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

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Jiayuan International Group Limited

佳源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2768)

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE
TARGET GROUP HOLDING PROPERTY
MANAGEMENT BUSINESS IN THE PRC
INVOLVING THE ISSUE OF CONSIDERATION
SHARES UNDER SPECIFIC MANDATE
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 6 to 25 of this circular and a letter from the Independent Board Committee is set out on pages IBC-1 to IBC-2 of this circular. A letter from Somerley, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-34 of this circular.

A notice convening the EGM to be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 15 January 2019 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for the EGM is enclosed with this circular. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.jiayuanintl.com>).

Whether or not you intend to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the EGM (i.e. not later than 11:00 a.m. on Sunday, 13 January 2019). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish. If you attend and vote at the EGM, the authority of your proxy will be revoked.

References to time and dates in this circular are to Hong Kong time and dates.

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	6
Letter from the Independent Board Committee	IBC-1
Letter from Somerley	IFA-1
Appendix I – Financial Information of the Group	I-1
Appendix II – Financial Information of the Combined Group	II-1
Appendix III – Unaudited Pro Forma Financial Information of the Enlarged Group	III-1
Appendix IV – Valuation Report	IV-1
Appendix V – General Information	V-1
Notice of Extraordinary General Meeting	EGM-1

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Share by the Company from Mr. Shum pursuant to the terms and conditions set out in the Sale and Purchase Agreement
“associates”; “connected person(s)”; “controlling shareholder(s)”; and “subsidiary(ies)”	each has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday and a Sunday) on which banks in Hong Kong are normally open for banking business to the public
“BVI”	the British Virgin Islands
“Chuangsheng Holdings”	佳源創盛控股集團有限公司 (Jiayuan Chuangsheng Holdings Group Co., Ltd.*), a company established under the laws of the PRC with limited liability and beneficially wholly-owned by Mr. Shum
“Company”	Jiayuan International Group Limited (佳源國際控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability and the shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 2768)
“Completion”	the completion of the Acquisition
“Consideration”	the total consideration of HK\$688,974,000 for the Acquisition
“Consideration Shares”	50,180,189 new Shares to be allotted and issued by the Company to Mr. Shum or his nominee(s)
“Deed of Non-competition”	the deed of non-competition dated 12 February 2016 and entered into by Mingyuan Investment and Mr. Shum with and in favour of the Company (for itself and on behalf of its subsidiaries), further details of which are set out in the Prospectus

DEFINITIONS

“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, to approve, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Enlarged Group”	the Group as enlarged by the Target Group upon Completion
“GFA”	gross floor area
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all independent non-executive Directors, namely Mr. Tai Kwok Leung, Alexander, Dr. Cheung Wai Bun, Charles, JP and Mr. Gu Yunchang, which has been established to make recommendations to the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Somerley”	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who are not required to abstain under the Listing Rules from voting at the EGM for the resolution(s) approving the Sale and Purchase Agreement and the transactions contemplated thereunder

DEFINITIONS

“Issue Price”	HK\$13.73 per Consideration Share
“JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer
“Latest Practicable Date”	20 December 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mingyuan Investment”	Mingyuan Group Investment Limited (明源集團投資有限公司), a company incorporated under the laws of the BVI with limited liability, which is interested in approximately 54.87% of the issued share capital of the Company as at the Latest Practicable Date
“Mr. Shum”	Mr. Shum Tin Ching, the chairman, the non-executive Director, the ultimate controlling shareholder of the Company and the ultimate beneficial owner of the Private Group
“NEEQ”	National Equities Exchange and Quotations System (全國中小企業股份轉讓系統), a national securities exchange approved and established by the State Council and operated and managed by National Equities Exchange and Quotations Co., Ltd.
“PRC”	the People’s Republic of China, and for the purpose of this circular only, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Private Group”	Chuangsheng Holdings and its subsidiaries from time to time
“Property Management Services”	has the meaning ascribed to it under the paragraph headed “Continuing Connected Transactions: Property Management Services Framework Agreement” in this circular

DEFINITIONS

“Property Management Services Framework Agreement”	the framework agreement entered into between Chuangsheng Holdings, Zhejiang Jiayuan Property and the Company on 19 September 2018 in respect of the engagement of members of the Group by members of the Private Group for the provision of the Property Management Services
“Prospectus”	the prospectus of the Company dated 26 February 2016
“Reorganisation”	such arrangement and restructuring of companies comprising the Target Group to be taken and/or procured by Mr. Shum pursuant to the terms of the Sale and Purchase Agreement, further details of which are set out in the paragraph headed “Reorganisation” in this circular
“Retained Property Management Business”	has the meaning ascribed to it under the paragraph headed “Non-competition Undertaking” in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the sale and purchase agreement dated 19 September 2018 and entered into between the Company and Mr. Shum in relation to the Acquisition
“Sale Share”	all issued share capital of the Target Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Acquisition”	the acquisition of the entire issued share capital of Huyuan Holdings Limited (滬源控股有限公司) by the Company from Mr. Shum pursuant to the Shanghai Sale and Purchase Agreement, the details of which are set out in the announcement of the Company dated 5 June 2018
“Shanghai Sale and Purchase Agreement”	the sale and purchase agreement dated 5 June 2018 and entered into between the Company and Mr. Shum in relation to the Shanghai Acquisition, the details of which are set out in the announcement of the Company dated 5 June 2018 and the circular of the Company dated 26 July 2018
“Share(s)”	the ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	the holder(s) of the Shares
“Specific Mandate”	the specific mandate proposed to be granted to the Directors by the Independent Shareholders at the EGM to allot and issue the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Chuangyuan Holdings Limited (創源控股有限公司), a company incorporated under the laws of the BVI with limited liability
“Target Group”	the Target Company and its subsidiaries upon completion of the Reorganisation
“Valuation Report”	the business valuation report on the market value of the Target Group as at 30 June 2018 prepared by JLL, the text of which is set out in Appendix IV to this circular
“Zhejiang Jiayuan Property”	Zhejiang Jia Yuan Property Management Services Group Co., Ltd.* (浙江佳源物業服務集團有限公司) (formerly known as Zhejiang Jia Yuan Property Management Co., Ltd.* (浙江佳源物業管理有限公司)), a company established under the laws of the PRC with limited liability, and a Target Group company
“%”	per cent.

* for identification purposes only

For the purpose of this circular and for illustrative purpose only, RMB is converted into HK\$ at the rate of RMB1 : HK\$1.1388. No representation is made that any amounts in RMB has been or could be converted at the above rates or at any other rates.

LETTER FROM THE BOARD



Jiayuan International Group Limited 佳源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2768)

Non-executive Director:

Mr. Shum Tin Ching (*Chairman*)

Executive Directors:

Mr. Huang Fuqing (*Vice Chairman*)

Ms. Cheuk Hiu Nam (*Chief Executive Officer*)

Mr. Wang Jianfeng

Independent non-executive Directors:

Mr. Tai Kwok Leung, Alexander

Dr. Cheung Wai Bun, Charles, *JP*

Mr. Gu Yunchang

Registered Office:

Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111, Cayman Islands

*Principal Place of Business
in the PRC:*

No. 59, Gu Jia Ying Road
Xuanwu District
Nanjing
China

Headquarters:

Room 1403
9 Queen's Road Central
Hong Kong

24 December 2018

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

Reference is made to the announcement of the Company dated 19 September 2018 in respect of, among other things, that on 19 September 2018, the Company entered into the Sale and Purchase Agreement with Mr. Shum whereby the Company conditionally agreed to acquire and Mr. Shum conditionally agreed to sell the Sale Share, representing the entire issued share capital of the Target Company at a consideration of HK\$688,974,000, which will be fully settled by the allotment and issue of the 50,180,189 Consideration Shares by the Company to Mr. Shum or his nominee(s) at the Issue Price of HK\$13.73 per Consideration Share.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things:

- (i) the particulars of the Sale and Purchase Agreement and the transactions contemplated thereunder;
- (ii) the letter from the Independent Board Committee with its recommendation on the Sale and Purchase Agreement and the transactions contemplated thereunder to the Independent Shareholders;
- (iii) the letter from the Independent Financial Adviser with its advice on the Sale and Purchase Agreement and the transactions contemplated thereunder to the Independent Board Committee and the Independent Shareholders; and
- (iv) other information as required under the Listing Rules,

as well as to seek the approval of the Independent Shareholders in respect of the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

THE SALE AND PURCHASE AGREEMENT

Date

19 September 2018

Parties

- (a) the Company, as purchaser; and
- (b) Mr. Shum, as vendor.

Subject matter to be acquired

The Company has conditionally agreed to acquire and Mr. Shum has conditionally agreed to sell the Sale Share, representing the entire issued share capital of the Target Company. The Company has the right to nominate and designate a wholly-owned subsidiary to take up the Sale Share upon Completion.

Pursuant to the Sale and Purchase Agreement, Mr. Shum agreed to procure the implementation of the Reorganisation, and completion of which is a condition precedent to Completion. Upon completion of the Reorganisation, the Target Group will comprise, among others, the Target Company as the investment holding company and PRC operating entities conducting property management business. Further information of the Reorganisation and the Target Group is set out in the paragraphs headed “Reorganisation” and “Information of the Target Group and its business”, respectively, in this circular.

LETTER FROM THE BOARD

Consideration

The Consideration of HK\$688,974,000 will be fully settled by the allotment and issue of the 50,180,189 Consideration Shares by the Company to Mr. Shum or his nominee(s) at the Issue Price of HK\$13.73 per Consideration Share upon Completion. The Consideration was arrived at after arm's length negotiations between the parties by reference to the business valuation of the Target Group in the amount of approximately RMB698.6 million (equivalent to approximately HK\$795.6 million) as at 30 June 2018 prepared by JLL, based on market approach.

