disposals during the year.

Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2012	**2011**
	HK$	*HK$*
Guarantees given to banks in connection with facilities granted to companies controlled by acquaintances of a director of a subsidiary	25,000,000	28,170,732

As at 31 December 2012, the banking facilities granted to the companies controlled by acquaintances of a director of a subsidiary subject to guarantees given to banks by the Group were utilised to the extent of HK$15,000,000 (2011: HK$28,170,732).

Employees and Remuneration Policy

As at 31 December 2012, there were 105 (2011: 97) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

For the financial year ended 31 December 2011

Business Review

Overall review

The Group's consolidated results for 2011 improved substantially in comparison with last year. In 2011, the Group recorded turnover of HK$303,233,000 (2010: HK$274,386,000) and profit attributable to equity holders of HK$467,519,000 (2010: HK$36,062,000). Basic earnings per share amounted to HK¢9.90 (2010: HK¢0.76). The improvement in results was mainly attributable to the gain recorded on disposal of the electric and steam power supply business and on disposal of certain available-for-sale investments.

Electric and steam power supply

During the year, the Group disposed of its electric and steam power supply business by disposing 53% out of its 56% equity interest in Zhejiang Sealand Thermoelectric Share-Holding Co., a non-wholly-owned subsidiary of the Group, so as to realise its investment in this business and to invest in businesses in other industries with better growth prospects, with an aim to restructure its business portfolio and to increase shareholders' value. A gain on disposal of subsidiaries of HK$148,489,000 (2010: Nil) was recorded. The details of this disposal have been contained in the circular dated 7 December 2011.

In 2011, the turnover contributed by this discontinued operation amounted to HK$303,233,000 (2010: HK$273,732,000). Together with the gain on disposal of subsidiaries, this discontinued operation contributed profit of HK$152,766,000 (2010: HK$18,320,000) to the Group's profit for the year.

Aero-technology related business

Totally 10 EC120 helicopters were sold in 2011. However, no turnover (2010: HK$654,000) was recorded by the Group on this as a loss was incurred by AVIC International Holding Corporation ("AVIC International"), a substantial shareholder of the Company, from the operations of Project EC120 of which the Group shares 80%. The Group did not make any provision for impairment (2010: HK$3,459,000) against the financial assets thereunder for the year as the financial assets had been fully impaired as at 31 December 2010. The aero-technology related business segment recorded profit of HK$541,000 (2010: loss of HK$4,037,000) for the year.

Knitting and textile

During the year, the Group acquired 51% equity interest in 浙江東陽金牛針織製衣有限公司 ("Zhejiang Dongyang Jinniu") at a cash consideration of RMB7,000,000 (equivalent to approximately HK$8,537,000). Zhejiang Dongyang Jinniu is engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing in Zhejiang Province, the PRC. The acquisition was considered as a good opportunity for the Group to diversify its source of revenue. The details of this acquisition have been contained in the circular dated 17 November 2011. The acquisition was completed on 28 December 2011.

Others

During the year, the convertible bonds held by the Group and issued by China Environmental Investment Holdings Limited ("CEIH") (formerly known as Sino Gas Group Limited), an associate of the Group, became mature and were converted into 137,500,000 ordinary shares of CEIH at a conversion price of HK$0.2 per share. As a result, a net gain on the additional investment in an associate of HK$2,143,000 (2010: Nil) was recorded.

For the year ended 31 December 2011, the Group disposed certain listed investments and recorded gain on disposal of available-for-sale investments of HK$331,047,000 (2010: Nil). In addition, the Group recorded share of profits of jointly-controlled entity and associates of HK$127,951,000 (2010: losses of HK$5,647,000). The increase was mainly attributable to the satisfactory results achieved by the jointly-controlled entity for the year.

Prospects

Looking forward, the Group is optimistic about the prospects of the knitting and textile business in light of (i) the continuing economic development in the PRC; (ii) the increasing per capita disposable income in the PRC; and (iii) the extensive industrial experience and established customer base of Zhejiang Dongyang Jinniu. At the same time, the Group will keep reviewing the business portfolio from time to time, and will continue to identify possible acquisition opportunities in businesses in other industries with good prospects, with the aim to optimise its business portfolio and to increase shareholders' value.

Financial Review

Liquidity, capital structure and financial resources

The Group has consistently maintained sufficient working capital. As at 31 December 2011, the Group had current assets of HK$1,245,575,000 (2010: HK$580,674,000), including cash and bank balances and time deposits in an aggregate of HK$796,308,000 (2010: HK$374,448,000). The Group's current liabilities as at 31 December 2011 were HK$268,209,000 (2010: HK$166,216,000).

During the year, the Company repurchased a total of 73,546,000 shares of the Company on The Stock Exchange of Hong Kong Limited at prices ranged from HK$0.25 to HK$0.345 per share for an aggregate consideration of HK$25,087,000. All the relevant share certificates in respect of the repurchased shares have been duly cancelled.

As at 31 December 2011, the Group's equity attributable to equity holders of the parent amounted to HK$2,150,907,000 (2010: HK$3,362,078,000), comprising issued capital of HK$468,085,000 (2010: HK$475,440,000) and reserves of HK$1,682,822,000 (2010: HK$2,886,638,000). The Group's outstanding bank borrowing as at 31 December 2011 amounted to HK$37,073,000 (2010: HK$55,882,000). The Group's gearing ratio, calculated on the basis of total bank borrowings as a percentage of equity attributable to equity holders of the parent, was 2% (2010: 2%).

The Group's banking facilities are mainly utilised for general working capital requirements.

Charges on the Group's assets

As at 31 December 2011, the Group's banking facilities were secured by:

(i) pledges of certain of the Group's land and buildings with an aggregate net book value of approximately HK$3,964,146 (2010: HK$27,115,872);

(ii) pledges of certain of the Group's leasehold land with an aggregate net book value of approximately HK$3,205,171 (2010: HK$28,147,050);

(iii) pledges of certain of the Group's short term deposits amounting to HK$365,854 (2010: HK$34,444,706); and

(iv) pledges of certain properties owned by a director of a subsidiary, his spouse, his spouse's family member and his acquaintance.

As at 31 December 2011, a director of a subsidiary, spouse of the director, the spouse's acquaintances and the companies controlled by the acquaintances have guaranteed repayment of certain of the Group's bank borrowings amounting to HK$30,487,805. In the prior year, the Group's short term bank loans of HK$23,529,412 were guaranteed by an independent third party.

Exposure to fluctuations in exchange rates

The Group's foreign currency exposures primarily arise from certain sales or purchases by operating units in currencies other than the units' functional currency. In view of the fact that the Group tries to match its assets and liabilities with the same currency, the Group's exposure to foreign currency risk is minimal.

Material Acquisitions and Disposals

Business Combination

On 28 December 2011, the Group acquired a 51% interest in Zhejiang Dongyang Jinniu from Mr. Wu Xiaogang ("Mr. Wu"), a third party independent of the Company. Zhejiang Dongyang Jinniu is engaged in the production and distribution of knitting and textile products, knitted fabrics and clothing in Zhejiang Province, the PRC. The acquisition was considered as a good opportunity for the Group to invest in other business with an aim to diversify the Group's source of revenue and to increase shareholders' value. The purchase consideration for the acquisition of RMB7,000,000 (equivalent to approximately HK$8,536,585) was paid in cash on 28 December 2011.

The Group has elected to measure the non-controlling interest in Zhejiang Dongyang Jinniu at the non-controlling interests' proportionate share of Zhejiang Dongyang Jinniu's identifiable net assets.

The fair values of the identifiable assets and liabilities of Zhejiang Dongyang Jinniu as at the date of acquisition are as follows:

	Fair value recognised on acquisition
	HK$
Property, plant and equipment	19,331,133
Prepaid land lease payments	3,205,171
Intangible asset	1,140,980
Inventories	4,540,453
Trade and bills receivables	10,965,384
Prepayments, deposits and other receivables	42,678,391
Pledged time deposits	365,854
Cash and cash equivalents	3,598,718
Due to non-controlling shareholder of a subsidiary	(94,895)
Trade and bills payables	(23,371,666)
Tax payable	(400,082)
Other payables and accruals	(15,144,232)
Interest-bearing bank borrowings	(37,073,171)
Deferred tax liabilities	(1,226,591)
Total identifiable net assets at fair value	8,515,447
Non-controlling interests	(4,172,569)
Goodwill on acquisition	4,193,707
Satisfied by cash	8,536,585

The fair values of the trade and bills receivables and other receivables as at the date of acquisition amounted to HK$10,965,384 and HK$41,801,610, respectively. The gross contractual amounts of the trade and bills receivables and other receivables were HK$15,179,545 and HK$43,716,244, respectively, of which trade and bills receivables of HK$4,214,161 and other receivables of HK$1,914,634 are expected to be uncollectible.

Mr. Wu and his spouse, Ms. Du Jianping ("Ms. Du"), have provided (i) a pledge of 49% equity interest in Zhejiang Dongyang Jinniu held by Mr. Wu; (ii) a pledge of 30% equity interest in 東台怡源製衣有限公司 held by Ms. Du; and (iii) a mortgage undertaking in respect of three properties situated at Dongyang City, Zhejiang Province jointly or separately owned by Mr. Wu and/or Ms. Du, as securities to the Group in respect of the other receivables held by Zhejiang Dongyang Jinniu at the end of the reporting period. In addition, Mr. Wu also provided guarantee to the Group that Mr. Wu will bear the loss, if any, arising from financial guarantees provided by the Group to certain companies controlled by acquaintances of Mr. Wu.

The Group incurred transaction costs of HK$1,486,964 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated income statement.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK$
Cash consideration	(8,536,585)
Cash and cash equivalents acquired	3,598,718
Net outflow of cash and cash equivalents included in cash flows from investing activities	(4,937,867)
Transaction costs of the acquisition included in cash flows from operating activities	(1,486,964)
	(6,424,831)

Since the acquisition, no contribution from Zhejiang Dongyang Jinniu to the Group's revenue and to the consolidated profit for the year ended 31 December 2011 was noted.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$110,895,968 and HK$477,384,565, respectively.

Disposal of Subsidiaries

Prior to the disposals of the Group's interest in Zhejiang Sealand, the Group held a 56% equity interest therein, 49% of which through its direct wholly-owned subsidiary, Polyson, and 7% through CATIC Helicopter SZ, an indirect wholly-owned subsidiary of the Company.

During the year, the Group disposed in aggregate 53% of its equity interest in Zhejiang Sealand together with the Group's loans to Polyson and Zhejiang Sealand at an aggregate consideration of HK$19,994,648 and HK$338,993,455, respectively.

Details of the disposal are as follows:

	2011
	HK$
Net assets disposed of:	
Goodwill	30,493,201
Property, plant and equipment	273,731,616
Prepaid land lease payments	29,884,137
Inventories	10,716,822
Trade and bills receivables	46,863,260
Tax recoverable	3,532,666
Prepayments, deposits and other receivables	34,111,527
Advances to disposed subsidiaries	169,217,461
Cash and bank balances	28,850,116
Trade and bills payables	(7,994,309)
Other payables and accruals	(199,495,477)
Interest-bearing bank borrowings	(87,660,732)
Deferred tax liabilities	(12,661,256)
Non-controlling interests	(71,818,526)
	247,770,506
Consideration	372,184,088
Gain on net assets disposed	124,413,582
Release of exchange fluctuation reserve	24,075,453
Gain on disposal of subsidiaries	148,489,035
The consideration is satisfied by:	
Cash	189,984,088
A deferred consideration*	184,000,000
Less: transaction costs	(1,800,000)
	372,184,088

* HK$184,000,000 of the aggregate consideration for the disposal of the 53% interest in Zhejiang Sealand is to be settled not later than the earlier of (i) the first anniversary of the completion date; or (ii) 31 December 2012 ("Deferred Consideration"). All the issued and paid up share capital of Polyson and Asia Capital Financial Group Limited, a wholly-owned subsidiary of Hong Kong Yuanhe International Trade Group Limited, one of the purchasers, who owns 21% of the total equity interest in Zhejiang Sealand, is pledged as security to the Company for the Deferred Consideration. Upon receipt of this Deferred Consideration, the Company shall release the share charge. Such outstanding consideration has been included in other receivable at the end of the reporting period.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2011
	HK$
Cash consideration (net of transaction costs)	188,184,088
Cash and bank balances disposed of	(28,850,116)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	159,333,972

The net cash flows incurred by the subsidiaries disposed are as follows:

	2011	**2010**
	HK$	*HK$*
Operating activities	(55,864,240)	(16,959,984)
Investing activities	24,133,655	(7,097,287)
Financing activities	29,733,902	26,470,588
Net cash inflow/(outflow)	(1,996,683)	2,413,317

Save for the above and transactions described elsewhere in the annual report of 2011, the Group had no other material acquisitions or disposals during the year.

Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2011	**2010**
	HK$	*HK$*
Guarantees given to banks in connection with facilities granted to:		
Major suppliers	–	54,117,647
Companies controlled by acquaintances of a director of a subsidiary	28,170,732	–
	28,170,732	54,117,647

As at 31 December 2011, the banking facilities granted to the companies controlled by acquaintances of a director of a subsidiary subject to guarantees given to banks by the Group were utilised to the extent of HK$28,170,732 (2010: Nil). In the prior year, the banking facilities granted to major suppliers subject to guarantees given to banks by the Group were utilised to the extent of HK$54,117,647.

Employees and Remuneration Policy

As at 31 December 2011, there were 97 (2010: 271) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

The following is the text of a report prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. Terms defined herein apply to this report only.

The Board of Directors
AVIC International Holding (HK) Limited

Dear Sirs,

We set out below our report on the financial information of Ease Triumph International Limited (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") comprising the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the period from 16 November 2010 (date of incorporation) to 31 December 2011, for each of the two years ended 31 December 2012 and 2013 and the seven months ended 31 July 2014 (the "Relevant Periods"), and the consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 2013 and 31 July 2014, and the statements of financial position of the Company as at 31 December 2011, 2012 and 2013 and 31 July 2014, together with the notes thereto (the "Financial Information"), and 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 seven months ended 31 July 2013 (the "31 July 2013 Financial Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the circular of AVIC International Holding (HK) Limited dated 11 December 2014 (the "Circular") in connection with the proposed acquisition of the entire share capital of the Company at a cash consideration of HK$325,881,324 (the "Acquisition").

The Company was incorporated in Hong Kong with limited liability on 16 November 2010. The principal activity of the Company is investment holding. The principal activities of the Group during the Relevant Periods were investment holding and property development in the People's Republic of China (the "PRC").

The statutory financial statements of the Company for the period from 16 November 2010 (date of incorporation) to 31 December 2011 and for each of the two years ended 31 December 2012 and 2013 were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") and were audited by Richard Poon & Co. Certified Public Accountants and Richard Poon & Partners (C.P.A.) Limited, respectively.