Basis of Consideration

In arriving the appraised value, JLL has adopted the guideline public companies method under the market approach. The market approach considers prices recently paid for similar subject, with adjustments made to reflect condition and utility of the appraised subject relative to the market comparative. The guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples. The key assumptions used in the valuation model include:

- JLL has assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company;
- JLL has assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored; and
- JLL has assumed that the facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge.

Further details of the business valuation including the assumptions, the comparable business used and the market factors are set out in the Valuation Report appended in Appendix IV to this circular.

As disclosed in the Valuation Report, the appraised value of the Target Group of approximately RMB698.6 million (equivalent to approximately HK\$795.6 million) was arrived at (i) by multiplying the normalised earnings of the Target Group by the average 2018 trailing 12-month PE ratios (the “**PE Ratio(s)**”) of the comparable companies as at the date of the valuation (i.e. 30 June 2018); and (ii) after adjustments in respect of non-operating assets/(liabilities), control premium and marketability discount.

LETTER FROM THE BOARD

The normalized earnings of the Target Group used by JLL represented (i) the twelve months trailing earnings of the Target Group which was calculated by adding the net income before taxation of RMB28.6 million for the six month ended 31 December 2017 with the interim net income before taxation for the six month ended 30 June 2018 of RMB40.6 million; and (ii) excluding non-operating income and expenses such as asset impairment loss, non-operating incomes and expenses, asset disposal cost, investment incomes and other incomes.

The Target Group has been experiencing a stable expansion with improving performance in the recent years. The number of properties projects under management by the Target Group increased from 64 as at 31 December 2015, 68 as at 31 December 2016, 94 as at 31 December 2017 to 121 as at 30 June 2018 covering residential buildings, commercial office buildings and urban complexes. Given the Target Group recorded a substantial increase in income for the six month period ended 30 June 2018 when compared to the corresponding period in 2017, the historical financial performance of the Target Group in the previous years may not be reflective of its latest performance and growth potential. As further illustrated in the paragraph headed “B. Management Discussion and Analysis of the Target Group” in Appendix II to this circular, the Target Group has a stable income flow from related customers such as Private Group and the Group. Since 2017, the Target Group has been actively expanding its customer reach to and revenue contribution from independent customers. In addition, the Target Group has mid-to-long term existing contracts ranging from three to five years with certain of its customers, which will provide a recurring and stable service income for the Target Group during the remaining contract period. Taking into account the above factors and the future business plan of the Target Group, the Directors believe that the increase in earnings in the recent period is sustainable in long-term.

In respect of the trading multiples, the Directors discussed with JLL and they are given to understand that the use of PE Ratio is commonly adopted method for evaluating asset-light and profit-making companies. Given the Target Group is not capital intensive, asset light and is profit making, the Directors considered the use of PE Ratio as the trading multiple is suitable for the purpose of the valuation of the Target Group. The PE Ratios of the comparable companies have been adjusted by a specific size premium in view of the different sizes and different risk profiles of the Target Group and the comparable companies. In the circumstances, the Directors do not consider referencing to the net asset value of the Target Group to be a meaningful and appropriate indicator. Given the property management business is asset-light and does not require substantial investment in asset, reference to asset of the Target Group does not capture the revenue or profit generation capability of the business. Besides, the revenue of property management will only be recognised when the relevant property management services are rendered to the customers which will not be fully captured by the current net asset value. Therefore, the Directors are of the view that the use of the trailing twelve months earnings could better reflect the (i) profitability and operation performance of the Target Group in recent periods and the potential economic benefit contributed by the Target Group; and (ii) the synergy effect achieved upon Completion, as further elaborated in the section headed “Reasons for the Acquisition” below.

LETTER FROM THE BOARD

JLL identified seven comparable companies for conducting the valuation under the guideline public companies method, in which the key selection criteria are: (i) companies deriving most, if not all, of their revenues from the same industry of the Target Group, i.e., property management services in the PRC; (ii) that are searchable on Bloomberg; (iii) public listed companies in Hong Kong as of 30 June 2018; and (iv) that sufficient data, including the PE ratios as at the date of the valuation (i.e. 30 June 2018).

Having considered the aforementioned factors and the basis and assumptions of the business valuation, the Board is of the view that the Consideration of approximately HK\$689.0 million, which represents a discount to the appraised value of the Target Group of RMB698.6 million (equivalent to approximately HK\$795.6 million) as of 30 June 2018, is fair and reasonable as a whole.

Consideration Shares

The 50,180,189 Consideration Shares represent approximately 2.00% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.97% of the issued share capital of the Company as enlarged by the Consideration Shares (assuming there will be no change in the total number of issued Shares of the Company between the Latest Practicable Date and the allotment and issue of the Consideration Shares). The allotment and issue of Consideration Shares will not result in a change of control of the Company and Mr. Shum and Mingyuan Investment will remain as the controlling shareholders of the Company.

The Issue Price of HK\$13.73 per Consideration Share represents:

- (a) a discount of approximately 5.31% to the closing price per Share of HK\$14.50 as quoted on the Stock Exchange on 19 September 2018, being the date of the Sale and Purchase Agreement;
- (b) a discount of approximately 4.25% to the average closing price per Share of HK\$14.34 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Sale and Purchase Agreement;
- (c) a discount of approximately 5.31% to the average closing price per Share of HK\$14.50 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Sale and Purchase Agreement; and
- (d) a discount of approximately 15.25% to the closing price per Share of HK\$16.20 as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE BOARD

The Issue Price was determined on an arm's length basis between the Company and Mr. Shum and was arrived at an approximately 7% discount to the average closing price of approximately HK\$14.76 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days immediately prior to the date of the Sale and Purchase Agreement. The Directors (including the independent non-executive Directors, whose views have been set out in this circular together with the advise of the Independent Financial Advisor) consider that the Issue Price is fair and reasonable.

Conditions precedent

Completion is conditional upon fulfilment or, where applicable, waiver of the following conditions:

- (a) the Reorganisation having been completed pursuant to the Sale and Purchase Agreement;
- (b) the relevant transactions under the Sale and Purchase Agreement, including but not limited to, the issue of the Consideration Shares, having been approved by the Independent Shareholders at the EGM in accordance with the requirements of the Listing Rules;
- (c) the approval for the listing of, and permission to deal in, the Consideration Shares by the Stock Exchange having been obtained by the Company, and such approval not having been revoked or withdrawn prior to the date of Completion;
- (d) all necessary consents, if any, from any relevant governmental or regulatory authorities or other relevant third parties in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) having been obtained;
- (e) the Company having satisfied with the due diligence results of the Target Group in all respects; and
- (f) Mr. Shum having procured the transfer of the Retained Property Management Business to the Target Group or the taking up of the such business by the Target Group.

As at the Latest Practicable Date, none of the conditions precedents set out above has been fulfilled. If any of the conditions set out above has not been satisfied or waived by the Company (other than conditions (a), (b) and (c) which may not be waived) on or before 31 December 2018 or such other date as the parties may agree, the Sale and Purchase Agreement will be terminated unless the parties otherwise agree.

LETTER FROM THE BOARD

Reorganisation

Prior to the Reorganisation, Zhejiang Jiayuan Property had (i) subsidiaries conducting the property management business; and (ii) subsidiaries conducting the sales of and provision of installation services of software and system equipment business (the “**Disposal Group**”).

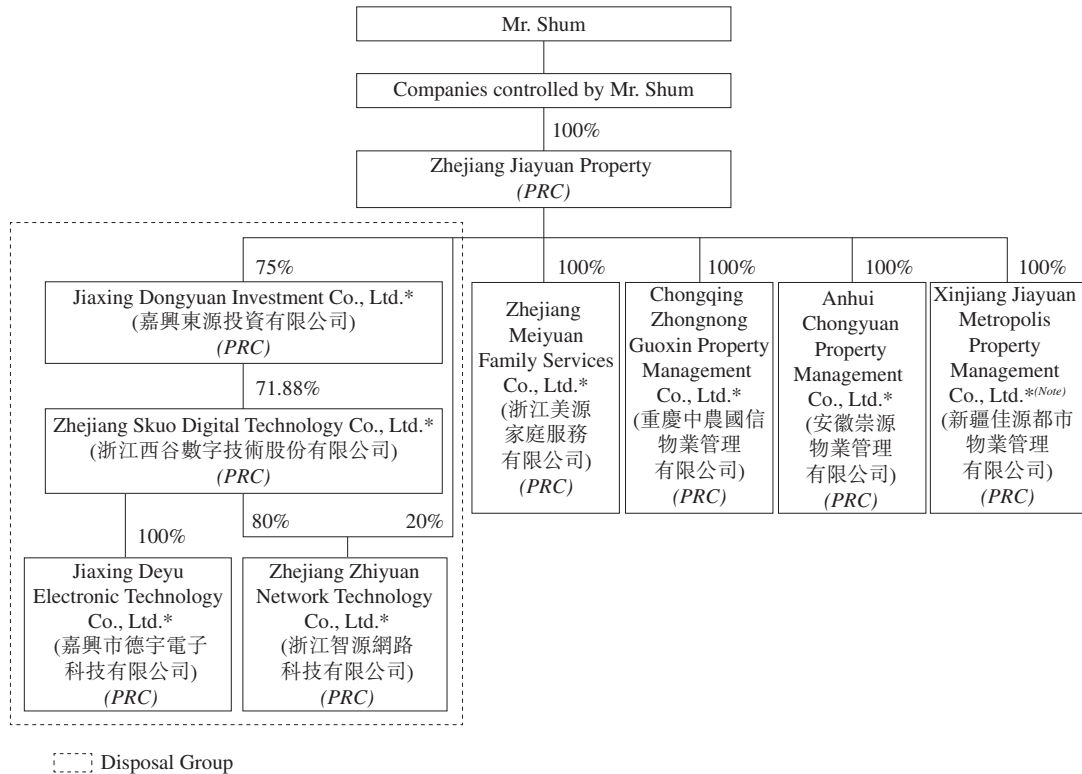
Zhejiang Skuo Digital Technology Co., Ltd.* (浙江西谷數字技術股份有限公司) (“**Skuo Digital**”) is the key operating subsidiary of the Disposal Group. Skuo Digital is a joint stock limited company, the shares of which are quoted and listed on the NEEQ under the stock code of 836081. The NEEQ, also known as the “New Third Board (新三板)”, is a national securities exchange approved and established by the State Council and operated and managed by National Equities Exchange and Quotations Co., Ltd. It is a national over-the-counter market in the PRC regulated by China Securities Regulatory Commission, which serves as an equity trading platform for the sale of existing shares or directed share placing for small and medium-sized enterprises in the PRC.

Taking into account that (i) the principal business of the Disposal Group is substantially different from that of the Enlarged Group, and does not create material synergy effect to the business of the Enlarged Group; (ii) the acquisition of the Disposal Group, including Skuo Digital, could potentially require additional regulatory and compliance requirements under the applicable PRC laws and regulations, for which the Group may incur extra time and effort; and (iii) it is the Group’s strategy to focus its effort and devote more resources in the existing property development segment and the newly acquired property management segment, the Directors decided not to include the Disposal Group as the target of the Acquisition.

Pursuant to the Reorganisation, Mr. Shum shall procure the transfer of the entire equity interest in the PRC operating entities conducting property management business into Zhejiang Heyuan Property Management Services Co., Ltd.* (浙江禾源物業服務有限公司), the entire equity interest of which will be wholly and ultimately owned by the Target Company. Upon completion of the Reorganisation, the Target Group will comprise, among others, the Target Company as the investment holding company and the PRC operating entities conducting the property management business. Upon Completion, each of the Target Group companies will become a wholly-owned subsidiary of the Group.

LETTER FROM THE BOARD

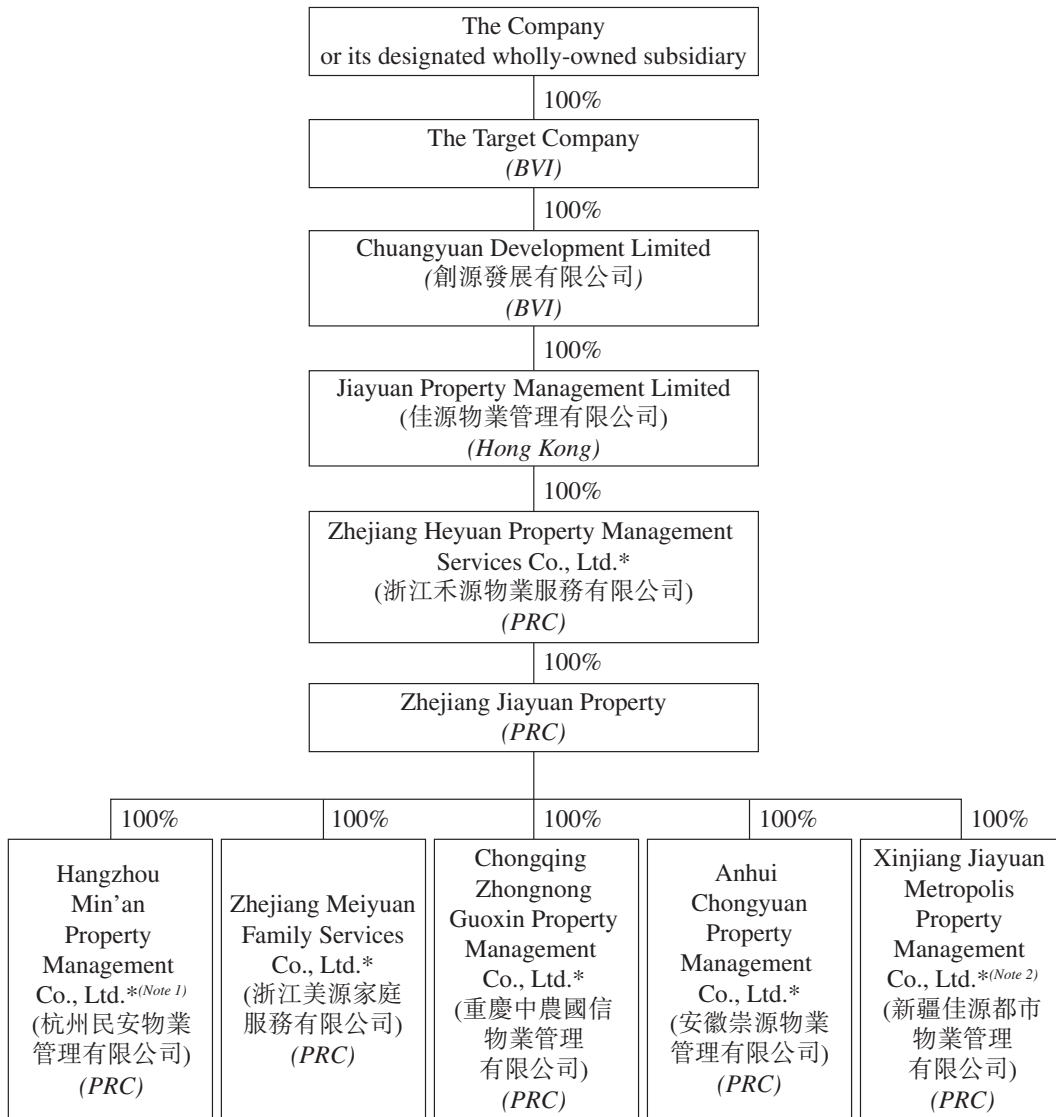
Set out below is a chart showing the corporate and shareholding structure of the PRC operating entities conducting the property management business immediately before Reorganisation:



Note: Xinjiang Jiayuan Metropolis Property Management Co., Ltd. was established on 25 June 2018. It has yet to commence operation and no capital injection has been made to the company.

LETTER FROM THE BOARD

Set out below is a chart showing the corporate and shareholding structure of the Target Group immediately after Completion:



Notes:

- (1) On 9 November 2019, Zhejiang Jiayuan Property acquired the entire equity interest in Hangzhou Min'an Property Management Co., Ltd. as part of its business development. For details, please refer to Note 31(b) to the Accountants' Report of the Combined Group set out in the Appendix II to this circular.
- (2) Xinjiang Jiayuan Metropolis Property Management Co., Ltd. was established on 25 June 2018. It has yet to commence operation and no capital injection has been made to the company.

Skuo Digital is a company listed on the NEEQ. To the best knowledge of the Directors, Skuo Digital has been all along operating separately from its holding company and fellow subsidiaries, i.e. the Target Group. The Board considers that the Target Group and the Disposal Group currently operate and will continue to operate independently from each other in the following manners:

LETTER FROM THE BOARD

(i) *Management independence*

The Target Group and the Disposal Group have separate management teams, each with their respective board of directors and senior management different from each other. There is no overlapping of senior management positions in the Target Group and the Disposal Group.

(ii) *Operational independence*

The Target Group and the Disposal Group have their own divisional and functional teams and facilities. They are located in separate offices and do not rely on each other to conduct their businesses. With two different sales teams, all the sales activities of the Target Group and the Disposal Group are conducted independently and reported to their own senior management separately. They also have different customers' and suppliers' bases. The Target Group and the Disposal Group have their own independent operational capabilities and independent access to customers and suppliers. In addition, the Target Group has obtained all material licenses and qualifications that are necessary for its operations (i.e. property management) in its own name.

(iii) *Financial independence*

The Target Group and the Disposal Group have separate financial systems independent from each other. They have their own accounting and financial department and make financial decisions independently. They have independent bank accounts and do not share any of their bank accounts, loan facilities or credit facilities with each other.

Completion

Completion shall take place on the fifth Business Day after the day on which the conditions precedent of the Sale and Purchase Agreement have been satisfied or waived or such other day as the parties may agree. It is currently expected that the Completion will take place by the end of January 2019.

Non-competition Undertaking

Mr. Shum, through four companies controlled by him (the “**Private Commercial Companies**”), has interests in other property management business in the PRC other than those conducted by the Target Group (the “**Retained Property Management Business**”). The Private Commercial Companies are principally engaged in property development with focus on commercial properties including commercial pedestrian streets (商業步行街) and shopping arcades. The Retained Property Management Business are part of the ancillary

LETTER FROM THE BOARD

services provided by these companies under the same legal entity to support the property projects. The Private Commercial Companies were at net liabilities position as at 30 June 2018.

Taking into account that (i) the Private Commercial Companies are not principally engaged in property management; (ii) the Private Commercial Companies recorded a net loss as at 30 June 2018; and (iii) Mr. Shum shall procure the transfer of the Retained Property Management Business to the Target Group or the taking up of the such business by the Target Group pursuant to the Sale and Purchase Agreement, the Directors do not consider the inclusion of the Private Commercial Companies in the Target Group would be in the interest of the Company and Shareholders as a whole.

Pursuant to the Sale and Purchase Agreement, Mr. Shum has agreed and undertaken in favour of the Company that starting from the date of Completion, he shall and shall procure companies controlled by him (other than members of the Group) not to, directly or indirectly, engage in, invest in or participate in any property management services in the PRC.

Mr. Shum will procure the Private Commercial Companies to cease to engage in the Retained Property Management Business on or before the Completion date. To the best knowledge of the Directors, the Private Commercial Companies are in the process of making arrangement with the shop owners and tenants for the termination of the existing service contracts and the entering into of new service contracts with the Target Group. Pursuant to the Sale and Purchase Agreement, it is a condition precedent to Completion that Mr. Shum shall procure the transfer of the Retained Property Management Business to the Target Group or the taking up of the such business by the Target Group.