As at the date of this report, the Company has direct interest in a subsidiary as set out in note 12 of Section II below. The financial statements of the subsidiary for the years ended 31 December 2012 and 2013 were prepared in accordance with the People's Republic of China Generally Accepted Accounting Principles ("PRC GAAP") and were audited by 大華會計師事務所.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the consolidated financial statements of the Group (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for the period from 16 November 2010 (date of incorporation) to 31 December 2011, for each of the years ended 31 December 2012 and 2013, and the seven months ended 31 July 2014 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared based on the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The directors of the Company are responsible for the preparation of the Underlying Financial Statements, the Financial Information and the 31 July 2013 Financial Information that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Underlying Financial Statements, the Financial Information and the 31 July 2013 Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion and a review conclusion on the Financial Information and the 31 July 2013 Financial Information, respectively, and to report our opinion and review conclusion thereon to you.

For the purpose of this report, we have carried out procedures as we consider necessary on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

We have also performed a review of the 31 July 2013 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the 31 July 2013 Financial Information.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION

In our opinion, for the purpose of this report, the Financial Information gives 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 31 July 2014 and the consolidated results and cash flows of the Group for each of the Relevant Periods.

REVIEW CONCLUSION IN RESPECT OF THE 31 JULY 2013 FINANCIAL INFORMATION

Based on our review which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the 31 July 2013 Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Period from 16 November 2010 (date of incorporation) to 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	Seven months ended 31 July 2013	Seven months ended 31 July 2014
		HK$	HK$	HK$	HK$ (unaudited)	HK$
REVENUE	5	–	–	–	–	–
Other income and gains	5	50,531	–	681,210	627,600	380,352
Selling expenses		–	(6,816,235)	(37,928,492)	(15,066,178)	(16,219,512)
Administrative and other operating expenses		(1,888)	(5,084,116)	(177,728)	(303,870)	(403,244)
Finance costs	6	(1,647,944)	(43,002,557)	(526,833)	–	(22,326,218)
LOSS BEFORE TAX	7	(1,599,301)	(54,902,908)	(37,951,843)	(14,742,448)	(38,568,622)
Income tax credit	9	–	11,687,783	9,330,112	3,627,846	4,155,414
LOSS FOR THE YEAR/PERIOD		(1,599,301)	(43,215,125)	(28,621,731)	(11,114,602)	(34,413,208)
Attributable to:						
Owners of the parent	10	(1,599,301)	(26,412,769)	(15,208,762)	(5,899,212)	(28,439,385)
Non-controlling interests		–	(16,802,356)	(13,412,969)	(5,215,390)	(5,973,823)
		(1,599,301)	(43,215,125)	(28,621,731)	(11,114,602)	(34,413,208)
OTHER COMPREHENSIVE INCOME						
Other comprehensive income to be reclassified to profit and loss in subsequent periods:						
Exchange differences on translation of foreign operation		–	3,922,186	20,809,543	12,261,362	(14,134,177)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX		–	3,922,186	20,809,543	12,261,362	(14,134,177)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD		(1,599,301)	(39,292,939)	(7,812,188)	1,146,760	(48,547,385)
Attributable to:						
Owners of the parent	10	(1,599,301)	(22,292,410)	(4,172,977)	684,680	(34,895,197)
Non-controlling interests		–	(17,000,529)	(3,639,211)	462,080	(13,652,188)
		(1,599,301)	(39,292,939)	(7,812,188)	1,146,760	(48,547,385)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 July
		2011	2012	2013	2014
	Notes	*HK$*	*HK$*	*HK$*	*HK$*
NON-CURRENT ASSETS					
Plant and equipment	*11*	–	11,813	6,780	4,007
Deferred tax asset	*22*	–	11,825,633	21,647,603	25,367,032
Total non-current assets		–	11,837,446	21,654,383	25,371,039
CURRENT ASSETS					
Properties under development	*13*	–	2,708,661,693	3,501,062,282	3,831,617,441
Due from the immediate holding company	*16*	2	2	2	2
Due from an intermediate holding company	*16*	–	–	216,297,883	255,921,096
Due from non-controlling shareholder of a subsidiary	*16*	–	535,614,391	938,270,028	919,588,146
Prepayments, deposits and other receivables	*14*	155,410,200	639,343	536,618,463	561,462,858
Prepaid taxes	*15*	–	63,890,596	79,650,856	120,469,349
Cash and bank balances	*17*	2,243	14,788,004	205,351,792	220,739,067
Total current assets		155,412,445	3,323,594,029	5,477,251,306	5,909,797,959
CURRENT LIABILITIES					
Other payables and accruals	*18*	–	32,542,374	67,950,745	66,504,924
Customers deposits		–	–	1,101,366,908	1,438,406,483
Due to fellow subsidiaries	*16*	1,651,944	14,612,373	43,921,679	82,944,508
Due to an intermediate holding company	*16*	–	128,819,156	20,225,245	29,367,820
Loans from a fellow subsidiary	*19*	155,359,800	387,545,000	868,324,800	867,955,200
Loans from an intermediate holding company	*20*	–	–	–	697,489,536
Tax payable		–	1,695,596	–	–
Total current liabilities		157,011,744	565,214,499	2,101,789,377	3,182,668,471
NET CURRENT ASSETS/(LIABILITIES)		(1,599,299)	2,758,379,530	3,375,461,929	2,727,129,488
TOTAL ASSETS LESS CURRENT LIABILITIES		(1,599,299)	2,770,216,976	3,397,116,312	2,752,500,527
NON-CURRENT LIABILITIES					
Loans from an intermediate holding company	*20*	–	2,450,084,952	2,995,147,476	1,735,941,600
Interest-bearing bank borrowing	*21*	–	–	89,649,000	752,786,476
Total non-current liabilities		–	2,450,084,952	3,084,796,476	2,488,728,076
Net assets/(liabilities)		(1,599,299)	320,132,024	312,319,836	263,772,451
EQUITY					
Equity attributable to the owner of the parent					
Issued capital	*23*	2	2	2	2
Reserves	*24(a)*	(1,599,301)	(23,891,711)	(28,064,688)	(62,959,885)
		(1,599,299)	(23,891,709)	(28,064,686)	(62,959,883)
Non-controlling interests		–	344,023,733	340,384,522	326,732,334
Total equity/(deficiency in assets)		(1,599,299)	320,132,024	312,319,836	263,772,451

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owner of the parent					
	Notes	Issued capital HK$	Exchange fluctuation reserve* HK$	Accumulated losses* HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
Initial issue of shares on incorporation	23	2	–	–	2	–	2
Loss for the period and total comprehensive loss for the period		–	–	(1,599,301)	(1,599,301)	–	(1,599,301)
At 31 December 2011 and 1 January 2012		2	–	(1,599,301)	(1,599,299)	–	(1,599,299)
Loss for the year		–	–	(26,412,769)	(26,412,769)	(16,802,356)	(43,215,125)
Other comprehensive income/(loss) for the year:							
Exchange differences on translation of foreign operation		–	4,120,359	–	4,120,359	(198,173)	3,922,186
Total comprehensive income/(loss) for the year		–	4,120,359	(26,412,769)	(22,292,410)	(17,000,529)	(39,292,939)
Capital contribution from non-controlling shareholders of a subsidiary	12	–	–	–	–	361,024,262	361,024,262
At 31 December 2012 and 1 January 2013		2	4,120,359	(28,012,070)	(23,891,709)	344,023,733	320,132,024
Loss for the year		–	–	(15,208,762)	(15,208,762)	(13,412,969)	(28,621,731)
Other comprehensive income for the year:							
Exchange differences on translation of foreign operation		–	11,035,785	–	11,035,785	9,773,758	20,809,543
Total comprehensive income/(loss) for the year		–	11,035,785	(15,208,762)	(4,172,977)	(3,639,211)	(7,812,188)
At 31 December 2013 and 1 January 2014		2	15,156,144	(43,220,832)	(28,064,686)	340,384,522	312,319,836
Loss for the period		–	–	(28,439,385)	(28,439,385)	(5,973,823)	(34,413,208)
Other comprehensive loss for the period:							
Exchange differences on translation of foreign operation		–	(6,455,812)	–	(6,455,812)	(7,678,365)	(14,134,177)
Total comprehensive loss for the period		–	(6,455,812)	(28,439,385)	(34,895,197)	(13,652,188)	(48,547,385)
At 31 July 2014		2	8,700,332	(71,660,217)	(62,959,883)	326,732,334	263,772,451
(Unaudited)							
At 31 December 2012 and 1 January 2013		2	4,120,359	(28,012,070)	(23,891,709)	344,023,733	320,132,024
Loss for the period		–	–	(5,899,212)	(5,899,212)	(5,215,390)	(11,114,602)
Other comprehensive income for the period:							
Exchange differences on translation of foreign operation		–	6,583,892	–	6,583,892	5,677,470	12,261,362
Total comprehensive income/(loss) for the period		–	6,583,892	(5,899,212)	684,680	462,080	1,146,760
At 31 July 2013		2	10,704,251	(33,911,282)	(23,207,029)	344,485,813	321,278,784

* These reserve accounts comprise the consolidated negative reserves of HK$1,599,301, HK$23,891,711, HK$28,064,688 and HK$62,959,885 in the consolidated statements of financial position as at 31 December 2011, 2012, 2013, and 31 July 2014, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Period from 16 November 2010 (date of incorporation) to 31 December 2011 HK$	Year ended 31 December 2012 HK$	Year ended 31 December 2013 HK$	Seven months ended 31 July 2013 HK$ (unaudited)	Seven months ended 31 July 2014 HK$
CASH FLOWS FROM OPERATING ACTIVITIES						
Loss before tax		(1,599,301)	(54,902,908)	(37,951,843)	(14,742,448)	(38,568,622)
Adjustment for:						
Finance costs	*6*	1,647,944	43,002,557	526,833	–	22,326,218
		48,643	(11,900,351)	(37,425,010)	(14,742,448)	(16,242,404)
Increase in properties under development		–	(2,466,818,839)	(322,539,008)	(125,997,190)	(197,875,787)
Decrease/(increase) in prepayments, deposits and other receivables		(155,410,200)	154,778,310	(535,119,830)	(7,043,555)	(26,004,665)
Increase in amount due from the immediate holding company		(2)	–	–	–	–
Increase/(decrease) in other payables and accruals		–	31,563,031	33,929,223	(8,372,905)	(576,171)
Increase in customer deposits		–	–	1,087,240,986	321,852,393	359,397,854
Increase in amount due to fellow subsidiaries		4,000	–	–	–	–
Cash generated from/(used in) operations		(155,357,559)	(2,292,377,849)	226,086,361	165,696,295	118,698,827
Overseas taxes paid		–	(61,450,235)	(15,331,583)	(2,498,418)	(42,455,095)
Net cash flows from/(used in) operating activities		(155,357,559)	(2,353,828,084)	210,754,778	163,197,877	76,243,732
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of items of property, plant and equipment	*11*	–	(16,171)	–	–	–
Movements in balances with the intermediate holding company		–	107,585,136	(324,073,393)	(111,018,205)	(43,982,415)
Increase in amount due from non-controlling shareholder of a subsidiary		–	(532,915,055)	(381,010,846)	(39,881,785)	–
Net cash flows used in investing activities		–	(425,346,090)	(705,084,239)	(150,899,990)	(43,982,415)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issue of shares	*23*	2	–	–	–	–
Capital contribution from non-controlling shareholders of a subsidiary	*12*	–	361,024,262	–	–	–
Interest paid		–	(220,946,480)	(350,823,916)	(203,154,795)	(175,814,798)
New bank loan		–	–	89,054,000	–	665,717,077
Loans from a fellow subsidiary		155,359,800	232,185,200	480,808,600	–	–
Loans from an intermediate holding company		–	2,421,524,592	462,578,400	462,578,400	–
Repayment of loans from an intermediate holding company		–	–	–	–	(502,680,000)
Net cash flows from/(used in) financing activities		155,359,802	2,793,787,574	681,617,084	259,423,605	(12,777,721)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,243	14,613,400	187,287,623	271,721,492	19,483,596
Cash and cash equivalents at beginning of year		–	2,243	14,788,004	14,788,004	205,351,792
Effect of foreign exchange rate changes, net		–	172,361	3,276,165	2,440,797	(4,096,321)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		2,243	14,788,004	205,351,792	288,950,293	220,739,067
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS						
Cash and bank balances		2,243	14,788,004	205,351,792	288,950,293	220,739,067

COMPANY'S STATEMENTS OF FINANCIAL POSITION

					As at
		As at 31 December			31 July
	Notes	**2011**	**2012**	**2013**	**2014**
		HK$	*HK$*	*HK$*	*HK$*
NON-CURRENT ASSETS					
Investment in a subsidiary	*12*	–	387,913,200	387,913,200	387,913,200
Deposit	*14*	155,410,200	–	479,904,510	479,904,510
Total non-current assets		155,410,200	387,913,200	867,817,710	867,817,710
CURRENT ASSETS					
Due from the immediate holding company	*16*	2	2	2	2
Cash and bank balances	*17*	2,243	1,841	776,339	774,955
Total current assets		2,245	1,843	776,341	774,957
CURRENT LIABILITIES					
Due to fellow subsidiaries	*16*	1,651,944	14,612,373	43,921,679	82,944,508
Loans from a fellow subsidiary	*19*	155,359,800	387,545,000	868,324,800	867,955,200
Total current liabilities		157,011,744	402,157,373	912,246,479	950,899,708
NET CURRENT LIABILITIES		(157,009,499)	(402,155,530)	(911,470,138)	(950,124,751)
Net liabilities		(1,599,299)	(14,242,330)	(43,652,428)	(82,307,041)
EQUITY					
Issued capital	*23*	2	2	2	2
Reserves	*24(b)*	(1,599,301)	(14,242,332)	(43,652,430)	(82,307,043)
Total deficiency in assets		(1,599,299)	(14,242,330)	(43,652,428)	(82,307,041)

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated as a company with limited liability in Hong Kong on 16 November 2010. The registered office of the Company is 13/F., Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

The Group's principal activities consisted of investment holding and property development in the PRC.

In the opinion of the directors of the Company, Onfield International Limited, a company incorporated in the British Virgin Islands, is the Company's immediate holding company. In the opinion of the directors, the ultimate holding company of the Company is Aviation Industry Corporation of China, which is incorporated in the PRC.

2.1 BASIS OF PRESENTATION

The Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Hong Kong dollars ("HK$").

Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiary for the Relevant Periods. The financial statements of the subsidiary are prepared for the same reporting periods as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

As at 31 July 2014, the Company had net current liabilities of HK$950,124,751 and net liabilities of HK$82,307,041.

In preparing the Financial Information, the directors of the Company have given careful consideration to the future liquidity of the Company and has taken consideration of the Proposed Acquisition of equity interest in the Group by Onfield International Limited.