EFFECT OF THE CONSIDERATION SHARES ON THE SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (a) as at the Latest Practicable Date and (b) immediately after the Completion and the allotment and issue of the Consideration Shares in full as contemplated under the Acquisition:

Shareholders	As at the Latest Practicable Date		Immediately after Completion and the allotment and issue of the Consideration Shares in full ⁽²⁾	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Mr. Shum and his associate(s) ⁽³⁾	1,397,291,060 ⁽¹⁾	55.65	1,447,471,249	56.52
Public Shareholders	<u>1,113,680,742</u>	<u>44.35</u>	<u>1,113,680,742</u>	<u>43.48</u>
Total	<u><u>2,510,971,802</u></u>	<u><u>100.00</u></u>	<u><u>2,561,151,991</u></u>	<u><u>100.00</u></u>

LETTER FROM THE BOARD

Notes:

- (1) The 1,377,724,660 Shares are held by Mingyuan Investment, which is 100% owned by Mr. Shum.
- (2) The figures above assume that other than the Consideration Shares, no further Shares are issued or repurchased by the Company, and no Shares are sold or purchased by Mr. Shum or his associate(s), in each case on or after the Latest Practicable Date and up to the date the allotment and issue of the Consideration Shares.
- (3) The percentage figures included in this table are subject to rounding adjustment.

GENERAL INFORMATION OF THE PARTIES

Information of the Group

The Group is an established property developer of large-scale residential complex projects and integrated commercial complex projects in the PRC. The principal activities of the Group include (a) the development and sale of residential and commercial properties; (b) the provision of development services to government organisations for the development of resettlement properties and development or refurbishment of other types of properties, facilities or infrastructure; and (c) the leasing of commercial properties owned or developed by the Group.

Information of the vendor

Mr. Shum, is the chairman of the Board, the non-executive Director, the ultimate controlling shareholder of the Company and the ultimate beneficial owner of the Private Group.

INFORMATION OF THE TARGET GROUP AND ITS BUSINESSES

The following table sets out the audited financial information of the Target Group for the two years ended 31 December 2016 and 2017, respectively, extracted from Note 31 to the Accountants' Report of the Combined Group set out in the Appendix II of this circular, which has been prepared in accordance with the Hong Kong Financial Reporting Standards:

	Year ended 31 December	
	2016	2017
	<i>Approximately</i>	<i>Approximately</i>
	<i>(RMB)</i>	<i>(RMB)</i>
Net profit before taxation and extraordinary items	7,788,000 (equivalent to approximately HK\$8,682,000)	38,445,000 (equivalent to approximately HK\$45,999,000)
Net profit after taxation and extraordinary items	5,709,000 (equivalent to approximately HK\$6,364,000)	28,771,000 (equivalent to approximately HK\$34,424,000)

LETTER FROM THE BOARD

As at 30 June 2018, the adjusted net asset value of the Target Group taking into account of the investment in subsidiaries which will be eliminated on a consolidated basis is RMB49,734,000 (equivalent to approximately HK\$57,165,000).

To the best of the Company's knowledge, information and belief having made all reasonable enquiry, as the Target Group companies were established by Mr. Shum, and were not acquired from a third party, there is no original acquisition cost for the Target Group.

The following table sets out the establishment dates of the key members of the Target Group:

Company Name	Date of Establishment
The Target Company	22 June 2018
Chuangyuan Development Limited (創源發展有限公司)	29 December 2017
Jiayuan Property Management Limited (佳源物業管理有限公司)	20 June 2018
Zhejiang Jiayuan Property	26 April 2004
Zhejiang Meiyuan Family Services Co., Ltd.* (浙江美源家庭服務有限公司)	17 May 2017
Chongqing Zhongnong Guoxin Property Management Co., Ltd.* (重慶中農國信物業管理有限公司)	29 March 2010
Anhui Chongyuan Property Management Co., Ltd.* (安徽崇源物業管理有限公司)	15 March 2018
Xinjiang Jiayuan Metropolis Property Management Co., Ltd.* (新疆佳源都市物業管理有限公司)	25 June 2018

LETTER FROM THE BOARD

The Target Group and its business

The Target Company is a company incorporated in the BVI, which is wholly owned by Mr. Shum and will be the holding company of the Target Group upon completion of the Reorganisation.

The Target Group is principally engaged in the property management business, which primarily include (a) post-delivery property management services such as security, repair and maintenance, cleaning and garden landscape maintenance provided to property owners, residents and tenants of residential communities and commercial properties; and (b) pre-delivery property management services including on-site security, cleaning, greening and gardening as well as customer service and other ancillary services provided to property developers prior to the establishment of an owners' committee.

The properties managed by the Target Group were mainly located in Zhejiang region, Jiangsu region and Anhui region of the PRC. As at 30 June 2018, the properties under management by the Target Group mainly consisted of 104 residential communities, 14 commercial properties and 3 other properties with an aggregate contracted GFA under management of over 30,000,000 square meters. For further details, please refer to the paragraph headed "B. Management Discussion and Analysis of the Target Group" in Appendix II to this circular.

CONTINUING CONNECTED TRANSACTIONS: PROPERTY MANAGEMENT SERVICES FRAMEWORK AGREEMENT

From time to time, the Target Group has in its ordinary and usual course of business provided to the Private Group property management services, including but not limited to (i) the provision of on-site security, cleaning, greening and gardening as well as customer service to the property sales centre of the Private Group at the pre-delivery stage; and (ii) the provision of property management services for the unsold portion of the property units, in respect of certain properties developed or owned by the Private Group (the "**Property Management Services**").

Upon Completion, the Private Group is expected to continue to engage members of the Target Group to provide the Property Management Services to the Private Group's property development projects as property managers. On 19 September 2018, Chuangsheng Holdings, Zhejiang Jiayuan Property and the Company entered into the Property Management Services Framework Agreement, pursuant to which the parties agreed and confirmed that provision of the Property Management Services by the Group to the Private Group have been and will continue to be conducted on terms set out therein, from the day on which the condition precedent of the Property Management Services Framework Agreement having been satisfied to 31 December 2020 (both days inclusive) subject to the annual caps. The transactions contemplated under the Property Management Services Framework Agreement (together with the annual caps) are conditional upon Completion. For further details, please refer to the announcement of the Company dated 19 September 2018.

LETTER FROM THE BOARD

REASONS FOR THE ACQUISITION

The Group believes that the Acquisition is in line with the development strategy of the Company, and that the expansion into the property management business will lead to a more comprehensive coverage of the Group's business value chain. The Acquisition will further diversify the source of income of the Group, from which the Group could generate a stable source of management fees. By combining the upstream property development business and the downstream property management business, the Enlarged Group is capable of providing home owners with a one-stop comprehensive services with better customer experience. Meanwhile, the Group will have access to a wider customer base of the Target Group which may bring in more potential customers to the Group. By integrating the operational capabilities of the Target Group in property management with the advantages of the Group in property development, the Enlarged Group will solidify its strong brand recognition, strengthen its market position and maximize its market values. Coupling with the synergy effect between the two businesses, the Group expects that the provision of the property management service could enhance property owner's adherence to the Group's property development business. The Group believes that the Acquisition would continue to expand the business scale and market share of the Group in the property market, and bring forth long-term stable and sustainable investment returns to the investors.

The Enlarged Group will leverage on the expertise, skills and experience of the Target Group's management team to conduct property management business. The management team of the Target Group, which comprises three directors, five senior management personnels and 25 managers, in general have extensive experience in the property management industry. Among which, Mr. Zhu Hongge (朱宏戈) ("**Mr. Zhu**"), one of the directors and the president of Zhejiang Jiayuan Property, has approximately nine years of experience in the property development and property management industries. The senior management members of the Target Group have been in the property management industry for an average of nine years. They have a strong understanding of customers' needs and are capable of serving different types of customers. Besides, the Target Group currently has a team of 25 managers, who have substantial experiences in property management industry and are responsible for overseeing the operation of subsidiaries and branch offices in different cities in the PRC.

The Directors (including the independent non-executive Directors, whose views have been set out in this circular together with the advice of the Independent Financial Adviser) are of the view that the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable and are on normal commercial terms and the entering into the Sale and Purchase Agreement is in the interest of the Company and Shareholders as a whole.

LETTER FROM THE BOARD

THE SPECIFIC MANDATE

The Consideration Shares will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

APPLICATION FOR LISTING

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares, when allotted and issued on Completion, will rank pari passu in all respects with the existing Shares in issue.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completion, the Target Company will become a wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Company will be consolidated into the Group's consolidated financial statements.

Earnings

Upon the Completion, each of the Target Group companies will become a wholly-owned subsidiary of the Group and the financial result of the Target Group will be consolidated into the consolidated financial statements of the Group. It is expected that the Target Company will contribute property management service income to the Group, and will enhance the revenue stream of the Group upon Completion. The Group's earnings are expected to increase as a result of the Acquisition, after taking into account the property management service income to be derived from the Target Company. For further details of the Target Company, please refer to "*Appendix II — Financial Information of the Combined Group*" to this circular.

Assets and liabilities

Based on the interim report of the Group for the six months ended 30 June 2018, as at 30 June 2018, the Group had total assets, total liabilities and net assets of approximately RMB38,725.7 million, RMB30,753.4 million and RMB7,972.3 million, respectively. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, if the Acquisition had been completed on 30 June 2018, the total assets, total liabilities and net assets of the Enlarged Group would have increased to approximately RMB39,007.1 million, approximately RMB30,916.1 million and approximately RMB8,091.0 million respectively.

LETTER FROM THE BOARD

The unaudited pro forma combined statement of assets and liabilities of the Enlarged Group as at 31 December 2018 was prepared based on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

For details of the unaudited pro forma financial information of the Enlarged Group immediately following Completion, please refer to Appendix III to this circular.

As part of the Reorganisation, subsequent to the entering into of the Sale and Purchase Agreement, Zhejiang Jiayuan Property declared and paid out a special dividend to the original shareholders of the Target Group (being companies controlled by Mr. Shum) in the amount of RMB18,000,000 (the “**Special Dividend**”) from its retained earnings for the year ended 31 December 2017. Mr. Shum has undertaken to, as part of the Reorganisation, invest into and subscribe for one new share of the Target Company (“the “**Subscription**”) at the same consideration of RMB18,000,000 (or its US\$ equivalent) (the “**Subscription Undertaking**”). Given the decrease in equity at the Zhejiang Jiayuan Property company level as a result of the payment of the Special Dividend being in the same amount as the increase in equity at the Target Company level pursuant to the Subscription Undertaking, the Directors consider that, there will not be any financial effect on the equity of the Target Group as a whole upon Completion.

LISTING RULES IMPLICATIONS

Major Transaction

The Acquisition and the Shanghai Acquisition constitute a series of transactions made within a 12-month period and shall be aggregated pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition, when aggregated with the Shanghai Acquisition, is more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders’ approval requirements under the Listing Rules.

LETTER FROM THE BOARD

Connected Transaction

As at the Latest Practicable Date, Mr. Shum, being the non-executive Director and the ultimate controlling shareholder of the Company, is interested in approximately 55.65% of the issued share capital of the Company, and thus, Mr. Shum is a connected person of the Company. The Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

Mr. Shum, the chairman of the Board and the non-executive Director of the Company, is the vendor of the Acquisition. Mr. Shum has abstained from voting on the Board resolutions approving, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder. Save as disclosed above, no other Director has a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder or is required to abstain from voting on the Board resolutions in relation to the aforesaid matters.

EGM

The EGM will be convened and held for the purpose of considering and, if thought fit, approving the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

A notice convening the EGM to be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 15 January 2019 at 11:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. Ordinary resolution will be proposed to the Independent Shareholders at the EGM to consider and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

A form of proxy for the EGM is enclosed with this circular. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.jiayuanintl.com>). Whether or not you intend to attend the EGM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the EGM (i.e. not later than 11:00 a.m. on Sunday, 13 January 2019). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish. If you attend and vote at the EGM, the authority of your proxy will be revoked.

LETTER FROM THE BOARD

In accordance with Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. Mr. Shum, the chairman of the Board and the non-executive Director of the Company, is the vendor of the Acquisition. As at the Latest Practicable Date, Mr. Shum and its associates, in aggregate holding 1,397,291,060 Shares, representing approximately 55.65% of the issued share capital of the Company, will abstain from voting on the proposed resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has any material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) and therefore no other Shareholder is required to abstain from voting at the EGM in respect of the resolution approving the aforesaid matters.

ENTITLEMENT TO ATTEND AND VOTE AT THE EGM

Shareholders of the Company who are entitled to attend and vote at the meeting are those whose names appear as shareholders of the Company on the register of members of the Company as at the close of business on Monday, 14 January 2019. In order to be eligible to attend and vote at the meeting, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 14 January 2019.

RECOMMENDATION

Your attention is drawn to the letter of advice from the Independent Board Committee set out on pages IBC-1 to IBC-2 in this circular which contains its recommendation to the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

Your attention is also drawn to the letter from the Independent Financial Adviser set out on pages IFA-1 to IFA-34 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

The Directors (including the independent non-executive Directors whose views have been set out in this circular together with the advice of the Independent Financial Adviser) consider that, though the Acquisition is not in the ordinary and usual course of the business of the Company, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms and are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole. The Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of the EGM.

Completion of the Acquisition is conditional upon the fulfilment of the conditions set out under the paragraph headed “Conditions precedent” in this circular, which may or may not be fulfilled. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the Shares and other securities of the Company.

Yours faithfully,
For and on behalf of
Jiayuan International Group Limited
Cheuk Hiu Nam
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter from the Independent Board Committee setting out its recommendations to the Independent Shareholders in connection with the entering into of the Sale and Purchase Agreement for inclusion in this circular.



Jiayuan International Group Limited **佳源國際控股有限公司**

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2768)

24 December 2018

To the Independent Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular dated 24 December 2018 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether, in its opinion, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are fair and reasonable, are on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Somerley has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 25 of the Circular and the text of a letter of advice from Somerley, as set out on pages IFA-1 to IFA-34 of the Circular, both of which provide details of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate).

Having considered (i) the Sale and Purchase Agreement, (ii) the advice of the Independent Financial Adviser, and (iii) the relevant information contained in the letter from the Board, we are of the opinion that, though the Acquisition is not in the ordinary and usual course of the business of the Company, the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate) are on normal commercial terms and are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
For and on behalf of
**The Independent Board Committee of
Jiayuan International Group Limited**

**Mr. Tai Kwok Leung,
Alexander**
*Independent Non-executive
Director*

**Dr. Cheung Wai Bun,
Charles, JP**
*Independent Non-executive
Director*

Mr. Gu Yunchang
*Independent Non-executive
Director*

LETTER FROM SOMERLEY

The following is the text of a letter of advice from Somerley Capital Limited prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

24 December 2018

To: The Independent Shareholders and the Independent Board Committee

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION:
ACQUISITION OF THE TARGET GROUP HOLDING
PROPERTY MANAGEMENT BUSINESS IN PRC INVOLVING
THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder (the “**Transactions**”). Details of the aforesaid transactions are set out in the letter from the Board contained in the circular of the Company (the “**Circular**”) to its Shareholders dated 24 December 2018, of which this letter forms part. Unless otherwise defined, terms used in this letter shall have the same meanings as those defined in the Circular.

On 19 September 2018, the Company entered into the Sale and Purchase Agreement with Mr. Shum, pursuant to which the Company has conditionally agreed to acquire and Mr. Shum has conditionally agreed to sell the Sale Share, representing the entire issued share capital of the Target Company, at a consideration of HK\$688,974,000 which will be fully settled by the allotment and issue of the 50,180,189 Consideration Shares by the Company to Mr. Shum or his nominee(s) at the Issue Price of HK\$13.73 per Consideration Share.

The Acquisition and the Shanghai Acquisition constitute a series of transactions made within a 12-month period and shall be aggregated pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition, when aggregated with the Shanghai Acquisition, is more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

LETTER FROM SOMERLEY

As at the Latest Practicable Date, Mr. Shum, being the non-executive Director and the ultimate controlling shareholder of the Company, is interested in approximately 55.65% of the issued share capital of the Company, and thus, Mr. Shum is a connected person of the Company. The Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Tai Kwok Leung, Alexander, Dr. Cheung Wai Bun, Charles, *JP* and Mr. Gu Yunchang, has been established to make a recommendation to the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder. Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated or connected with the Company, the Target Group, Mr. Shum or their respective core connected persons or associates. Save for this appointment as the Independent Financial Adviser to provide our independent advise on the Transactions and our role as the independent financial adviser to provide our independent advise in relation to the Shanghai Acquisition, as at the Latest Practicable Date, we did not have any other relationship with or any interests in the Company, the Target Group, Mr. Shum or their respective core connected persons, associates, close associates or any party acting or presumed to be acting in concert with any of them that could reasonable be regarded as relevant to our independence nor have had any other engagement with the Company in the last two years. Accordingly, we are considered eligible to give independent advice on the Transactions. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Target Group, Mr. Shum or their respective core connected persons or associates.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the “**Management**”) and the respective professional advisers of the Company, which we have assumed to be true, accurate and complete. We have reviewed information on the Company, including but not limited to, the Sale and Purchase Agreement, the valuation report prepared by JLL as set out in Appendix IV to the Circular, annual reports of the Company for each of the years ended 31 December 2016 (“**FY2016**”) (the “**2016 Annual Report**”) and 31 December 2017 (“**FY2017**”) (the “**2017 Annual Report**”), the interim report for period ended 30 June 2018 (the “**2018 Interim Report**”) and other information contained in the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Group and have assumed in relation to the facts to be true, accurate and complete in all material aspects and in relation to any opinions to be honestly held at the time they were made and will remain, in relation to the facts to be true, accurate and complete in all material aspects and in relation to any opinions to be honestly held, up to the date of the EGM.

LETTER FROM SOMERLEY

We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have, however, not conducted any independent investigation into the businesses and affairs of the Group and the Target Group nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation regarding the Transactions, we have considered the following principal factors and reasons:

1. Information on the Group

1.1 Principal business of the Group

The Group is an established property developer of large-scale residential complex projects and integrated commercial complex projects in Jiangsu Province, the PRC. The principal activities of the Group include (i) the development and sale of residential and commercial properties; (ii) the provision of development services to government organisations for the development of resettlement properties and development or refurbishment of other types of properties, facilities or infrastructure; and (iii) the leasing of commercial properties owned or developed by the Group.

As disclosed in the 2017 Annual Report, the Group's property portfolio comprised 32 properties in various cities and key towns in the PRC, with land reserve of approximately 7.1 million square meters, covering most of the cities of Jiangsu province. The Group first successfully entered into the market of Guangdong Province and acquired 2 quality projects in Shenzhen in 2016. In 2017, the Group has established its presence in Macau's real estate market by acquiring two adjacent land parcels located at Taipa District of Macau, further expanding the Group's business territory in Guangdong-Hong Kong-Macau Greater Bay Area. As stated in the 2017 Annual Report, apart from continuing the Group's focus on Jiangsu Province, expanding its business footprint to other major provinces and cities and developing the quality projects in "Guangdong-Hong Kong-Macau Greater Bay Area", the Group will also closely follow the country's "Belt and Road" strategic initiative, develop quality projects in countries and regions along the belt, such as Vietnam, Cambodia and Australia, as well as explore prime land with favourable growth prospect. It was disclosed in the 2018 Interim Report that the Group will aim to timely adjust its land acquisition strategy to acquire premium land reserves at a low premium and plan ahead for valuable lands. In this regard, the Group has since early 2018 announced various acquisitions or transactions in relation to property or property development projects in Guiyang, Cambodia, Hong Kong and Shanghai. As at 30 June 2018, the Group had a total land bank of approximately 9.8 million square meters.