The directors of the Company are satisfied that the Company will be able to obtain necessary funding so as to meet its liabilities as and when they fall due in the foreseeable future. Accordingly, the Financial Information has been prepared on a going concern basis because an intermediate holding company of the Group will provide financial support to the Group to enable it to meet its financial or contingent liabilities as and when they fall due and to enable the Group to continue operating as a going concern in the foreseeable future.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in this Financial Information.

HKAS 16 and HKAS 38 Amendments	Amendments to HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*[3]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[1]
HKFRS 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[4]
HKFRS 11 Amendments	Amendments to HKFRS 11 *Joint Arrangements – Accounting for Acquisition of Interests in Joint Operations*[3]
HKFRS 14	*Regulatory Deferral Accounts*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[1]

[1] Effective for annual periods beginning on or after 1 July 2014

[2] Effective for first annual HKFRS financial statements for a period beginning on or after 1 January 2016 and not applicable to the Group

[3] Effective for annual periods beginning on or after 1 January 2016

[4] No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Company the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Company's voting rights and potential voting rights.

The result of subsidiary is included in profit or loss to the extent of dividends received and receivable. The Company's investment in a subsidiary is stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than contract for services and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Items of property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on a straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Computer equipment	32⅓%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year/period end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year/period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

The assets' residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year/period end.

Properties under development are stated at cost less any impairment losses. Cost of properties under development comprises cost of acquisition, land cost, construction costs, development costs, capitalised borrowing costs and other direct costs attributable to the development. The land cost is recognised on the straight-line basis over the lease term. Impairment is assessed by the directors based on prevailing market prices, on an individual property basis.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in provision made for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial liabilities

Financial liabilities include other payables and accruals, amount due to fellow subsidiaries, amount due to an intermediate holding company, loans from a fellow subsidiary, loans from an intermediate holding company, and interest-bearing bank borrowing. All financial liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in profit or loss.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks which is not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and a joint venture, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and a joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the cost, which is intended to compensate are expensed.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts. Interest income is recognised using the effective interest rate method.

Employee benefits

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 18% of its payroll costs to the central pension scheme. The contributions are charged to the statements of profit or loss and other comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowing pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The Financial Information is presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the Financial Information of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of an overseas subsidiary is a currency other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of this entity are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and its profit or loss is translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements:

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value does not exist; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of recoverable amounts of properties under development

The Group considers information from a variety of sources, including recent prices of similar properties in the same location and condition, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices.

Estimation of total budgeted costs and costs to completion for properties under development

Total budgeted costs for properties under development comprise (i) prepaid land lease payments; (ii) building costs; and (iii) any other direct costs attributable to the development of the properties. In estimating the total budgeted costs for properties under development, management makes reference to information such as (i) current offers from contractors and suppliers; (ii) recent offers agreed with contractors and suppliers; and (iii) professional estimation on construction and material costs.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement 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 together with future tax planning strategies. Further details are contained in note 22 to the Financial Information.

Land appreciation tax

Under the Detailed Rules for the Implementation of Provisional Regulations on Land Appreciation Tax ("LAT") implemented upon the issuance of the Provisional Regulations of the PRC on 27 January 1995, all gains arising from the transfer of real estate properties in Mainland China with effect from 1 January 1994 are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including amortisation of land use rights, borrowing costs and all property development expenditures.

The subsidiary of the Group engaging in the property development business in Mainland China is subject to LAT. However, the implementation of LAT varies amongst various Mainland China cities and the Group has not finalised certain of its LAT returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and provisions of LAT in the period in which such determination is made.

4. SEGMENT INFORMATION

The Group did not generate any revenue for the Relevant Periods. In the opinion of the management, the Group has one operating segment which is property development.

No geographical information is presented as almost all of the Group's assets are located in the PRC.

5. REVENUE, OTHER INCOME AND GAINS

The Group did not generate any revenue during the Relevant Periods. An analysis of other income and gains is as follows:

	Period from 16 November 2010 (date of incorporation) to 31 December	**Year ended 31 December**		**Seven months ended 31 July**	
	2011	**2012**	**2013**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$* (unaudited)	*HK$*
Other income and gains					
Bank interest income	131	–	–	–	13
Exchange gains, net	50,400	–	–	–	380,339
Government subsidy	–	–	627,600	627,600	–
Others	–	–	53,610	–	–
	50,531	–	681,210	627,600	380,352

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Period from 16 November 2010 (date of incorporation) to 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	Seven months ended 31 July 2013	Seven months ended 31 July 2014
	HK$	*HK$*	*HK$*	*HK$* (unaudited)	*HK$*
Interest on bank loan, wholly repayable within five years *(note 21)*	–	–	821,678	–	26,514,448
Interest on other loans, wholly repayable within five years *(notes 19-20)*	1,647,944	253,318,848	379,311,544	219,890,858	197,992,969
	1,647,944	253,318,848	380,133,222	219,890,858	224,507,417
Less: Interest capitalised under property development projects *(note 13)*	–	(210,316,291)	(379,606,389)	(219,890,858)	(202,181,199)
	1,647,944	43,002,557	526,833	–	22,326,218

7. LOSS BEFORE TAX

Loss before tax is arrived at after charging/(crediting):

	Period from 16 November 2010 (date of incorporation) to 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	Seven months ended 31 July 2013	Seven months ended 31 July 2014
	HK$	*HK$*	*HK$*	*HK$* (unaudited)	*HK$*
Auditors' remuneration*	–	–	–	–	–
Staff cost (excluding directors' remuneration – *note 8*):					
Wages and salaries	–	518,600	563,261	326,928	327,318
Pension scheme contributions	–	96,511	104,679	60,758	60,831
	–	615,111	667,940	387,686	388,149
Less: Amount capitalised	–	(615,111)	(667,940)	(387,686)	(388,149)
	–	–	–	–	–
Foreign exchange differences, net	(50,400)	(321,958)	103,769	230,767	(380,339)

* The auditors' remuneration for the Relevant Periods was borne by an intermediate holding company.

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

No director received any fees or emoluments in respect of their services rendered to the Company during the Relevant Periods.

9. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits in Hong Kong during the Relevant Periods. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

	Period from 16 November 2010 (date of incorporation) to 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2013	Seven months ended 31 July 2013	Seven months ended 31 July 2014
	HK$	*HK$*	*HK$*	*HK$* (unaudited)	*HK$*
Deferred tax credit *(note 22)*	–	(11,687,783)	(9,330,112)	(3,627,846)	(4,155,414)

A reconciliation of the tax credit applicable to loss before tax at the statutory rates of the jurisdictions, and a reconciliation of the applicable rates (i.e., the statutory tax rate) to the effective tax rates, are as follows:

	Period from 16 November 2010 (date of incorporation) to 31 December 2011	%	Year ended 31 December 2012	%	Year ended 31 December 2013	%	Seven months ended 31 July 2013	%	Seven months ended 31 July 2014	%
	HK$		*HK$*		*HK$*		*HK$* (unaudited)		*HK$*	
Loss before tax	(1,599,301)		(54,902,908)		(37,951,843)		(14,742,448)		(38,568,622)	
Tax at the statutory tax rate of 16.5%	(263,885)	16.5	(9,058,980)	16.5	(6,262,054)	16.5	(2,432,504)	16.5	(6,363,823)	16.5
Effect of different rates of companies operating in other jurisdiction	–	–	(3,973,846)	7.2	(3,172,238)	8.4	(1,233,467)	8.4	(1,412,840)	3.7
Income not subject to tax	(8,317)	0.5	(53,123)	0.1	–	–	–	–	–	–
Expenses not deductible for tax	272,202	(17.0)	1,398,166	(2.5)	104,180	(0.3)	38,126	(0.3)	3,621,249	(9.4)
Tax credit at the Group's effective rate	–	–	(11,687,783)	21.3	(9,330,112)	24.6	(3,627,845)	24.6	(4,155,414)	10.8

10. LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

The loss attributable to owners of the parent included a loss of HK$1,599,301, HK$12,643,031, HK$29,410,098 and HK$38,654,613 for the period from 16 November 2010 (date of incorporation) to 31 December 2011, the years ended 31 December 2012 and 2013, and the seven months ended 31 July 2014, respectively, which have been dealt with in the financial statements of the Company (note 24(b)).

11. PLANT AND EQUIPMENT

Group

	Computer equipment *HK$*
31 December 2012	
At date of incorporation, 31 December 2011 and 1 January 2012	–
Additions	16,171
Depreciation provided during the year	(4,358)
At 31 December 2012, net of accumulated depreciation	11,813
At 31 December 2012:	
Cost	16,171
Accumulated depreciation	(4,358)
Net carrying amount	11,813
31 December 2013	
At 31 December 2012 and 1 January 2013:	
Cost	16,171
Accumulated depreciation	(4,358)
Net carrying amount	11,813
At 1 January 2013, net of accumulated depreciation	11,813
Depreciation provided during the period	(5,302)
Exchange realignment	269
At 31 December 2013, net of accumulated depreciation	6,780
At 31 December 2013:	
Cost	16,649
Accumulated depreciation	(9,869)
Net carrying amount	6,780
31 July 2014	
At 31 December 2013 and 1 January 2014:	
Cost	16,649
Accumulated depreciation	(9,869)
Net carrying amount	6,780
At 1 January 2014, net of accumulated depreciation	6,780
Depreciation provided during the period	(2,638)
Exchange realignment	(135)
At 31 July 2014, net of accumulated depreciation	4,007
At 31 July 2014:	
Cost	16,318
Accumulated depreciation	(12,311)
Net carrying amount	4,007

12. INVESTMENT IN A SUBSIDIARY

Company

	As at 31 December			As at 31 July
	2011	2012	2013	2014
	HK$	*HK$*	*HK$*	*HK$*
Unlisted shares, at cost	–	387,913,200	387,913,200	387,913,200

The Company owns a direct equity interest of 52.08% in its subsidiary, which is a Sino-foreign enterprise registered in the People's Republic of China, the particulars of which are set out below:

Name	Place and date of registration and operations	Registered and paid up capital	Principal activity
Dalian Hang Hua Real Estate Co., Ltd (大連航華置業有限公司) ("Dalian Hanghua")	The People's Republic of China (the "PRC")/ Mainland China on 9 December 2011	United States Dollar ("USD") 96,000,000	Property development

Dalian Hanghua is registered as a Sino-foreign enterprise under the PRC Law. No statutory financial statements for the year ended 31 December 2011 was issued as the first capital injection was completed on 8 March 2012. The statutory financial statements for the years ended 31 December 2012 and 2013 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by 大華會計師事務所 ("Da Hua Certified Public Accountants"), certified public accountants registered in the PRC.

As at 31 December 2012, the capital injection from non-controlling shareholders of the subsidiary, which represented 47.92% equity interest in the subsidiary, amounted to HK$361,024,262.

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	As at 31 December			As at 31 July
	2011	2012	2013	2014
Percentage of equity interest held by non-controlling interests	–	47.92%	47.92%	47.92%

	Period from 16 November 2010 (date of incorporation) to 31 December	Year ended 31 December		Seven months ended 31 July
	2011	2012	2013	2014
	HK$	*HK$*	*HK$*	*HK$*
Loss for the year/period allocated to non-controlling interests	–	(16,802,356)	(13,412,969)	(5,973,823)

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Accumulated balances of non-controlling interests at the period end	–	344,023,733	340,384,522	326,732,334

The following table illustrates the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company elimination:

	Period from 16 November 2010 (date of incorporation) to 31 December	**Year ended 31 December**		**Seven months ended 31 July**
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Total expenses	–	(46,751,130)	(37,320,449)	(16,621,656)
Loss for the year	–	(35,063,347)	(27,990,336)	(12,466,242)
Total comprehensive loss for the year	–	(35,476,897)	(29,465,908)	(11,158,289)

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Current assets	–	3,319,100,933	4,963,300,498	5,379,140,888
Non-current assets	–	11,837,446	21,654,383	25,371,039
Current liabilities	–	(163,057,126)	(1,189,542,898)	(2,231,768,763)
Non-current liabilities	–	(2,450,084,952)	(3,084,796,476)	(2,488,728,076)
Net cash flows from/(used in) operating activities	–	(2,781,760,583)	342,637,199	(108,995,879)
Net cash flows used in investing activities	–	(406,811,406)	(715,512,649)	(536,464,637)
Net cash flows from financing activities	–	3,203,358,152	562,227,300	664,922,476
Net increase in cash and cash equivalents	–	14,786,163	189,351,850	19,461,960

13. PROPERTIES UNDER DEVELOPMENT

Details of the movements and the Group's properties under development situated in the PRC and the analysis of the costs and their lease terms are as follows:

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Medium term lease	–	1,267,447,567	1,739,013,865	1,943,048,772
Long term lease	–	1,441,214,126	1,762,048,417	1,888,568,669
	–	2,708,661,693	3,501,062,282	3,831,617,441
Properties under development expected to be recovered after one year	–	2,708,661,693	3,501,063,282	3,831,617,441

Properties under development included interest expenses of HK$210,316,291, HK$379,606,389, and HK$202,181,199, that were incurred and capitalised during the years ended 31 December 2012 and 2013, and the seven months ended 31 July 2014, respectively, prior to the completion of the development of the properties.

Certain of the Group's properties under development with aggregate carrying value of HK$1,762,048,417 and HK$1,888,568,669 as at 31 December 2013 and 31 July 2014, respectively, were pledged to secure the banking facilities granted to the Group as at the respective dates as detailed in note 21 to the financial statements.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

		As at 31 December			As at 31 July
		2011	**2012**	**2013**	**2014**
	Note	*HK$*	*HK$*	*HK$*	*HK$*
Prepayments		–	–	55,665,023	80,415,962
Deposits		155,410,200	621,950	480,606,077	480,539,641
Other receivables		–	17,393	347,363	507,255
		155,410,200	639,343	536,618,463	561,462,858

Company

		As at 31 December			As at 31 July
		2011	**2012**	**2013**	**2014**
		HK$	*HK$*	*HK$*	*HK$*
Deposit classified as non-current portion	*(i)*	155,410,200	–	479,904,510	479,904,510

Notes:

(i) The Company's deposit included in non-current assets represents deposit of capital contribution for investments in subsidiaries in the PRC to be established at the respective period/year end date. The deposit was intended to be used for acquisition of land by the related subsidiary for development and was accordingly classified under current assets in the Group's consolidated statements of financial position at the respective period/year end date.

(ii) None of the assets included in the prepayments, deposits and other receivables is either past due or impaired. The financial assets included in the prepayments, deposits and other receivables relate to receivables for which there was no recent history of default.