LETTER FROM SOMERLEY

1.2 Financial information of the Group

Set out below is the summary of the Group's audited financial performance for the three years ended 31 December 2015, 2016 and 2017, and for the six months ended 30 June 2017 and 2018, as extracted from the 2016 Annual Report, the 2017 Annual Report and the 2018 Interim Report respectively:

	For the six months		For the year ended 31 December		
	ended 30 June		2017	2016	2015
	2018	2017	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue:					
(i) Property development	4,113,596	2,896,531	6,923,887	3,681,763	1,845,870
(ii) Development services	–	–	–	–	2,997
(iii) Property investment	16,270	11,263	24,888	20,318	23,748
	<u>4,129,866</u>	<u>2,907,794</u>	<u>6,948,775</u>	<u>3,702,081</u>	<u>1,872,615</u>
Gross Profit	<u>1,370,338</u>	<u>1,012,638</u>	<u>2,398,665</u>	<u>1,263,930</u>	<u>397,982</u>
Profit for the period/year					
attributable to owners of					
the Company	<u>973,472</u>	<u>515,034</u>	<u>1,284,077</u>	<u>811,153</u>	<u>280,744</u>

During the three years ended 31 December 2017 and six months ended 30 June 2017 and 2018, the Group derived its revenue mainly from (i) property development; and (ii) property investment. From the above extracts, the results of the Group are noted with drastic improvement throughout the three years and six months period which was mainly driven by the high revenue growth in property development sector. Among the revenue portion, revenue from sales of properties contributed the major growth of approximately RMB1,217.1 million between 30 June 2018 and 30 June 2017, approximately RMB3,242.1 million between years 2017 and 2016 and approximately RMB1,835.9 million between years 2016 and 2015.

In 2016, the Group recorded a total revenue of approximately RMB3,702.1 million representing an increase of approximately 97.7% as compared with that of approximately RMB1,872.6 million in 2015. The increase was mainly due to the delivery of properties presold under a key project upon its first stage of completion. The Group reported an increase in gross profit of approximately 217.6% to approximately RMB1,263.9 million in 2016 from approximately RMB398.0 million in 2015, while the Group's gross profit margin increased to approximately 34.1% in 2016 as compared to a gross profit margin of approximately 21.3% in 2015. The increase in gross profit margin

LETTER FROM SOMERLEY

was mainly attributable to the delivery of two key projects which contributed a comparatively higher gross profit margin to the Group.

In 2017, the Group reported revenue of approximately RMB6,948.8 million, representing an increase of approximately 87.7% from approximately RMB3,702.1 million in 2016. The increase was mainly due to the delivery of properties presold in Nanjing upon its completion in 2017. The Group reported an increase in gross profit of approximately 89.8% to approximately RMB2,398.7 million in 2017 from approximately RMB1,263.9 million in 2016, while the Group's gross profit margin further increased to approximately 34.5% in 2017 as compared to a gross profit margin of approximately 34.1% in 2016. The increase in gross profit margin was mainly attributable to the delivery of projects which contributed to comparatively higher gross profit margin to the Group.

During the six months period ended 30 June 2018, the Group recorded a total revenue of approximately RMB4,129.9 million, representing a growth of approximately 42.0% from approximately RMB2,907.8 million for the six months period 30 June 2017. The increase was mainly due to the delivery of properties presold under Jiayuan Centurial City in Yangzhou upon its completion in first half of 2018. The Group reported an increase in gross profit by approximately 35.3% to approximately RMB1,370.3 million in the first half of 2018 from approximately RMB1,012.6 million in the first half of 2017, while the Group's gross profit margin dropped to approximately 33.2% in the first half of 2018 as compared to the gross profit margin of approximately 34.8% in the first half of 2017. The decrease in gross profit margin was mainly due to higher construction cost incurred during the six months ended 30 June 2018.

Based on the 2016 Annual Report, profit attributable to owners of the Company increased by approximately 188.9% which was mainly caused by the gross profit growth along with some other operating income increase such as fair value gain on investment properties of approximately RMB337.8 million and gain on bargain purchase of a subsidiary of approximately RMB102.5 million, netted off by the decrease in fair value gain on transfer from inventories of properties to investment properties of approximately RMB204.6 million.

Based on the 2017 Annual Report, profit attributable to owners of the Company increased by approximately 58.3% which was in line with the expansion of the Group's operation in 2017. Such increase was mainly caused by the gross profit growth along with some other operating income increase such as increase in foreign exchange gain of approximately RMB73.1 million and fair value gain on transfer from inventories of properties to investment properties of approximately RMB56.2 million, netted off by the decrease in fair value gain on investment properties of approximately RMB185.2 million, increase in administrative expenses and finance costs of approximately RMB88.5 million and approximately RMB85.9 million respectively.

LETTER FROM SOMERLEY

Based on the 2018 Interim Report, profit attributable to owners of the Company increased by approximately 89.0% which was in line with the continuous expansion of the Group's operation in the first half of 2018. Such increase was mainly a result of the gross profit growth along with increases in some other operating income such as increase in fair value gain of investment properties of approximately RMB337.0 million and growth in other income of approximately RMB80.4 million, netted off by the increase in other losses and expenses including mainly the increase in foreign exchange loss of approximately RMB220.9 million and the increase in administrative expenses, distribution and selling expenses, and finance costs of approximately RMB71.6 million, approximately RMB35.4 million and approximately RMB23.6 million respectively.

Set out below is the summary of the Group's financial position as at 31 December 2017 and 30 June 2018, as extracted from the 2017 Annual Report and 2018 Interim Report respectively:

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Non-current Assets		
Investment properties	4,619,505	3,306,142
Deposits paid for acquisition of subsidiaries	1,961,378	1,524,053
Other non-current assets	578,362	529,980
	<u>7,159,245</u>	<u>5,360,175</u>
Current Assets		
Inventories of properties		
– held for sale	671,988	741,992
– under development	17,909,876	17,622,382
Financial assets at fair value through profit or loss	584,546	–
Trade and other receivables, deposits and prepayments	2,173,464	2,117,135
Restricted/pledged bank deposits	1,397,993	1,001,427
Bank balances and cash	8,586,341	5,715,274
Other current assets	242,230	237,146
	<u>31,566,438</u>	<u>27,435,356</u>

LETTER FROM SOMERLEY

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Current Liabilities		
Trade and other payables and accrued expenses	3,931,746	1,735,640
Pre-sale deposits received	7,649,316	6,358,397
Bank and other borrowings	3,329,922	3,233,346
Senior notes	6,796,642	3,681,736
Other current liabilities	1,231,573	1,566,092
	<u>22,939,199</u>	<u>16,575,211</u>
Net current assets	<u>8,627,239</u>	<u>10,860,145</u>
Total assets less current liabilities	<u>15,786,484</u>	<u>16,220,320</u>
Non-current Liabilities		
Bank and other borrowings	6,619,849	7,690,605
Other non-current liabilities	1,194,376	1,729,229
	<u>7,814,225</u>	<u>9,419,834</u>
Net Assets	<u><u>7,972,259</u></u>	<u><u>6,800,486</u></u>
Total Equity		
Non-controlling interests	223,208	24,907
Net asset value (“NAV”) attributable to owners of the Company	<u>7,749,051</u>	<u>6,775,579</u>
	<u><u>7,972,259</u></u>	<u><u>6,800,486</u></u>

Non-current assets of the Group as at 31 December 2017 and 30 June 2018 mainly comprised, among other things, investment properties and deposits paid for acquisition of subsidiaries. Balance of total non-current assets increased from approximately RMB5,360.2 million as at 31 December 2017 to approximately RMB7,159.2 million as at 30 June 2018. The increment represented a growth of approximately 33.6% which were mainly contributed by the increase in balance of investment properties by approximately RMB1,313.4 million as at 30 June 2018. The increase in balance of investment properties as at 30 June 2018 was contributed by the addition of investment properties in Taixing, Nanjing and Yangzhou of approximately RMB713.1 million, RMB65.4 million and RMB64.8 million respectively and the fair value gain of

LETTER FROM SOMERLEY

approximately RMB470.0 million during the six months ended 30 June 2018. Also, under non-current assets, there were deposits paid for acquisition of subsidiaries of RMB1,524.1 million as at 31 December 2017 and approximately RMB1,961.4 million as at 30 June 2018 which were paid pursuant to framework agreements entered into by the Group with independent third parties in relation to the acquisitions of a number of companies principally engaged in property development in the PRC. The deposits will be fully refunded to the Group in case of incompleteness of the acquisitions.

Current assets of the Group as at 31 December 2017 and 30 June 2018 mainly comprised, among other things, inventories of properties and bank balances and cash. The increase in current assets between 31 December 2017 and 30 June 2018 was mainly attributable to the growth in bank balances and cash by approximately RMB2,871.1 million.

Current liabilities of the Group as at 31 December 2017 and 30 June 2018 mainly comprised, among other things, pre-sale deposits received, trade and other payables and accrued expenses, bank and other borrowings and senior notes. The increase in pre-sale deposits received by approximately RMB1,290.9 million as at 30 June 2018 were mainly due to increase in contracted sale for the six months period of 2018. The increase in balance of trade and trade payables and accrued expenses of around RMB2,196.1 million as at 30 June 2018 was mainly due to the growth in trade payables of approximately RMB691.8 million and deposits and other payables of approximately RMB944.7 million to contractors and independent third parties in relation to tendering and execution of construction contracts as well as the potential acquisition projects. The balance of bank and other borrowings as at 30 June 2018 amounted to approximately RMB3,329.9 million which was comparable to the balance as at 31 December 2017 of approximately RMB3,233.3 million. The balance for senior notes increased to approximately RMB6,796.6 million as at 30 June 2018 from approximately RMB3,681.7 million as at 31 December 2017, following the issue of a series of senior notes of approximately RMB2,396.8 million during the first half of 2018.