15. PREPAID TAXES

Group

		As at 31 December			As at 31 July
		2011	**2012**	**2013**	**2014**
	Notes	*HK$*	*HK$*	*HK$*	*HK$*
Prepaid land appreciation tax ("LAT")	*(i)*	–	62,195,000	64,035,000	88,386,708
Prepaid corporate income tax ("CIT")	*(ii)*	–	1,695,596	15,615,856	32,082,641
		–	63,890,596	79,650,856	120,469,349

Notes:

(i) Balances represent LAT prepaid for the property development and pre-sales of properties by a subsidiary according to the instructions by the local tax bureau in the PRC.

(ii) Balances represent CIT prepaid for the pre-sales of properties by a subsidiary according to the instructions by the local tax bureau in the PRC.

16. BALANCES WITH GROUP COMPANIES AND A NON-CONTROLLING SHAREHOLDER

Balances due from the immediate holding company, an intermediate holding company and a non-controlling shareholder of a subsidiary are unsecured, interest free and have no fixed terms of repayment.

The amount due to an intermediate holding company as at 31 December 2012 was unsecured, bore interest from 1.39% to 9.74% and had no fixed terms of repayment. The amount due to an intermediate holding company as at 31 December 2013 and 31 July 2014, and the amount due to fellow subsidiaries are unsecured, interest free and have no fixed terms of repayment.

17. CASH AND BANK BALANCES

At 31 December 2011, 2012 and 2013, and 31 July 2014, the cash and bank balances of the Group denominated in RMB amounted to nil, HK$14,786,163, HK$204,575,453 and HK$219,873,857, respectively. The Company had no cash and bank balances denominated in RMB at the end of each of the Relevant Periods. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The Group's and the Company's cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

18. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Construction cost payable	–	11,965,690	45,965,925	30,801,837
Other payables	–	1,918,184	2,774,320	9,343,887
Deferred government grants	–	18,658,500	19,210,500	26,359,200
	–	32,542,374	67,950,745	66,504,924

The other payables are non-interest-bearing and are normally settled on 30-day terms.

19. LOANS FROM A FELLOW SUBSIDIARY

Balance represents loans from a fellow subsidiary, CATIC International Finance Limited. The loans from a fellow subsidiary are unsecured and wholly-repayable within 1 year. The loans bear interest at 6.56%, 6.56 to 8% and 6.56 to 8%, and 6.56 to 8% for the period from 16 November 2010 (date of incorporation) to 31 December 2011, the years ended 31 December 2012 and 2013, and the seven months ended 31 July 2014, respectively.

20. LOANS FROM AN INTERMEDIATE HOLDING COMPANY

Balance represents loans from an intermediate holding company, 航發投資管理有限公司. The loans from an intermediate holding company are secured. Except for the amount of HK$697,489,536 as at 31 July 2014 which is repayable within one year, all remaining loans from an intermediate holding company are not repayable within one year. The loans bear interest at 15%, 10 to 15% and 10% for the years ended 31 December 2012 and 2013, and the seven months ended 31 July 2014, respectively.

21. INTEREST-BEARING BANK BORROWING

The Group's bank loan is wholly-repayable in October 2016. The bank borrowing is denominated in Renminbi and bears average effective interest rate per annum at 3-year RMB loan rate plus 5%. The Group's bank loan is secured by pledges over certain of the Group's properties under development with an aggregate carrying value of HK$1,762,048,417 and HK$1,888,568,669 as at 31 December 2013 and 31 July 2014, respectively (note 13).

22. DEFERRED TAX

The movements in the Group's deferred tax asset arising from losses available for offsetting against future taxable profits during the Relevant Periods are as follows:

	HK$
At date of incorporation, 31 December 2011 and 1 January 2012	–
Deferred tax credited to the profit or loss during the year *(note 9)*	11,687,783
Exchange realignment	137,850
At 31 December 2012 and 1 January 2013	11,825,633
Deferred tax credited to the profit or loss during the year *(note 9)*	9,330,112
Exchange realignment	491,858
At 31 December 2013 and 1 January 2014	21,647,603
Deferred tax credited to the profit or loss during the period *(note 9)*	4,155,414
Exchange realignment	(435,985)
At 31 July 2014	25,367,032

The Group has tax losses arising in Mainland China of HK$46,751,130, HK$84,071,689 and HK$100,693,345 as at 31 December 2012, 31 December 2013 and 31 July 2014, respectively, that will expire in one to five years for offsetting against future taxable profits.

23. SHARE CAPITAL

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Authorised share capital *(note (ii))*: 10,000 ordinary shares of HK$1 each *(note (iii))*	10,000	10,000	10,000	–
Issued and fully paid: 2 ordinary shares of HK$1 each	2	2	2	2

Notes:

(i) The Company was incorporated on 16 November 2010 with an authorised share capital of HK$10,000 divided into 10,000 ordinary shares of HK$1 each. On date of incorporation, 2 ordinary shares of HK$1 each were issued at HK$1 each to a subscriber to provide for the Company's working capital.

(ii) Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

(iii) In accordance with Section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

24. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statement of changes in equity.

(b) Company

	Accumulated losses
	HK$
At 16 November 2010 (date of incorporation)	–
Total comprehensive loss for the year	(1,599,301)
At 31 December 2011 and 1 January 2012	(1,599,301)
Total comprehensive loss for the year	(12,643,031)
At 31 December 2012 and 1 January 2013	(14,242,332)
Total comprehensive loss for the year	(29,410,098)
At 31 December 2013 and 1 January 2014	(43,652,430)
Total comprehensive loss for the year	(38,654,613)
At 31 July 2014	(82,307,043)

25. OPERATING LEASE COMMITMENT

The Group leases its property under an operating lease arrangement. The lease for a property is negotiated for terms ranging from six months to three years.

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Within one year	123,390	124,390	128,070	125,520

The Company did not have any operating lease commitment during the Relevant Periods.

26. COMMITMENTS

In addition to the operating lease commitments detailed in note 25 above, the Group and the Company had the following commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Group				
Contracted, but not provided for:				
Property development expenditure	–	50,761,291	318,004,627	550,793,609
Acquisition of land	–	–	473,971,200	466,565,400
	–	50,761,291	791,975,827	1,017,359,009
Company				
Contracted, but not provided for:				
Capital injection to a subsidiary	388,305,000	–	–	–
Acquisition of land	–	–	473,971,200	466,565,400
	388,305,000	–	473,971,200	466,565,400

27. RELATED PARTY TRANSACTIONS

(a) In addition to those transactions disclosed elsewhere in this Financial Information, the Group had the following material related party transactions during the Relevant Periods:

		Period from 16 November 2010 (date of incorporation) to 31 December	Year ended 31 December		Seven months ended 31 July	
		2011	2012	2013	2013	2014
		HK$	*HK$*	*HK$*	*HK$*	*HK$*
					(unaudited)	
Interest expenses on amount due to an intermediate holding company	*(i)*	–	97,172,841	–	–	–
Interest expenses on loans from a fellow subsidiary	*(ii)*	1,647,944	12,964,587	29,305,537	16,720,296	39,033,865
Interest expenses on loans from an intermediate holding company	*(iii)*	–	143,181,420	350,006,007	203,170,562	158,959,104

(i) The interest expense paid to an intermediate holding company was charged at 1.39% to 9.74% per annum on the current account balance with the intermediate holding company (note 16).

(ii) The interest expense paid to a fellow subsidiary was charged at 6.56% to 8% per annum on the loans from the fellow subsidiary (note 19).

(iii) The interest expense paid to an intermediate holding company was charged at 10% to 15% per annum on the entrusted loans from the intermediate holding company (note 20).

(b) Outstanding balances with related parties:

(i) Details of the Group's and the Company's balances with group companies are disclosed in note 16 to the Financial Information.

(ii) Details of the Group's and the Company's loans from a fellow subsidiary are disclosed in note 19 to the Financial Information.

(iii) Details of the Group's loans from an intermediate holding company are disclosed in note 20 to the Financial Information.

(c) Compensation of key management personnel of the Company:

As disclosed in note 8 to the financial statements, the directors, who are the key management personnel of the Company, did not receive any compensation from the Company during the Relevant Periods.

28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the each of the Relevant Periods are as follows:

Group

Financial assets

	Loans and receivables			
	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Due from the immediate holding company	2	2	2	2
Due from an intermediate holding company	–	–	216,297,883	255,921,096
Due from non-controlling shareholder of a subsidiary	–	535,614,391	938,270,028	919,588,146
Financial assets included in prepayments, deposits and other receivables	155,410,200	639,343	480,953,440	481,046,896
Cash and bank balances	2,243	14,788,004	205,351,792	220,739,067
	155,412,445	551,041,740	1,840,873,145	1,877,295,207

Financial liabilities

	Financial liabilities at amortised cost			
	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Financial liabilities included in other payables and accruals	–	32,542,374	67,950,745	66,504,924
Due to fellow subsidiaries	1,651,944	14,612,373	43,921,679	82,944,508
Due to an intermediate holding company	–	128,819,156	20,225,245	29,367,820
Loans from a fellow subsidiary	155,359,800	387,545,000	868,324,800	867,955,200
Loans from an intermediate holding company	–	2,450,084,952	2,995,147,476	2,433,431,136
Interest-bearing bank borrowing	–	–	89,649,000	752,786,476
	157,011,744	3,013,603,855	4,085,218,945	4,232,990,064

Company

Financial assets

	Loans and receivables			
		As at 31 December		As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Due from an immediate holding company	2	2	2	2
Deposit	155,410,200	–	479,904,510	479,904,510
Cash and bank balances	2,243	1,841	776,339	774,955
	155,412,445	1,843	480,680,851	480,679,467

Financial liabilities

	Financial liabilities at amortised cost			
		As at 31 December		As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Due to fellow subsidiaries	1,651,944	14,612,373	43,921,679	82,944,508
Loans from a fellow subsidiary	155,359,800	387,545,000	868,324,800	867,955,200
	157,011,744	402,157,373	912,246,479	950,899,708

29. FAIR VALUES OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, loans from a fellow subsidiary and an intermediate holding company, amounts due from/to fellow subsidiaries, the immediate holding company and an intermediate holding company approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the non-current portion of interest-bearing bank borrowing and loans from an intermediate holding company have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowing and loans from an intermediate holding company as at 31 December 2011, 2012 and 2013, and 31 July 2014 was assessed to be insignificant.

Fair value hierarchy

The Group and the Company did not have any financial assets and liabilities measured at fair value as at 31 December 2011, 2012 and 2013, and 31 July 2014.

As at the end of each of the Relevant Periods, the Group's financial liabilities not measured at fair value but for which fair values were disclosed included interest-bearing bank borrowing and loans from an intermediate holding company. The fair values of these financial liabilities disclosed were measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are unobservable (Level 3).

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities of the Group.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise balances with group companies, loans from a fellow subsidiary and an intermediate holding company and cash and bank balances. The main purpose of these financial instruments is to provide finance for the Group's operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates at the end of each of the Relevant Periods, with all other variables held constant, of the Group's loss after tax and the Group's equity/deficiency in assets (through the impact on floating rate borrowings) and after the effect of interest being capitalised under property development projects of HK$210,316,291, HK$379,606,389, and HK$202,181,199 during the years ended 31 December 2012 and 2013, and the seven months ended 31 July 2014, respectively.

	Increase/(decrease) in basis points	**Increase/(decrease) in profit after tax and equity**
		HK$
31 December 2011		
USD	100	(251,637)
USD	(100)	251,637
31 December 2012		
USD	100	(1,551,320)
USD	(100)	1,551,320
31 December 2013		
USD	100	(65,876)
USD	(100)	65,876
31 July 2014		
USD	100	(2,790,885)
USD	(100)	2,790,885

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the continuous financial support from the intermediate holding companies and fellow subsidiaries and also through bank borrowing. The Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient liquid funds to meet its liquidity requirements.

The maturity profile of the financial liabilities of the Group and the Company as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

31 July 2014

	On demand *HK$*	Less than 12 months *HK$*	1 to 2 years *HK$*	Over 2 years *HK$*	Total *HK$*
Financial liabilities included in other payables and accruals	–	40,145,724	–	–	40,145,724
Due to fellow subsidiaries	82,944,508	–	–	–	82,944,508
Due to an intermediate holding company	9,521,114	19,846,706	–	–	29,367,820
Loans from a fellow subsidiary	–	892,902,033	–	–	892,902,033
Loans from an intermediate holding company	–	924,808,637	1,803,403,370	–	2,728,212,007
Interest-bearing bank borrowing	–	48,611,187	48,611,187	766,694,676	863,917,050
	92,465,622	1,926,314,287	1,852,014,557	766,694,676	4,637,489,142

31 December 2013

	On demand *HK$*	Less than 12 months *HK$*	1 to 2 years *HK$*	Over 2 years *HK$*	Total *HK$*
Financial liabilities included in other payables and accruals	–	48,740,245	–	–	48,740,245
Due to fellow subsidiaries	43,921,679	–	–	–	43,921,679
Due to an intermediate holding company	9,714,540	10,510,705	–	–	20,225,245
Loans from a fellow subsidiary	–	932,227,388	–	–	932,227,388
Loans from an intermediate holding company	–	299,514,748	2,728,970,769	488,007,178	3,516,492,695
Interest-bearing bank borrowing	–	5,789,084	5,789,084	94,714,449	106,292,617
	53,636,219	1,296,782,170	2,734,759,853	582,721,627	4,667,899,869

31 December 2012

	On demand	Less than 12 months	1 to 2 years	Over 2 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Financial liabilities included in other payables and accruals	–	13,883,874	–	–	13,883,874
Due to fellow subsidiaries	14,612,373	–	–	–	14,612,373
Due to an intermediate holding company	118,610,469	10,208,687	–	–	128,819,156
Loans from a fellow subsidiary	–	413,513,276	–	–	413,513,276
Loans from an intermediate holding company	–	367,512,743	367,512,743	2,687,045,616	3,422,071,102
	133,222,842	805,118,580	367,512,743	2,687,045,616	3,992,899,781

31 December 2011

	On demand	Less than 12 months	1 to 2 years	Over 2 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Due to fellow subsidiaries	1,651,944	–	–	–	1,651,944
Loans from a fellow subsidiary	–	165,560,613	–	–	165,560,613
	1,651,944	165,560,613	–	–	167,212,557

Company

31 July 2014

	On demand	Less than 12 months	1 to 2 years	Over 2 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Due to fellow subsidiaries	82,944,508	–	–	–	82,944,508
Loans from a fellow subsidiary	–	892,902,033	–	–	892,902,033
	82,944,508	892,902,033	–	–	975,846,541

31 December 2013

	On demand	Less than 12 months	1 to 2 years	Over 2 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Due to fellow subsidiaries	43,921,679	–	–	–	43,921,679
Loans from a fellow subsidiary	–	932,227,388	–	–	932,227,388
	43,921,679	932,227,388	–	–	976,149,067

31 December 2012

	On demand	Less than 12 months	1 to 2 years	Over 2 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Due to fellow subsidiaries	14,612,373	–	–	–	14,612,373
Loans from a fellow subsidiary	–	431,513,276	–	–	431,513,276
	14,612,373,	431,513,276	–	–	446,125,649

31 December 2011

	On demand	Less than 12 months	1 to 2 years	Over 2 years	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Due to fellow subsidiaries	1,651,944	–	–	–	1,651,944
Loans from a fellow subsidiary	–	165,560,613	–	–	165,560,613
	1,651,944	165,560,613	–	–	167,212,557

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and make adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, polices or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt includes interest-bearing bank borrowing, loans from an intermediate holding company, loans from a fellow subsidiary, amounts due from fellow subsidiaries, an amount due from an intermediate holding company, other payables and accruals, net of balances due from group companies and non-controlling shareholder of a subsidiary, less cash and bank balances. Capital includes the equity attributable to owners of the Company plus non-controlling interests.