The non-current portion of the bank and other borrowings, which represented the majority of the total non-current liabilities, decreased from approximately RMB7,690.6 million as at 31 December 2017 to approximately RMB6,619.8 million as at 30 June 2018. Such decrease was mainly driven by the decrease in secured trust loans of approximately RMB834.0 million during the first half of 2018.

The Group recorded net current assets of approximately RMB8,627.2 million as at 30 June 2018, as compared with that of approximately RMB10,860.1 million as at 31 December 2017. Such decrease of approximately 20.6% was in line with the increase in the closing balance of senior notes, and trade and other payables and accrued expenses. The net gearing ratio of the Group, which was measured by net debt (i.e. bank and other borrowings and senior notes less bank balances and cash and pledged/restricted bank deposits) over the total equity, dropped from approximately 125.6% as at 31 December 2017 to approximately 84.8% as at 30 June 2018.

LETTER FROM SOMERLEY

NAV attributable to owners of the Company increased by around 14.4% to approximately RMB7,749.1 million as at 30 June 2018 from approximately RMB6,775.6 million as at 31 December 2017. NAV attributable to owners of the Company per Share, based on the total number of issued Shares of 2,510,971,802 as at the Latest Practicable Date, was approximately RMB3.09 (equivalent to approximately HK\$3.51) as at 30 June 2018.

2. Information on the Target Group and its Businesses

2.1 Principal business of the Target Group

The Target Company, Chuangyuan Holdings Limited, is a company incorporated in the BVI, which is wholly owned by Mr. Shum and will be the holding company of the Target Group upon completion of the Reorganisation.

The Target Group is principally engaged in the property management business, which primarily include (a) post-delivery property management services such as security, repair and maintenance, cleaning and garden landscape maintenance provided to property owners, residents and tenants of residential communities and commercial properties; and (b) pre-delivery property management services including on-site security, cleaning, greening and gardening as well as customer service and other ancillary services provided to property developers prior to the establishment of an owners' committee.

The properties managed by the Target Group were mainly located in Zhejiang region, Jiangsu region and Anhui region of the PRC. As at 30 June 2018, the properties under management by the Target Group mainly consisted of 104 residential communities, 14 commercial properties and 3 other properties with an aggregate contracted gross floor area under management of over 30,000,000 square meters.

LETTER FROM SOMERLEY

2.2 Financial information of the Target Group

Set out below is the summary of financial performance of the Target Group for the three years ended 31 December 2015, 2016 and 2017, and the six months ended 30 June 2017 and 2018 (the “**Relevant Periods**”), based on the accountants’ report set out in Appendix II to the Circular:

	For the six months		For the year ended 31 December		
	ended 30 June		2017	2016	2015
	2018	2017	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	163,833	96,831	214,354	138,735	120,896
Cost of sales	(114,293)	(80,429)	(160,164)	(117,589)	(100,597)
Gross profit	49,540	16,402	54,190	21,146	20,299
Distribution and selling expenses	(1,302)	(1,050)	(1,564)	(692)	(793)
Administrative expenses	(7,670)	(6,149)	(14,634)	(11,764)	(8,182)
Finance costs	(5)	(2,213)	(2,213)	(10,570)	(13,215)
Other (expenses)/income	(1)	2,835	2,666	9,668	13,076
Profit before tax	40,562	9,825	38,445	7,788	11,185
Income tax (expense)/credit	(10,105)	(2,471)	(9,674)	(2,079)	(2,824)
Profit for the year/period	<u>30,457</u>	<u>7,354</u>	<u>28,771</u>	<u>5,709</u>	<u>8,361</u>

Revenue of the Target Group mainly consists of revenue derived from property management services provided to residential communities and commercial properties and carpark and value-added services such as home service. During the three years ended 31 December 2017, revenue of the Target Group has been growing steadily, increasing by around 14.8% from approximately RMB120.9 million in 2015 to approximately RMB138.7 million in 2016, and further increased by around 54.5% to approximately RMB214.4 million in 2017. Revenue for the six months ended 30 June 2018 was approximately RMB163.8 million as compared to approximately RMB96.8 million for the six months ended 30 June 2017, representing an increase of around 69.2%. As advised by the Management, the growth was mainly driven by the expanding development strategy leading to the increasing number of properties projects under management from 64 as at 31 December 2015 to 121 as at 30 June 2018 covering residential buildings, commercial office buildings and urban complexes.

LETTER FROM SOMERLEY

Administrative expenses and selling and distribution expenses associated with the Target Group's expansion also grew in line with the growth in revenue. During the three years ended 31 December 2017, administrative expenses increased from approximately RMB8.2 million in 2015 to approximately RMB11.8 million in 2016 and further to approximately RMB14.6 million in 2017. The administrative expenses were approximately RMB7.7 million for the six months period ended 30 June 2018, representing an increase of approximately 24.7% from RMB6.1 million for the six months period ended 30 June 2017. The increase during the Relevant Periods was mainly attributable to an increase in staff costs and office administration fee by participation in Top 100 Ranking among property management companies in the PRC and service scale expansion during the Relevant Periods. The distribution and selling expenses were approximately RMB0.8 million, RMB0.7 million, RMB1.6 million, RMB1.1 million and RMB1.3 million for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017 and 2018 respectively. The increase was mainly attributable to an increase in advertising and printing expenses for property management service in the property projects which was in line with the increase in revenue for the Relevant Periods.

Finance costs incurred for the Target Group decreased throughout the entire Relevant Periods from approximately RMB13.2 million for 2015 to approximately RMB2.2 million for 2017 and further down to approximately RMB5,000 for the six months ended 30 June 2018 which was attributable to the repayments of borrowings during the Relevant Periods.

During the three years ended 31 December 2017, the Target Group's profit attributable to owners of the Company once dropped from approximately RMB8.4 million in 2015 to approximately RMB5.7 million in 2016 but rebounded and increased to approximately RMB28.8 million in 2017. Profit attributable to owners of the Company for the six months ended 30 June 2018 was approximately RMB30.5 million, which was an increase of around 314.2% from RMB7.4 million reported for the interim period ended 30 June 2017. The drop in profits in 2016 compared with 2015 was due to decrease in other income, i.e. mainly interest income. The increase in profit in 2017 and for the interim period ended 30 June 2018 was due to the increase of the number of properties under management and more revenue was generated during the respective period.

LETTER FROM SOMERLEY

Set out below is the summary of financial position of the Target Group as at 31 December 2017 and as at 30 June 2018, based on the accountants' report set out in Appendix II to the Circular:

	As at 30 June 2018 (Note) RMB'000	As at 31 December 2017 RMB'000
Non-current Assets		
Property, plant and equipment	6,861	6,723
Investments in subsidiaries	75,100	75,000
Other non-current assets	818	818
	<u>82,779</u>	<u>82,541</u>
Current Assets		
Inventories	4,264	4,270
Trade and other receivables	40,169	48,536
Amounts due from related parties	147,531	89,733
Bank balances and cash	22,426	21,794
	<u>214,390</u>	<u>164,333</u>
Current Liabilities		
Trade and other payables	131,196	120,332
Other current liabilities	41,139	32,166
	<u>172,335</u>	<u>152,498</u>
Net current assets	<u>42,055</u>	<u>11,835</u>
Total assets less current liabilities	<u><u>124,834</u></u>	<u><u>94,376</u></u>
Total Equity		
Equity attributable to owners of the company	124,834	94,376
Non-controlling interests	<u>—</u>	<u>—</u>
	<u><u>124,834</u></u>	<u><u>94,376</u></u>

Note: figures in this column were directly extracted from the accountants' report in Appendix II to the Circular; please refer to the unaudited pro forma statement of assets and liabilities of the Enlarged Group and its notes 2 and 3, and discussions below in this section, for financial information of the Target Group after excluding the financial information pertaining to the Disposal Group and upon completion of disposal of the Disposal Group respectively.

LETTER FROM SOMERLEY

Non-current assets of the Target Group, which mainly consisted of investments in subsidiaries, increased from approximately RMB82.5 million as at 31 December 2017 by approximately 0.29% to approximately RMB82.8 million as at 30 June 2018. The balance of investments in subsidiaries represented the Target Group's investments in the Disposal Group prior to the completion of the disposal of the Disposal Group. As disclosed in the unaudited pro forma statement of assets and liabilities of the Enlarged Group and its note 2 as set out in Appendix III to the Circular, if financial information pertaining to the Disposal Group is excluded, the total non-current assets of the Target Group should be approximately RMB7.7 million as at 30 June 2018.

Current assets increased from approximately RMB164.3 million as at 31 December 2017 to approximately RMB214.4 million as at 30 June 2018, which was mainly attributable to the increase in the amounts due from related parties by around 64.4% to approximately RMB147.5 million as at 30 June 2018. A drop of approximately 17.2% in trade and other receivables from approximately RMB48.5 million as at 31 December 2017 to approximately RMB40.2 million as at 30 June 2018 was also recorded which was primarily due to early payment of property management service fee from property owners/tenants. The bank balances and cash reported a slight increase of approximately 2.9% from approximately RMB21.8 million as at 31 December 2017 to approximately RMB22.4 million as at 30 June 2018.

For current liabilities, an overall increase by approximately 13.0% from approximately RMB152.5 million as at 31 December 2017 to approximately RMB172.3 million as at 30 June 2018 was reported. Such increase was mainly due to the increase in trade and other payables by approximately 9.0% from approximately RMB120.3 million as at 31 December 2017 to approximately RMB131.2 million as at 30 June 2018 due to increase in accrual of general expenses.

Net current assets of approximately RMB42.1 million was recorded as at 30 June 2018. The amount represented an increase of approximately 255.3% as compared to that of approximately RMB11.8 million as at 31 December 2017. Such increase was mainly attributable to the increase in current assets for reasons mentioned above.

Current ratio as at 30 June 2018 was approximately 1.2 times, which was comparable to the ratio of approximately 1.1 times as at 31 December 2017. No gearing ratio was illustrated as the Target Group had no bank and other borrowing as at 31 December 2017 and 30 June 2018.