Group

	As at 31 December			As at 31 July
	2011	**2012**	**2013**	**2014**
	HK$	*HK$*	*HK$*	*HK$*
Other payables and accruals	–	32,542,374	67,950,745	66,504,924
Due to fellow subsidiaries	1,651,944	14,612,373	43,921,679	82,944,508
Due to an intermediate holding company	–	128,819,156	20,225,245	29,367,820
Loans from a fellow subsidiary	155,359,800	387,545,000	868,324,800	867,955,200
Loans from an intermediate holding company	–	2,450,084,952	2,995,147,476	2,433,431,136
Interest-bearing bank borrowing	–	–	89,649,000	752,786,476
Less: Cash and bank balances	(2,243)	(14,788,004)	(205,351,792)	(220,739,067)
Less: Due from the immediate holding company	(2)	(2)	(2)	(2)
Less: Due from an intermediate holding company	–	–	(216,297,883)	(255,921,096)
Less: Due from non-controlling shareholder of a subsidiary	–	(535,614,391)	(938,270,028)	(919,588,146)
Net debt	157,009,499	2,463,201,458	2,725,299,240	2,836,741,753
Total equity	(1,599,299)	320,132,024	312,319,836	263,772,451
Total equity and net debt	155,410,200	2,783,333,482	3,037,619,076	3,100,514,204
Gearing ratio	101%	88%	90%	91%

31. EVENTS AFTER THE REPORTING PERIOD

(a) On 9 September 2014, Ease Triumph set up Chongqing Hang Long Real Estate Co., Ltd (重慶航龍置業有限公司) ("Chongqing Hanglong"), a company incorporated in the PRC, which is engaged in property development in the PRC, in which the Company owns as to 99% of its equity interest. On 29 September 2014, Chongqing Hang Long entered into two contracts for the grant of state-owned land use rights with the Bureau of Land Resources and Housing of Chongqing (重慶市國土資源和房屋管理局), pursuant to which the land use rights of certain area in Liangjiang New Area at Chongqing (重慶市兩江新區) ("Chongqing Site") would be granted to Chongqing Hanglong based on the terms of the contracts. The consideration for the use of the Chongqing Site of HK$937 million (equivalent to RMB741 million) had already been paid in full by Chongqing Hanglong as at date of this report. The Directors expect that the land use rights certificates of Chongqing Site will be obtained in the first half of 2015.

(b) In September 2014, Chonqing Hanglong entered into an agreement with 航發投資管理有限公司 ("Hangfa Investment Limited"), an intermediate holding company of the Company, pursuant to which Hangfa Investment Limited advanced a loan of RMB360,000,000 to Chonqing Hanglong, which was used to pay the balance of the deposit for acquisition of the land by Chongqing Hanglong set out in (a) above. The loan is unsecured, interest-bearing at 10% per annum and is repayable within one year.

(c) On 25 November 2014, Onfield made capital injection of HK$250 million in aggregate to Ease Triumph. After such capital injection, the issued capital of Ease Triumph is increased from HK$2 to HK$250,000,002. Such balance in the amount of US$32,000,000 was used to settle part of the loans from a fellow subsidiary (note 19).

(d) Balances due from a non-controlling shareholder of a subsidiary and an intermediate holding company as at 31 July 2014 of HK$919,588,146 and HK$255,921,096, respectively, were settled by cash in November 2014 and the aggregate amount of HK$1,175,509,242 were used to settle part of the loans from an intermediate holding company, Hangfa Investment Limited (note 20).

32. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 July 2014.

Yours faithfully,
Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong
11 December 2014

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The accompanying unaudited pro forma consolidated statement of financial position, the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group (collectively, the "Unaudited Pro Forma Financial Information") have been prepared by the directors of the Company in accordance with paragraph 29 of Chapter 4 of the Listing Rules for the purpose of illustrating the effects of the proposed acquisition of the entire issued capital of the Target Group (the "Acquisition") on the consolidated financial position and the consolidated results and cash flows of the Group.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group has been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2014, which has been extracted from the Group's published interim report for the six months ended 30 June 2014 dated 26 August 2014, and the audited consolidated statement of financial position of the Target Group as at 31 July 2014, which has been extracted from the accountants' report of the Target Group set out in Appendix II to this Circular, after taking into account the pro forma adjustments relating to the Acquisition of the Target Group that are (i) clearly shown and explained; (ii) directly attributable to the Acquisition and not relating to future events or decisions; and (iii) factually supportable, as explained in the accompanying notes, as if the Acquisition had been completed on 30 June 2014.

The unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group have been prepared based on the audited consolidated statement of profit or loss and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2013, which have been extracted from the Group's published 2013 annual report dated 18 March 2014, and the audited consolidated statement of profit or loss and the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2013, which have been extracted from the accountants' report of the Target Group set out in Appendix II to this Circular, after taking into account the pro forma adjustments relating to the Acquisition of the Target Group as explained in the accompanying notes that are (i) clearly shown and explained; (ii) directly attributable to the Acquisition and not relating to future events or decisions; and (iii) factually supportable, as explained in the accompanying notes, as if the Acquisition had been completed on 1 January 2013.

The accompanying Unaudited Pro Forma Financial Information of the Enlarged Group is prepared by the Directors based on a number of assumptions, estimates, uncertainties and currently available information to provide information of the Enlarged Group upon Completion of the Acquisition. As the Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position and results of the Enlarged Group following the completion of the Acquisition and does not purport to describe the actual results of operations, financial position and cash flows of the Enlarged Group that would have been attained had the Acquisition been completed on the dates indicated herein. Further, the accompanying Unaudited Pro Forma Financial Information of the Enlarged Group does not purport to predict the future financial position, results of operations or cash flows of the Enlarged Group after Completion of the Acquisition.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with paragraph 29 of Chapter 4 and paragraph 69(4)(a)(ii) of Chapter 14 of the Listing Rules. The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to the Circular, the accountants' report of the Target Group as set out in Appendix II to the Circular and other financial information included elsewhere in the Circular.

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

	The Group As at 30 June 2014 (unaudited) *HK$'000* *(Note 1)*	The Target Group As at 31 July 2014 (audited) *HK$'000* *(Note 2)*	Pro forma adjustments *HK$'000*	*Notes*	Unaudited Pro Forma Consolidated for the Enlarged Group As at 30 June 2014 *HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	42,676	4			42,680
Prepaid land lease payments	2,984	–			2,984
Intangible asset	666	–			666
Investment in a subsidiary	–	–	–	*(4)*	–
Investment in a joint venture	330,354	–			330,354
Interests in associates	316,690	–			316,690
Loans to related companies	38,261	–			38,261
Financial asset under Project EC120	–	–			–
Available-for-sales investments	112,927	–			112,927
Derivative financial instruments	62,135	–			62,135
Deferred tax assets	–	25,367			25,367
TOTAL NON-CURRENT ASSETS	906,693	25,371			932,064
CURRENT ASSETS					
Inventories	5,699	–			5,699
Properties under development	–	3,831,617	930,883	*(4i)*	4,762,500
Trade and bills receivables	27,886	–			27,886
Due from an intermediate holding company	–	255,921	(255,921)	*(5)*	–
Due from a fellow subsidiary	–	–	255,921	*(5)*	255,921
Due from non-controlling shareholder of a subsidiary	–	919,588			919,588
Loans to an associate	11,801	–			11,801
Prepayments, deposits and other receivables	106,253	561,464	523,395	*(4i)*	1,191,112
Available-for-sales investments	49,946	–			49,946
Equity investment at fair value through profit or loss	100,576	–			100,576
Derivative financial instruments	6,110	–			6,110
Prepaid taxes	–	120,469			120,469
Pledged time deposits	373	–			373
Cash and cash equivalents	966,625	220,739	(83,077)	*(4), (4iii), (6)*	1,104,287
TOTAL CURRENT ASSETS	1,275,269	5,909,798			8,556,268

Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group (continued)

	The Group As at 30 June 2014 (unaudited) *HK$'000* *(Note 1)*	The Target Group As at 31 July 2014 (audited) *HK$'000* *(Note 2)*	Pro forma adjustments *HK$'000*	*Notes*	Unaudited Pro Forma Consolidated for the Enlarged Group As at 30 June 2014 *HK$'000*
CURRENT LIABILITIES					
Due to a non-controlling shareholder of a subsidiary	1,118	–			1,118
Trade and bills payables	9,255	66,505			75,760
Customers deposits	–	1,438,406			1,438,406
Due to fellow subsidiaries	–	82,945	29,368	*(5)*	112,313
Due to an intermediate holding company	–	29,368	(29,368)	*(5)*	–
Loans from fellow subsidiaries	–	867,955	697,490	*(5)*	1,565,445
Loans from an intermediate holding company	–	697,490	(697,490)	*(5)*	–
Tax payables	40,331	–			40,331
Other payables and accruals	15,218	–			15,218
Interest-bearing bank borrowings	39,379	–			39,379
TOTAL CURRENT LIABILITIES	105,301	3,182,669			3,287,970
NET CURRENT ASSETS	1,169,968	2,727,129			5,268,298
TOTAL ASSETS LESS CURRENT LIABILITIES	2,076,661	2,752,500			6,200,362
NON-CURRENT LIABILITIES					
Deferred tax liabilities	919	–	524,770	*(4ii)*	525,689
Loans from an intermediate holding company	–	1,735,942			1,735,942
Interest-bearing bank borrowings	–	752,786			752,786
TOTAL NON-CURRENT LIABILITIES	919	2,488,728			3,014,417
NET ASSETS	2,075,742	263,772			3,185,945
EQUITY					
Equity attributable to shareholders of the Company					
Issued capital	461,959	–	–	*(4iii), (5)*	461,959
Reserves	1,609,290	(62,960)	550,312	*(4i), (4ii), (4v), (5), (6)*	2,096,642
	2,071,249	(62,960)			2,558,601
Non-controlling interests	4,493	326,732	296,119	*(4iv)*	627,344
TOTAL EQUITY	2,075,742	263,772			3,185,945

Unaudited Pro Forma Consolidated Statement of Profit or Loss of the Enlarged Group

	The Group Year ended 31-Dec-13 (audited) *HK$'000* *(Note 1)*	The Target Group Year ended 31-Dec-13 (audited) *HK$'000* *(Note 3)*	Pro forma adjustments *HK$'000*	*Notes*	Unaudited Pro Forma Consolidated for the Enlarged Group Year ended 31-Dec-13 *HK$'000*
Revenue	47,979	–			47,979
Cost of sales	(42,760)	–			(42,760)
Gross profit	5,219	–			5,219
Other income and gain	27,471	681			28,152
Selling expenses	–	(37,928)			(37,928)
Administrative expenses	(46,191)	–	(7,196)	*(6)*	(53,387)
Other operating expenses, net	(25,010)	(178)			(25,188)
Discount on acquisition	–	–	494,548	*(4v)*	494,548
Finance costs	(2,937)	(527)			(3,464)
Net loss on deemed disposal of an associate	(7,808)	–			(7,808)
Gain on disposal of associates	358,423	–			358,423
Share of profits and losses of:					
– Joint venture	60,839	–			60,839
– Associates	(32,001)	–			(32,001)
Fair value loss on equity investment at fair value through profit or loss	(2,620)	–			(2,620)
Net gain on disposal of available-for-sale investment	140,209	–			140,209
Net loss on derecognition of an available-for-sales investment	(2,032)	–			(2,032)
Fair value gain on derivative financial instruments	4,125	–			4,125
Profit/(loss) before tax	477,687	(37,952)			927,087
Income tax credit/(expense)	(81,012)	9,330			(71,682)
Profit/(loss) for the year	396,675	(28,622)			855,405
Attributable to:					
Owners of the parent	397,242	(15,209)	487,352	*(4v), (6)*	869,385
Non-controlling interests	(567)	(13,413)			(13,980)
	396,675	(28,622)			855,405

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

	The Group Year ended 31-Dec-13 (audited) HK$'000 (Note 1)	The Target Group Year ended 31-Dec-13 (audited) HK$'000 (Note 3)	Pro forma adjustments HK$'000	Notes	Unaudited Pro Forma Consolidated for the Enlarged Group Year ended 31-Dec-13 HK$'000
Cash flows from operating activities					
Profit/(loss) before tax	477,687	(37,952)	487,352	*(4v), (6)*	927,087
Adjustments for:					
Finance costs	2,937	527			3,464
Share of profits and losses of a joint venture and associates	(28,838)	–			(28,838)
Bank interest income	(17,642)	–			(17,642)
Interest income on a convertible bond issued by an associate	(1,036)	–			(1,036)
Interest income on loans to associates	(1,600)	–			(1,600)
Interest income on other receivables	(909)	–			(909)
Interest income on loans to related companies	(1,132)	–			(1,132)
Dividend income from an available-for-sale listed investment	(868)	–			(868)
Net loss on deemed disposal of an associate	7,808	–			7,808
Discount on acquisition	–	–	(494,548)	*(4v)*	(494,548)
Gain on disposal of items of property, plant and equipment	(52)	–			(52)
Depreciation	4,497	–			4,497
Amortisation of customer relationship	190	–			190
Recognition of prepaid land lease payments	74	–			74
Provision for impairment of trade and bills receivables	4	–			4
Recovery of other receivables	(13)	–			(13)
Impairment of goodwill	4,194	–			4,194
Impairment of loans to an associate	19,000	–			19,000
Impairment of an investment in an associate	1,826	–			1,826
Gain on disposal of associates	(358,423)	–			(358,423)
Fair value loss on equity investment at fair value through profit or loss	2,620	–			2,620
Net gain on disposal of available-for-sale investments	(140,209)	–			(140,209)
Net loss on derecognition of an available-for-sales investment	2,032	–			2,032
Fair value gain on derivative financial instruments, net	(4,125)	–			(4,125)
	(31,978)	(37,425)			(76,599)

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group (continued)

	The Group Year ended 31-Dec-13 (audited) HK$'000 (Note 1)	The Target Group Year ended 31-Dec-13 (audited) HK$'000 (Note 3)	Pro forma adjustments HK$'000	Notes	Unaudited Pro Forma Consolidated for the Enlarged Group Year ended 31-Dec-13 HK$'000
Increase in properties under development	–	(322,539)			(322,539)
Increase in inventories	(196)	–			(196)
Increase in trade and bills receivables	(787)	–			(787)
Increase in prepayments, deposits and other receivables	(48,122)	(535,120)			(583,242)
Increase/(decrease) in trade, bills payables, other payables and accruals	(44,453)	33,929			(10,524)
Increase in customer deposits	–	1,087,241			1,087,241
Cash from/(used in) operations	(125,536)	226,086			93,354
Overseas tax paid	(39,003)	(15,332)			(54,335)
Net cash flows from/(used in) operating activities	(164,539)	210,754			39,019
Cash flows from investing activities					
Movement in balance with the intermediate holding company	–	(324,073)	324,073	*(5)*	–
Movement in balance with the fellow subsidiary	–	–	(324,073)	*(5)*	(324,073)
Increase in amount due from non-controlling shareholders of a subsidiary	–	(381,011)			(381,011)
Dividends from an available-for-sales listed investment	879	–			879
Purchases of items of property, plant and equipment	(1,712)	–			(1,712)
Advance of loans to associates	(57,325)	–			(57,325)
Repayment of loans from an associate	382	–			382
Proceeds from disposal of items of property, plant and equipment	52	–			52
Acquisition of interests in subsidiaries	–	–	(325,881)	*(4)*	(325,881)
Net proceeds from disposal of available-for-sale investments	148,725	–			148,725
Cash consideration received from disposal of an asset classified as held for sale	56,650	–			56,650
Purchase of an equity investment at fair value through profit or loss	(11,001)	–			(11,001)
Bank interest received	17,007	–			17,007
Interest received on a convertible bond issued by an associate	1,036	–			1,036
Interest received on loans to associates	632	–			632
Refunds of a deposit paid for acquisition of a property	33,121	–			33,121
Decrease in pledged time deposits	6,370	–			6,370
Net cash flows from/(used in) investing activities	194,816	(705,084)			(836,149)

Unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group (continued)

	The Group Year ended 31-Dec-13 (audited) *HK$'000* *(Note 1)*	The Target Group Year ended 31-Dec-13 (audited) *HK$'000* *(Note 3)*	Pro forma adjustments *HK$'000*	*Notes*	Unaudited Pro Forma Consolidated for the Enlarged Group Year ended 31-Dec-13 *HK$'000*
Cash flows from financing activities					
New bank loans	25,478	89,054			114,532
Capital injection into a subsidiary	–	–	250,000	*(4iii)*	250,000
Loans from a fellow subsidiary	–	480,809			480,809
Loans from an intermediate holding company	–	462,578			462,578
Advance to the non-controlling shareholder of a subsidiary	(166)	–			(166)
Repurchase of shares	(10,600)	–			(10,600)
Interest paid	(2,872)	(350,824)			(353,696)
Net cash flows from financing activities	11,840	681,617			943,457
Net increase in cash and cash equivalents	42,117	187,287			146,327
Cash and cash equivalents at beginning of year	1,024,789	14,788			1,039,577
Effect of foreign exchange rate changes, net	12,102	3,276			15,378
	1,079,008	205,351			1,201,282
Analysis of balance of cash and cash equivalents					
Cash and Bank balances	177,701	205,351	(83,077)	*(4), (4iii), (6)*	299,975
Non-pledged time deposits with original maturity of less than three months when acquired	901,307	–			901,307
	1,079,008	205,351			1,201,282

Notes:

1 The Financial Information of the Group as at 30 June 2014 and for the year ended 31 December 2013 was extracted from the interim report of the Group dated 26 August 2014 and the annual report of the Group dated 18 March 2014, respectively.

2 The audited consolidated statement of financial position of the Target Group as at 31 July 2014 was extracted from the accountants' report of the Target Group as set out in Appendix II to this Circular. For the purpose of preparing the Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group, the Directors assumed that the consolidated statement of financial position of the Target Group as at 31 July 2014 approximated to that as at 30 June 2014.

3 The audited consolidated statement of profit or loss and the audited consolidated statement of cash flows of the Target Group for the year ended 31 December 2013 were extracted from the accountants' report of the Target Group as set out in Appendix II to this Circular.

4 Under Hong Kong Financial Reporting Standard 3 (Revised) Business Combinations, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Group will apply the purchase method to account for the Acquisition of the Target Group in the consolidated financial statements of the Group.

The excess of the interests in the net fair value of the identifiable assets and liabilities of the Target Group over the consideration for the Acquisition is recognised as discount on acquisition in the Unaudited Pro Forma Consolidated Statement of Profit or Loss, as if the Acquisition had taken place on 1 January 2013, calculated as follows:

	HK$'000	
Net liabilities of the Target Group as at 31 July 2014 attributable to the shareholders of the Company per Accountants' Report in Appendix II	(62,960)	
Fair value adjustments on the properties under development and the rights to properties held by the Target Group	1,454,278	*(i)*
Less: Deferred taxes on the fair value adjustments	(524,770)	*(ii)*
Additional capital injection to Ease Triumph by Onfield prior to the Acquisition	250,000	*(iii)*
Adjusted fair value of identifiable assets and liabilities of the Target Group at 31 July 2014	1,116,548	
Less: Non-controlling interests of the Target Group	(296,119)	*(iv)*
Adjusted net fair value attributable to the shareholders of the Company	820,429	
Cash consideration for the Acquisition to be paid by the Group	325,881	
Discount on acquisition	(494,548)	*(v)*

(i) The fair value of the properties under development amounting to RMB3,750,000,000 (equivalent to approximately HK$4,762,500,000) and the fair value of the rights to properties represented by deposits paid for acquisition of certain land amounting to RMB790,000,000 (equivalent to approximately HK$1,003,300,000) were determined based on the valuation report of LCH (Asia-Pacific) Surveyors Limited, the independent valuer, as at 31 October 2014, as extracted from Appendix IV to this Circular. For illustrative purpose of the preparation of the Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group, the aggregate fair value adjustment of HK$1,454,278,000 arising from the valuation set out above was calculated using the costs of the properties under development and the deposits paid for the land of HK$3,831,617,000 and HK$479,905,000, respectively, as at 31 July 2014, as extracted from the Accountants' Report of the Target Group set out in Appendix II to this Circular.

For the purpose of the Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group, the Directors had also assumed that (i) the fair values of other assets and liabilities of the Target Group approximate to their respective carrying values; and (ii) there will be no foreseeable legal impediments for the Target Group in obtaining the land use rights certificates of the land for which deposits were paid.

Additional development costs incurred or further deposits paid from 31 July 2014 to 31 October 2014 had not been taken into account in the calculation of the fair value adjustments and any possible changes to fair values of other assets and liabilities of the Target Group acquired were not reflected in the Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group.

(ii) The adjustment of deferred taxes includes deferred corporate income tax of HK$206,635,000 calculated at 25% of the fair value adjustments per (i) above less related taxes and duties, and land appreciation tax ("LAT") of HK$318,135,000 calculated at the applicable LAT rate of 30% of the value added determined based on the fair value adjustments less deductible costs for LAT purposes in accordance with the Provisional Regulations of the PRC on Land Appreciation Tax.

(iii) Additional capital injection in cash of HK$250,000,000 was made to Ease Triumph by Onfield prior to the Acquisition and the consideration of the Acquisition has been determined after including the capital injection which was completed on 25 November 2014.

(iv) The adjustment of HK$296,119,000 represents the share by the non-controlling interests of the Target Group of the aggregate fair value adjustments on the properties under development and the rights to properties represented by the deposits paid for acquisition of land, net of the related deferred taxes.

(v) Upon the completion of the Acquisition, the fair values of the net identifiable assets and liabilities of the Target Group (including but not limited to the properties under development and deposits for the land costs) as at the date of completion, will be assessed. Accordingly, the goodwill or discount on acquisition so calculated, if any, may be different from that in the calculation above.

(vi) For the purpose of the calculation of the pro forma adjustments relating to the fair value adjustments of the properties under development and the rights to properties represented by deposits paid and the related deferred taxes, and thus the calculation of the share by the non-controlling interests as set out in (iv) above, the exchange rate at 31 October 2014, being the date of the valuation, was adopted, which is different from the exchange rates used for preparation of the Accountants' Report of the Target Group as at 31 July 2014.

5 The adjustments include (i) the elimination of the equity of the Target Group; (ii) the elimination of intercompany balances; (iii) reclassification of nature of intercompany balances to reflect the results of the Acquisition.

6 The adjustment represents direct expenses of audit, legal, valuation and other professional services related to the Acquisition and for the purpose of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group which are estimated to be HK$7,196,000.

7 Apart from the above, no adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into subsequent to 30 June 2014 for the Group and 31 July 2014 for the Enlarged Group.

The following is the full text of a report of the unaudited pro forma financial information of the Enlarged Group received from the auditors and reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong. Terms defined herein apply to this report only.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF THE PRO FORMA FINANCIAL INFORMATION

EY 安永

11 December 2014

The Board of Directors
AVIC International Holding (HK) Limited
Unit B, 15/F., United Centre
95 Queensway
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of AVIC International Holding (HK) 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 unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2014, the unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2013, and the related notes as set out on pages III-1 to III-13 of the Circular dated 11 December 2014 (the "Circular") issued by the Company (the "Unaudited Pro Forma Financial Information") in connection with the proposed acquisition (the "Proposed Acquisition") of the entire issued capital of Ease Triumph International Limited (the "Target Company") and its subsidiaries (collectively referred to as the "Target Group"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in the section headed "Introduction" in Section A of Appendix III to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 30 June 2014 and the Group's financial performance and cash flows for the year ended 31 December 2013 as if the transaction had taken place at 30 June 2014 and 1 January 2013, respectively. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the Directors from the Group's unaudited interim report for the six months ended 30 June 2014 and audited annual report for the year ended 31 December 2013 as set out in the interim report of the Company dated 26 August 2014 and the annual report of the Company dated 18 March 2014, respectively. Information about the Target Group's financial position, financial performance and cash flows has been extracted by the Directors from the financial information of the Target Group as set out in its accountants' report included in Appendix II to the Circular.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

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 Unaudited 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 Unaudited 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 Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition 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 Proposed Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited 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 Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Proposed Acquisition, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited 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 Proposed Acquisition in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited 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 Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter, a summary of values and the valuation certificate prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuation as at 31 October 2014 of the property interests held by the Target Group.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
PROPERTY VALUERS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standard 2013 (the "IVS") published by the International Valuation Standards Council as well as the HKIS Valuation Standards 2012 Edition (the "HKIS Standards") published by the Hong Kong Institute of Surveyors (the "HKIS"). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader's identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitution for this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the Latest Practicable Date. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusion.

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road Central
Hong Kong

11 December 2014

The Board of Directors
AVIC International Holding (HK) Limited
Unit B, 15th Floor, United Centre
No. 95 Queensway
Hong Kong

Dear Sirs,

In accordance with the instructions given by the present management of AVIC International Holding (HK) Limited (hereinafter referred to as the "Instructing Party") to us to conduct an agreed-upon procedures valuation of two various real properties proposed to be acquired (same as the word "properties" in this report) by AVIC International Holding (HK) Limited (hereinafter referred to as the "Company") and its subsidiaries (collectively, together with the Company hereinafter referred to as the "Group") in the People's Republic of China (hereinafter referred to as the "PRC" or "China"), we confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings and our conclusion of values of the real properties as at 31 October 2014 (hereinafter referred to as the "Valuation Date") for the Company's internal management reference purpose. We are given to understand the real properties are currently held by 大連航華置業有限公司 (translated as Dalian Hanghua Real Estate Company Limited) and 重慶航龍置業有限公司 (translated as Chongqing Hanglong Real Estate Company Limited) (hereinafter referred to as the "Target Group") and the Group will inject capital to the Target Group.

We understand that the use of our work product (regardless of form of presentation) will form part of the Instructing Party's due diligence but we have not been engaged to make specific sales or purchase recommendations, or give opinion for financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the Instructing Party should conduct in reaching its business decision regarding the properties valued. Our work is designed solely to provide information that will give the Instructing Party a reference in its due diligence process, and our work should not be the only factor to be referenced by the Instructing Party. Our findings and conclusion of values of the subject properties are documented in a valuation report and submitted to the Instructing Party at today's date (hereinafter referred to as the "Report Date").

At the request of the Instructing Party, we prepared this summary report (including this letter, a summary of values and the valuation certificate) to summarise our findings and conclusion of values as documented in the valuation report for the purpose of inclusion in this circular at Report Date for the Instructing Party's reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also apply to this summary report.

BASIS OF VALUATION AND ASSUMPTIONS

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market values basis and valuation bases other than market value. In this engagement, we have provided our conclusion of values of the properties on the market value basis.

The term "Market Value" is defined by the IVS and the HKIS Standards as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Our valuations of the real properties have been made on the assumptions that, as at the Valuation Date,

1. the legally interested party in each of the properties has free and uninterrupted rights to assign its relevant property interest for the whole of the unexpired terms as granted, and any premium payable have already been fully paid;

2. the legally interested party in each of the properties sells its relevant property interest in the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to increase the value of the property interest;

3. the legally interested party in each of the properties has absolute title to its relevant property interest;

4. the legally interested party in each of the properties has obtained relevant government's approvals for the sale of the property and is able to dispose of and transfer free of all encumbrances (including but not limited to the cost of transaction) in the market; and

5. the properties can be freely disposed of and transferred free of all encumbrances as at the Valuation Date for its existing use in the market to both local and overseas purchasers without payment of any premium to the government.

Should any of the above not be the case, it will have adverse impact to the values as reported.

APPROACH TO VALUE

There are three generally accepted approaches in arriving at the market value of a property on an absolute title basis, namely the Sales Comparison Approach (or known as the Market Approach), the Cost Approach and the Income Approach.

In valuing the properties, we have adopted the Sales Comparison Approach by making reference to comparable sales evidence, askings or offers as available in the relevant market to assess the market value of the properties at "as-is" basis. In arriving at the concluded values of the properties, we have considered various factors such as market value when completed of the proposed development, the development costs incurred and the cost to be spent to complete the proposed development. Our valuation of Property I is carried out on the basis that the property will be developed and completed in accordance with the latest development proposals made available to us. Such valuation method is commonly adopted in valuing similar properties with similar nature.

Unless otherwise stated, we have not carried out any valuation on alternative development basis to the properties and the study of possible alternative development options and the related economics do not come within the scope of our work.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuation accordingly.

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the properties valued nor any expenses or taxation which may be incurred in affecting sales for properties. Unless otherwise stated, it is assumed that the properties are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

In valuing the Property I, we have assumed all relevant approvals, consents, and licences from the relevant government authorisations could be obtained according to the proposed development proposal. We have also assumed that the design and construction of the development are in accordance with the relevant rule and regulations. Should it not be the case, we reserve the right to revise our report and valuation accordingly.

In our valuations, we have assumed that the properties are able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported values significantly. The readers are reminded to have their own legal due diligence work on such issue. No responsibility or liability from our part is assumed.

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported values in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Valuation Date, we reserve the right to adjust the values reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the Instructing Party or the appointed personnel of the Company provided us the necessary copies of documents to support that the legally interested parties in the properties (in this instance, the Target Group) have free and uninterrupted rights to transfer, to mortgage or to let its relevant property interests (in this instance, an absolute title) for the whole of the unexpired terms as granted, free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed, and the Target Group has the right to occupy and use the properties. However, our procedures to value, as agreed with the Instructing Party, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the Instructing Party that this should be the responsibility of the legal advisor to the Instructing Party. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

The land registration system of China forbids us to search the original documents of the properties that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. For the purpose of valuation, we have relied solely on a copy of the PRC legal opinions provided by the Instructing Party or the appointed personnel of the Company with regard to the legal titles of the properties. We are given to understand that the PRC legal opinions was prepared by a qualified PRC legal advisor Jia Yuan Law Offices dated 11 December 2014.

We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties. However, we have complied with the requirements as stated in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copies of documents and the various copies of legal opinions provided by the Instructing Party or the appointed personnel of the Company in our valuations. No responsibility or liability from our part is assumed in relation to those legal opinions.

In our report, we have assumed that the Target Group has obtained all the approval and/or endorsement from the relevant authorities to own or to use the properties, and that there would be no legal impediment (especially from the regulators) for the Target Group to continue the legal titles to the properties. Should this not be the case, it will affect our findings or conclusion of values in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability from our part is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH VALUATION STANDARD 4 OF THE HKIS STANDARDS

We have conducted inspections to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of engagement. The properties were inspected by our graduate surveyor Mr Sam Ngai in September and October of 2014. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in a reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of such properties that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction or formation of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect, and therefore we have not considered such factors in our valuations.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported or affect our findings.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VALUATION STANDARD 5 OF THE HKIS STANDARDS

In the course of our work, we have been provided with copies of the documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures did not require us to conduct any searches or to inspect the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the Instructing Party or the appointed personnel of the Company.

We have relied solely on the information provided by the Instructing Party or the appointed personnel of the Company without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, site and floor areas and all other relevant matters.

Our valuations have been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local real property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility and liability from our part is assumed.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the Instructing Party or its appointed personnel of the Company in our works, the assumptions and caveats that adopted by them in arriving at their figures also applied to this report. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the Instructing Party or the appointed personnel of the Company. Also, we have sought and received confirmation from the Instructing Party or the appointed personnel of the Company that no material factors have been omitted from the information supplied. Our analysis and valuation are based upon full disclosure between us and the Instructing Party of material and latent facts that may affect the works.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party or the appointed personnel of the Company. We consider that we have been provided with sufficient information to reach an informed view, and have had no reasons to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Renminbi Yuan (“RMB”).

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our findings or conclusion of values of the properties in this summary report are valid only for the stated purpose and only for the Valuation Date, and for the sole use of the Instructing Party. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuer accepts no responsibility whatsoever to any other person.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition has been made in the properties, and that the inspections and the use of this report do not purport to be a building survey of the properties. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise this summary report to reflect events or conditions which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, prospectus or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this circular to the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company and the Instructing Party are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

The attached valuation certificate is prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in the IVS and the HKIS Standards. The valuations have been undertaken by valuer, acting as external valuer, qualified for the purpose of this valuation.

We retain a copy of this summary report and the detailed valuation report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Instructing Party's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analysis or valuation of the properties depends solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings or conclusion of values significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion and we have no significant interest in the properties, the Group, the Target Group or the values reported.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Elsa Ng Hung Mui *B.Sc. M.Sc. RPS (GP)*
Director

Contributing valuer:
Sam Ngai Yat Lun *B.Sc.*

Sr Elsa Ng Hung Mui has been conducting valuation of real properties in Hong Kong, Macau and mainland China since 1994. She is a Member of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

SUMMARY OF VALUES

Group I – Property held by the Target Group under development in the PRC and valued on market value basis

	Property	Amount of valuation in its existing state as at 31 October 2014 *RMB*
1.	A developing composite development known as International Square, Lot Nos. 3-13-6-7-2, 3-13-6-8-2, 3-13-6-9-2 and 3-13-6-10-2 located at the Southeastern side of Zhongshan Road Shahekou District Dalian City Liaoning Province The PRC 116021	3,750,000,000
	Sub-Total	3,750,000,000

Group II – Property held by the Target Group for future development in the PRC and valued on market value basis

2.	12 various parcels of land known as Lot Nos. E01-08/2, E07-06/2, E07-04/2, E08-02/02, E12-05/02, E10-04/02, E10-03/02, E10-02/02, E11-03/02, E01-09/02, E12-04/02 and E01-10/02 located at Liangjiangxin District Chongqing The PRC 401022	790,000,000
	Sub-Total	790,000,000
	Grand-Total*	RMB4,540,000,000

* **(RENMINBI FOUR BILLION FIVE HUNDRED AND FORTY MILLION YUAN)**

VALUATION CERTIFICATE

Group I – Property held by the Target Group under development in the PRC and valued on market value basis

	Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state as at 31 October 2014 *RMB*
1.	A developing composite development known as International Square, Lot Nos. 3-13-6-7-2, 3-13-6-8-2, 3-13-6-9-2 and 3-13-6-10-2 located at the Southeastern side of Zhongshan Road Shahekou District Dalian City Liaoning Province The PRC 116021	The property comprises 4 parcel of adjoining land (known as Zones A, B, C and D) having a total site area of approximately 46,937.50 sq.m. (excluding communal site area) together with a developing composite development known as International Square erecting thereon. *(See Note 1 below).* We are given to understand that the future development of International Square will be for retails, offices and residential purposes. The total planned gross floor area of the development upon completion would be approximately 434,461 sq.m. The estimated completion date is December 2018. International Square is a large scale composite development located at Shahekou District in Dalian City with sufficient ancillary facilities and developed transportation system. *(See Note 9 below).* The property is subject to a right to use the land for a term till 13 February 2052 for commercial usage and till 13 February 2082 for residential usage.	As confirmed by the appointed personnel of the Company, as at the Valuation Date, Zones A, C and D of the property were in the process of construction works with the site being fenced. 2 buildings were erected on Zone B of the property and were occupied as sales office and show room. Due to the nature of construction works in progress, we were unable to conduct any due diligence on the current occupation status of the property.	3,750,000,000 (100% interest) *(See Note 6 below)*

Notes:

1. The right to possess the land is held by the State and the right to use the land has been granted by the State to 大連航華置業有限公司 (translated as Dalian Hanghua Real Estate Company Limited and hereinafter referred to as "Dalian Hanghua"), vide the following ways:

   (i) Zones A, B, C and D

   Pursuant to a Contract for the Grant of State-owned Land Use Rights No. 2102042012A003 dated 28 July 2012 and made between 大連市國土資源和房屋局 (translated as Bureau of Land Resources and Housing of Dalian) and Dalian Hanghua, the land use rights of a parcel of land having a site area of 46,937.50 sq.m. was granted to Dalian Hanghua at a consideration of RMB1,760,000,000. The consideration has been fully paid.

(ii) A parcel of land having a site area of approximately 9,237.7 sq.m. (Zone A)

Pursuant to a State-owned Land Use Rights Certificate known as Da Guo Yung (2013) Di 03015 Hao (大國用(2013)第03015號) issued by the People's Government of Dalian and dated 3 May 2013, the legally interest party in the land having a site area of approximately 9,237.7 sq.m. is Dalian Hanghua and for a term of use till 13 February 2052 for commercial usage.

(iii) A parcel of land having a site area of approximately 11,309.7 sq.m. (Zone B)

Pursuant to a State-owned Land Use Rights Certificate known as Da Guo Yung (2013) Di 03016 Hao (大國用(2013)第03016號) issued by the People's Government of Dalian dated 3 May 2013, the legally interest party in the land having a site area of approximately 11,309.7 sq.m. is Dalian Hanghua and for a term of use till 13 February 2052 for commercial usage.

(iv) A parcel of land having a site area of approximately 13,006.8 sq.m. (Zone C)

Pursuant to a State-owned Land Use Rights Certificate known as Da Guo Yung (2013) Di 03017 Hao (大國用(2013)第03017號) issued by the People's Government of Dalian dated 3 May 2013, the legally interest party in the land having a site area of approximately 13,006.8 sq.m. is Dalian Hanghua and for a term of use till 13 February 2082 for residential usage.

(v) A parcel of land having a site area of approximately 13,383.3 sq.m. (Zone D)

Pursuant to a State-owned Land Use Rights Certificate known as Da Guo Yung (2013) Di 03018 Hao (大國用(2013)第03018號) issued by the People's Government of Dalian dated 3 May 2013, the legally interest party in the land having a site area of approximately 13,383.3 sq.m. is Dalian Hanghua and for a term of use till 13 February 2082 for residential usage.

(vi) Pursuant to a Supplementary Contract dated 5 June 2013 and made between the Bureau of Land Resources and Housing of Dalian and Dalian Hanghua, partial of the basement in Zones A and B having a total gross floor area of approximately 30,000 sq.m. are permitted for sale with a premium of RMB3,680,813 payable to the Bureau of Land Resources and Housing of Dalian. The premium has been fully paid.

2. The property should be used for commercial and residential purposes and subject to the following development covenant:

Usage:	Commercial, Residential
Plot ratio:	≦7.5
Site Coverage:	Zone A and B ≦60% Zone C and D ≦35%
Building height:	According to the relevant planning requirements
Greenery area:	Zone A and B ≧10% Zone C and D ≧35%
Other development parameters:	According to the relevant planning requirements

3. Pursuant to a Planning Permit for Using Construction Usage Land 建設用地規劃許可證 Di Zi Di 210204201300006 Hao (地字第210204201300006號) dated 14 January 2013, Dalian Hanghua was permitted to develop a parcel of land having a site area of approximately 46,800 sq.m. (Zone A: 9,200 sq.m.; Zone B: 11,300 sq.m.; Zone C: 13,000 sq.m. and Zone D: 13,300 sq.m.) and total gross floor area of approximately 434,461 sq.m.

4. Pursuant to 3 various Construction Planning Permits 建設工程規劃許可證 Jian Zi Di 210204201300004 Hao, 210204201300005 Hao and 210204201400009 Hao (建字第210204201300004號、210204201300005號及210204201400009號) dated 28 January 2013 and 14 March 2014, respectively, Dalian Hanghua was permitted to develop various blocks of buildings having a total gross floor area of approximately 224,576 sq.m. (above ground level), 4,089 sq.m. (below ground for ancillary facilities) and 74,987 sq.m. (below ground level for car parking spaces) upon completion.

5. Pursuant to 3 various Permits to Commence Construction 建築工程施工許可證 Nos. 210200201303190401, 210200201303190501 and 210200201404251001 dated 19 March 2013 and 25 April 2014, respectively, Dalian Hanghua is permitted to commence construction work for a total development scale of approximately 303,652 sq.m. The commencement date of the respective construction contracts are on 1 March 2013 and 10 April 2014, and the completion date are on 30 September 2015, 30 November 2015 and 9 September 2017, respectively.

6. As advised by the Instructing Party, the cost for the construction in progress items incurred was approximately RMB1,390,000,000 as at the Valuation Date and the estimated development cost for the remaining of the whole development was approximately RMB2,210,000,000.

7. Upon completion of the development, it will comprise 1 office building and 1 apartment building in Zone A; 1 office building in Zone B; 4 residential buildings in Zone C and 4 residential buildings in Zone D. The capital value will be in the region of RMB8,400,000,000.

8. Part of Zones B and D of the property, having a site area of approximately 22,566.7 sq.m., are subject to a mortgage between the mortgagor, Dalian Hanghua, and mortgagee, 招商銀行股份有限公司大連沙河口支行 (translated as China Merchants Bank Limited Dalian Shahekou Branch, for a loan of RMB600,000,000.

9. According to the information made available to us, the property market of Dalian has grown fast over the recent years. The total gross floor area of properties completed in 2013 was 10.47 million square metres. The sale price of residential and commercial units of the property are both estimated at approximately RMB20,000 per sq.m., which is in line with similar developments located in the city.

10. According to our on-site inspection and the information provided by the appointed personnel of the Company, the 2-storey sales office and single storey show room in Zone B, having a total gross floor area of approximately 3,100 sq.m. as mentioned above did not obtain relevant title documents and it will be demolished upon the commencement of construction work in Zone B. Therefore, no commercial value has been assigned to such structures.

11. Pursuant to 3 various Pre-sale Permit of Commodity Units 商品房預售許可證 Nos. Da Fang Yu Xu Zi Di 20130029, 20130061 and 20130085 Hao (大房預許字第20130029, 20130061及20130085號), Dalian Hanghua is permitted to pre-sale a total gross floor area of approximately 173,263 sq.m. of the development.

12. According to the legal opinion prepared by the Company's PRC legal adviser, Jia Yuan Law Offices dated 11 December 2014, the following opinions are noted:

    (i) Dalian Hanghua has the rights to occupy, assign, lease or mortgage the property as mentioned in Note 1 above save except those lands mentioned in (ii) below;

    (ii) For those lands subject to mortgage as mentioned in Note 8 above, Dalian Hanghua has the rights to occupy and use the land during the mortgage period; and

    (iii) Dalian Hanghua has obtained relevant approval for developing the property.

Group II – Property held by the Target Group for future development in the PRC and valued on market value basis

	Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state as at 31 October 2014 *RMB*
2.	12 various parcels of land known as Lot Nos. E01-08/2, E07-06/2, E07-04/2, E08-02/02, E12-05/02, E10-04/02, E10-03/02, E10-02/02, E11-03/02, E01-09/02, E12-04/02 and E01-10/02 located at Liangjiangxin District Chongqing The PRC 401022	The property comprises 12 various parcels of land having a total site area of approximately 375,252.00 sq.m. *(See Note 1 below).* The property is situated in a newly developed residential area with communal facilities. The property is subject to a right to use the land for a term of 40 years for commercial usage and for a term of 50 years for residential usage.	As inspected and confirmed by the appointed personnel of the Company, as at the Valuation Date, the property was vacant.	790,000,000 (100% interest)

Notes:

1. The right to possess the land is held by the State and the right to use the land has been granted by the State to 重慶航龍置業有限公司 (translated as Chongqing Hanglong Real Estate Company Limited and hereinafter referred to as "Chongqing Hanglong"), vide the following ways:

   (i) 9 various parcels of land having a total site area of approximately 234,112 sq.m. (Lot A)

   Pursuant to a Confirmation of Transaction in Land Use Rights 國有建設用地使用權成交確認書 dated 2 January 2014 and made between 重慶土地和礦業交易中心 (translated as "The Land Transaction Net of Chongqing") and 重慶航悦置業有限公司 (translated as "Chongqing Hangyue Real Estate Company Limited" and hereinafter referred to as "Chongqing Hangyue"), which is the shareholder of Chongqing Honglong, the winning bidder of 9 parcels of land known as E01-08/02, E07-06/2, E07-04/2, E08-02/02, E12-05/02, E10-04/02, E10-03/02, E10-02/02 and E11-03/02 is Chongqing Hangyue; and

   pursuant to a Contract for the Grant of State-owned Land Use Rights No. Yu Di (2014) He Zi (Liang Jiang) Di 216 Hao dated 29 September 2014 and made between 重慶市國土資源和房屋管理局 (translated as Bureau of Land Resources and Housing of Chongqing) and Chongqing Hanglong, the land use rights of a parcel of land having a total site area of 234,112 sq.m. was granted to Chongqing Hanglong at a consideration of RMB465,900,000. The consideration has been fully paid.

   (ii) 3 various parcels of land having a total site area of approximately 141,140 sq.m. (Lot B)

   Pursuant to a Confirmation of Transaction in Land Use Rights 國有建設用地使用權成交確認書 dated 2 January 2014 made between The Land Transaction Net of Chongqing and Chongqing Hangyue, the winning bidder of 3 parcels of land known as E01-09/02, E12-04/02 and E01-10/02 is Chongqing Hangyue; and

   pursuant to a Contract for the Grant of State-owned Land Use Rights No. Yu Di (2014) He Zi (Liang Jiang) Di 217 Hao dated 29 September 2014 and made between 重慶市國土資源和房屋管理局 (translated as Bureau of Land Resources and Housing of Chongqing) and Chongqing Hanglong, the land use rights of a parcel of land having a total site area of 141,140 sq.m. was granted to Chongqing Hanglong at a consideration of RMB274,690,000. The consideration has been fully paid.

2. The property should be used for commercial and residential purposes and subject to the following development covenants:

Usage:	Commercial, Residential
Total Gross Floor Area:	Commercial: 168,298.8 sq.m. Residential: 394,579.2 sq.m.
Building height:	According to the relevant planning requirements and as advised, the Company is in process of applying the relevant planning permissions
Greenery area:	According to the relevant planning requirements and as advised, the Company is in process of applying the relevant planning permissions

3. As advised by the appointed personnel of the Company, Chongqing Hanglong has already submitted an application of State-owned Land Use Rights Certificates and it is expected that the certificates could be obtained in the first half of 2015.

4. According to the information made available to us, the property market of Chongqing has been boosted in recent years. The gross floor area of properties completed in 2013 was 38.04 million square metres.

5. According to the legal opinion issued by the Company's PRC legal adviser, Jia Yuan Law Offices dated 11 December 2014, the following opinions are noted:

   (i) Chongqing Hanglong has signed the Contracts for the Grant of State-owned Land Use Rights and has fully paid the consideration. There is no foreseeable legal impediment for Chongqing Honglong to obtain the State-owned Land Use Rights Certificates;

   (ii) After signing the Contracts for the Grant of State-owned Land Use Rights and prior to the issuance of State-owned Land Use Rights Certificates, Chongqing Honglong's right to use the land is protected by the relevant PRC laws. Upon issuance of the State-owned Land Use Rights Certificate, Chongqing Hanglong would obtain the absolute title on the land and has the rights to occupy, assign, lease or mortgage the property; and

   (iii) Chongqing Hanglong did not commence the construction work on the property. According to the written confirmation from Chongqing Hanglong, Chongqing Hanglong will comply with relevant law and regulations to obtain relevant approvals, such as Approval of Initiation of the Project, Planning Permit for Using Construction Usage Land, Construction Planning Permit and Permit to Commence Construction to commence construction and Chongqing Hanglong considered that it would not encounter any major impediment in obtaining these approvals.

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 respects 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

As at the Latest Practicable Date, the interests and short positions of the Director(s) and chief executive of the Company in the shares or 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 and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in share options of associated corporation of the Company:

Name of director	*Notes*	**Name of associated corporation**	**Relationship with the Company**	**Number of share options held**	**Capacity and nature of interest**	**Approximate percentage of the associated corporation's issued share capital as at the Latest Practicable Date**
Ji Guirong	(a)	AVIC Joy Holdings (HK) Limited (formerly known as China Environmental Investment Holdings Limited, "AVIC Joy HK")	Associate	52,350,000	Beneficial owner	1.19
Zhang Chuanjun	(b)	AVIC Joy HK	Associate	40,000,000	Beneficial owner	0.91

Notes:

(a) (i) On 23 August 2007, Mr. Ji was granted options to subscribe for an aggregate of 14,900,000 ordinary shares of HK$0.20 each in AVIC Joy HK at an exercise price of HK$0.35 per share. With effect from 23 February 2012, the number and the exercise price of the share options granted were adjusted from 14,900,000 to 22,350,000 and HK$0.35 per share to HK$0.233 per share respectively.

(ii) On 31 August 2010, Mr. Ji was granted options to subscribe for an aggregate of 20,000,000 ordinary shares of HK$0.20 each in AVIC Joy HK at an exercise price of HK$0.341 per share. With effect from 23 February 2012, the number and the exercise price of the share options granted were adjusted from 20,000,000 to 30,000,000 and HK$0.341 per share to HK$0.227 per share respectively.

The exercise periods of the options are as follows:

Number of share options	**Exercise period**
7,450,000	1/10/2007 to 31/1/2015
7,450,000	1/1/2008 to 31/1/2015
7,450,000	1/7/2008 to 31/1/2015
30,000,000	31/8/2010 to 30/8/2020
52,350,000	

No options have been exercised, cancelled or lapsed. All the above options are remaining outstanding as at the Latest Practicable Date.

(b) (i) On January 2006, Mr. Zhang was granted options to subscribe for an aggregate of 10,000,000 ordinary shares of HK$0.20 each in AVIC Joy HK at an exercise price of HK$0.20 per share.

(ii) On 31 August 2010, Mr. Zhang was granted options to subscribe for an aggregate of 20,000,000 ordinary shares of HK$0.20 each in AVIC Joy HK at an exercise price of HK$0.341 per share. With effect from 23 February 2012, the number and the exercise price of the share options granted were adjusted from 20,000,000 to 30,000,000 and HK$0.341 per share to HK$0.227 per share respectively.

The exercise periods of the options are as follows:

Number of share options	**Exercise period**
5,000,000	1/7/2006 to 31/1/2015
5,000,000	1/1/2007 to 31/1/2015
30,000,000	31/8/2010 to 30/8/2020
40,000,000	

No options have been exercised, cancelled or lapsed. All the above options are remaining outstanding as at the Latest Practicable Date.

Certain Directors have non-beneficial personal equity interest in certain subsidiaries held for the benefit of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed in this circular, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors and chief executive of the Company were aware, the following persons (other than a director or chief executive of the Company) who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the Group or has any option in respect of such capital were as follows:

Long positions in the Shares and underlying Shares:

Name of shareholder	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital as at the Latest Practicable Date
Speed Profit	Beneficial owner	508,616,000	11.01
Tacko	Beneficial owner	1,386,943,000	30.02
	Through a controlled corporation	508,616,000	11.01
AVIC International (HK)	Through a controlled corporation	1,895,559,000	41.03

Name of shareholder	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital as at the Latest Practicable Date
AVIC International	Through a controlled corporation	1,895,559,000	41.03
Aviation Industry	Through a controlled corporation	1,895,559,000	41.03

Note:

Speed Profit is a wholly-owned subsidiary of Tacko, which is in turn a wholly-owned subsidiary of AVIC International (HK). AVIC International (HK) is a wholly-owned subsidiary of AVIC International, which is in turn a non wholly-owned subsidiary of Aviation Industry. Accordingly, Tacko is deemed to be interested in the shares held by Speed profit; and each of AVIC International (HK), AVIC International and Aviation Industry is deemed to be interested in the aggregate Shares directly held by Speed Profit and Tacko.

Interests in other member of the Group:

Name of owner	Name of subsidiary	Percentage of shares held
Wu Xiaogang	浙江東陽金牛針織製衣有限公司 (Zhejiang Dongyang Jinniu Knitting and Garment Company Limited*)	49

Save as disclosed above, the Directors and chief executive of the Company were not aware of any other persons who, as at the Latest Practicable Date, had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of other members of the Group or has any option in respect of such capital.

4. DIRECTOR'S INTERESTS IN ASSETS/CONTRACTS

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which have since 31 December 2013, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date and which is significant in relation to the business of the Enlarged Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group, which is not determinable within one year without payment of compensation other than statutory compensation.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, none of the Directors was aware of any material adverse change in the financial or trading position of the Group since 31 December 2013 (being the date to which the latest published audited financial statements of the Group were made up).

7. COMPETING INTERESTS

The following Director had interests in the following businesses conducted through the company named below which are considered to compete or be likely to compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules:

Name of Director	Name of company	Nature of interest	Nature of competing business
Ip Tak Chuen, Edmond	Cheung Kong (Holdings) Limited	Deputy managing director	– Property development and investment – Investment in securities (collectively defined as "Excluded Businesses")

The Board is of the view that the Group is capable of carrying on its business independently of the Excluded Businesses. When making decisions on the businesses of the Excluded Businesses of the Group, Mr. Ip Tak Chuen, Edmond, in the performance of his duties as Director, has acted and will continue to act in the best interests of the Group.

So far as the Directors were aware, save as abovementioned, as at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competed or was likely to compete with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling shareholder).

8. EXPERTS AND CONSENTS

The following sets out the qualifications of the experts who have been named in this circular:

Name	Qualifications
Anglo Chinese	Corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
Ernst & Young	Certified public accountants
Jia Yuan Law Offices	PRC legal counsel
LCH	Independent property valuer

Each of Anglo Chinese, Ernst & Young, Jia Yuan Law Offices and LCH has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name, in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Anglo Chinese, Ernst & Young, Jia Yuan Law Offices and LCH had any shareholding, directly or indirectly, in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Enlarged Group.

As at the Latest Practicable Date, none of Anglo Chinese, Ernst & Young, Jia Yuan Law Offices and LCH had any interest, direct or indirect, in any assets which since 31 December 2013, the date to which the latest published audited financial statements of the Company were made up, had been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the members of the Enlarged Group within two years immediately preceding the issue of this circular and are or might be material:

(a) a sale and purchase agreement dated 8 April 2013 entered into between Kingspot Investment Limited (a direct wholly-owned subsidiary of the Company, "Kingspot"), Broadlink Enterprises Limited ("Broadlink"), Alliance Elegant

Limited, Bidfast Investment Limited, Grandest International Limited, the existing shareholders of Broadlink, Jichange Investments Limited, a direct wholly-owned subsidiary of Peace Map Holding Limited (formerly known as Mongolia Investment Group Limited and whose shares are listed on the Stock Exchange with stock code 402, "Peace Map") and Peace Map in relation to the disposal of all the issued shares of Sinbo Investment Limited for a total consideration of HK$1,500,000,000 (of which, the total consideration received by Kingspot was HK$339,900,000 subject to adjustment); and

(b) the Agreement.

10. LITIGATION

As at the Latest Practicable Date, the Enlarged Group was not engaged in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

11. MISCELLANEOUS

(a) The company secretary of the Company is Ms. Leung Yuen Chee Sara, associate member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

(b) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The head office and principal place of business of the Company is at Unit B, 15th Floor, United Centre, 95 Queensway, Hong Kong.

(c) The share registrar and transfer office of the Company in Bermuda is MUFG Fund Services (Bermuda) Limited at The Belvedere Building, 69 Pitts Bay Road, Pembroke HM 08, Bermuda.

(d) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The English text of this circular and the enclosed proxy form shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the office of the Company at Unit B, 15/F., United Centre, 95 Queensway, Hong Kong from the date of this circular up to and including the date of the SGM:

(a) the Bye-laws of the Company;

(b) the letter from the Board, the text of which is set out on pages 7 to 23 of this circular;

(c) the letter from the Independent Board Committee, the text of which is set out on pages 24 to 25 of this circular;

(d) the letter from Anglo Chinese, the text of which is set out on pages 26 to 40 of this circular;

(e) the annual reports of the Company for each of the three years ended 31 December 2011, 31 December 2012 and 31 December 2013;

(f) the accountants' report on the Target Group prepared by Ernst & Young, the text of which is set out in Appendix II to this circular;

(g) the accountants' report on the compilation of unaudited pro forma financial information of the Enlarged Group issued by Ernst & Young, the text of which is set out in Appendix III to this circular;

(h) the audited consolidated financial statements of the Group for the year ended 31 December 2013 and for the six months ended 30 June 2014;

(i) the property valuation report of the Target Group prepared by LCH, the text of which is set out in Appendix IV to this circular;

(j) the PRC legal opinion issued by Jia Yuan Law Offices;

(k) a copy of each of the material contracts as set out in the section headed "Material Contracts" in this Appendix;

(l) the written consents referred to in the section headed "Experts and Consents" in this Appendix; and

(m) this circular.

AVIC International Holding (HK) Limited
中國航空工業國際控股(香港)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 232)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of AVIC International Holding (HK) Limited (the "**Company**") will be held at Harbour East & West Room, 28th Floor, The Park Lane Hong Kong, 310 Gloucester Road, Causeway Bay, Hong Kong on Tuesday, 30 December 2014 at 10:00 a.m. (the "**SGM**") for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the share transfer agreement dated 1 December 2014 between Sanba Investment Limited, an indirect wholly-owned subsidiary of the Company, and Onfield International Limited, pursuant to which Sanba Investment Limited conditionally agreed to acquire, and Onfield International Limited conditionally agreed to sell, the entire share capital of Ease Triumph International Limited at a total consideration of HK$325,881,324, and all transactions contemplated thereunder be and are hereby ratified, confirmed, authorized and approved; and

(b) any one director of the Company be and is hereby authorised 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 he may consider necessary, appropriate, desirable or expedient to give effect to or in connection with paragraph (a) of this resolution."

By order of the Board
AVIC International Holding (HK) Limited
Wu Guangquan
Chairman

Hong Kong, 11 December 2014

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Head office and principal place of business in Hong Kong:
Unit B, 15th Floor
United Centre
95 Queensway
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the SGM is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. To be effective, the proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited at the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form shall not preclude a member of the Company from attending and voting in person at the SGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

3. Where there are joint registered holders of any shares, any one of such joint holders may vote, either in person or by proxy in respect of such shares as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the SGM, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members of the Company in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

4. The voting on the resolution at the SGM will be conducted by way of a poll.