As stated on pages 78 and 79 of Appendix II to the Circular, the net assets of the Target Group was approximately RMB94.4 million and approximately RMB124.8 million for 31 December 2017 and 30 June 2018 respectively. As disclosed in the unaudited pro forma statement of assets and liabilities of the Enlarged Group and its note 2 as set out in Appendix III to the Circular, if financial information pertaining to the Disposal Group is excluded, the net assets of the Target Group should be approximately RMB49.7 million as at 30 June 2018. As stated in the note 3 to the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out

LETTER FROM SOMERLEY

in Appendix III to the Circular, assuming the Acquisition were completed on 30 June 2018, the consideration receivable by the Target Group for the disposal of the Disposal Group amounting to RMB77.0 million is recognised as amounts due from related parties and the difference between the consideration receivable and the interests in subsidiaries of the Disposal Group would be credited to merger reserve of equity of the Target Group. Accordingly, Shareholders should note that assuming completion of disposal of the Disposal Group had taken place on 30 June 2018, the Target Group would have recorded net assets of approximately RMB126.7 million as at 30 June 2018.

It was stated in the letter from the Board and note 31(c) of the notes to the historical financial information in the accountants' report of the Target Group as set out in Appendix II to the Circular that, subsequent to the end of the reporting period and as part of the Reorganisation, on 23 November 2018, the Target Group declared and subsequently paid out a special dividend amounting to RMB18,000,000 from its retained earnings for the year ended 31 December 2017 to Chuangsheng and Zhejiang Jia Yuan (the **"Special Dividend"**). It was further stated in the letter from the Board that as part of the Reorganisation, considering the Special Dividend received, Mr. Shum has undertaken to invest into and subscribe for one new share of the Target Company (the **"Subscription Undertaking"**) at a consideration equivalent to the amount of Special Dividend. We were advised by the Management that given the decrease in equity at the Zhejiang Jiayuan Property company level as a result of the Special Dividend payment being in the same amount as the increase in equity at the Target Company level pursuant to the Subscription Undertaking, the Company confirms that there is no financial effect on the equity of the Target Group as a whole upon Completion.

3. Reasons for and benefits of the Sale and Purchase Agreement

3.1 *Reasons for the Sale and Purchase Agreement*

As disclose in the letter from the Board, the Group believes that the Acquisition is in line with the development strategy of the Company, and that the expansion into the property management business will lead to a more comprehensive coverage of the Group's business value chain. The Acquisition will further diversify the source of income of the Group, from which the Group could generate a stable source of management fees. By combining the upstream property development business and the downstream property management business, the Enlarged Group is capable of providing home owners with a one-stop comprehensive services with better customer experience. Meanwhile, the Group will have access to a wider customer base of the Target Group which may bring in more potential customers to the Group. By integrating the operational capabilities of the Target Group in property management with the advantages of the Group in property development, the Enlarged Group will solidify its strong brand recognition, strengthen its market position and maximize its market values. Coupling with the synergy effect between the two businesses, the Group expects that the provision of the property management service could enhance property owner's

LETTER FROM SOMERLEY

adherence to the Group's property development business. The Group believes that the Acquisition would continue to expand the business scale and market share of the Group in the property market, and to bring forth long-term stable and sustainable investment returns to the investors.

3.2 Overview of the PRC property management market

Based on the understanding obtained from the Management, we are aware that the key factors contributing to the demand of property management services in the PRC include growth in nationwide disposable income and ongoing growth in investment made in the PRC property market.

The table below summarises the recent trend in PRC's disposable income nationwide per capita from 2015 to 2017 and the third quarter in 2017 ("3Q2017") and 2018 ("3Q2018"):

	2015	2016	2017	3Q2017	3Q2018
	RMB	RMB	RMB	RMB	RMB
Disposable income					
nationwide per capita	21,966	23,821	25,974	19,342	21,035

Source: National Bureau of Statistics of China

According to the data published by the National Bureau of Statistics of China as shown, the disposable income nationwide per capita in the PRC has shown a steady growth between 2015 to 2017 and 3Q2017 to 3Q2018. We note that the amount increased by approximately 8.4% to approximately RMB23,821 between 2015 and 2016 which further grew by approximately 9.0% to approximately RMB25,974 in 2017. Such growth was also shown in 3Q2018 where the disposable income nationwide per capita increased by approximately 8.8% to approximately RMB21,035 in 3Q2018 as compared to the corresponding period in 3Q2017.

The table below illustrates the recent trend in the accumulated investment in the PRC real estate market ("REI") between 2015 and 2017 and the third quarter of 2017 ("3Q2017") and 2018 ("3Q2018"):

	2015	2016	2017	3Q2017	3Q2018
	RMB	RMB	RMB	RMB	RMB
	million	million	million	million	million
Accumulated investment					
in the real estate market	95,978.85	102,581.00	109,798.53	80,644.45	88,665.04

Source: National Bureau of Statistics of China

LETTER FROM SOMERLEY

According to the National Bureau of Statistics of China, the accumulated REI in the PRC has also been steadily increasing over the recent years as based on the data above, we noted that the REI reported increases by approximately 6.9% from 2015 to 2016, and approximately 7.0% from 2016 to 2017. Such trend continued for 3Q2018 where a growth rate of approximately 9.9% was reported as compared to the corresponding period in 3Q2017.

The Group is an established property developer in the PRC with strong presence in various cities and key towns in the PRC. We have discussed and understand from the Management that the steady growth in the PRC real estate property market and nationwide disposable income in general shows positive prospects for the property industry as a whole including its ancillary services segments such as property management. Based on our discussion, we concur with the Directors and consider that the Acquisition would effectively facilitate the Group's diversification into this growing segment which is considered complementary and is expected to provide synergies to the Group's principal business of property development. Based on the above, we also concur with the Directors' view that entering into the Sale and Purchase Agreement is in line with the Group's business and therefore is a fair and reasonable and strategic step to diversify its business.

4. Principal terms of the Sale and Purchase Agreement

4.1 Subject matter to be acquired

The Company has conditionally agreed to acquire and Mr. Shum has conditionally agreed to sell the Sale Share, representing the entire issued share capital of the Target Company. The Company has the right to nominate and designate a wholly-owned subsidiary to take up the Sale Share upon Completion.

Pursuant to the Sale and Purchase Agreement, Mr. Shum agreed to procure the implementation of the Reorganisation, and completion of which is a condition precedent to Completion. Further details regarding the Reorganisation are discussed in section headed "4.5 Reorganisation" below.

4.2 Consideration

The Consideration for the Acquisition is HK\$688,974,000 and will be settled by the allotment and issue of the 50,180,189 Consideration Shares by the Company to Mr. Shum or his nominee(s) at the Issue Price of HK\$13.73 per Consideration Share upon Completion.

The Consideration has been arrived at after arm's length negotiations by reference to the business valuation of the Target Group in the amount of approximately RMB698.6 million (equivalent to approximately HK\$795.6 million) as at 30 June 2018 prepared by JLL based on the market approach.

4.3 *The Consideration Shares*

The 50,180,189 Consideration Shares represent approximately 2.00% of the issued share capital of the Company as at the Latest Practicable Date and approximately 1.97% of the issued share capital of the Company as enlarged by the Consideration Shares (assuming there will be no change in the total number of issued Shares of the Company between the Latest Practicable Date and the allotment and issue of the Consideration Shares).

The Issue Price was determined on an arm's length basis between the Company and Mr. Shum and was arrived at a 7% discount to the average closing price of approximately HK\$14.76 per Share as quoted on the Stock Exchange for the last 20 consecutive trading days immediately prior to the date of the Sale and Purchase Agreement.

4.4 *Conditions precedent*

Completion of the Sale and Purchase Agreement is conditional upon fulfilment or, where applicable, waiver of the following conditions:

- (i) the Reorganisation having been completed pursuant to the Sale and Purchase Agreement;
- (ii) the relevant transactions under the Sale and Purchase Agreement, including but not limited to, the issue of the Consideration Shares, having been approved by the Independent Shareholders of the Company at the EGM in accordance with the requirements of the Listing Rules;
- (iii) the approval for the listing of, and permission to deal in, the Consideration Shares by the Stock Exchange having been obtained by the Company, and such approval not having been revoked or withdrawn prior to the date of Completion;
- (iv) all necessary consents, if any, from any relevant governmental or regulatory authorities or other relevant third parties in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder having been obtained;
- (v) the Company having satisfied with the due diligence results of the Target Group in all respects; and
- (vi) Mr. Shum having procured the transfer of the Retained Property Management Business to the Target Group or the taking up of the such business by the Target Group.

LETTER FROM SOMERLEY

If any of the conditions set out above has not been satisfied or waived by the Company (other than conditions (i), (ii) and (iii) which may not be waived) on or before 31 December 2018 or such other date as the parties may agree, the Sale and Purchase Agreement will be terminated unless the parties otherwise agree.

As at the Latest Practicable Date, none of the above conditions has been fulfilled or waived.

4.5 Reorganisation

Prior to the Reorganisation, Zhejiang Jiayuan Property had (i) subsidiaries conducting the property management business; and (ii) subsidiaries conducting the sales of and provision of installation services of software and system equipment business (the “**Disposal Group**”).

Zhejiang Skuo Digital Technology Co., Ltd.* (浙江西谷數字技術股份有限公司) (“**Skuo Digital**”) is the key operating subsidiary of the Disposal Group. Skuo Digital is a joint stock limited company, the shares of which are quoted and listed on the NEEQ under the stock code of 836081. The NEEQ, also known as the “New Third Board (新三板)”, is a national securities exchange approved and established by the State Council and operated and managed by National Equities Exchange and Quotations Co., Ltd. It is a national over-the-counter market in the PRC regulated by China Securities Regulatory Commission, which serves as an equity trading platform for the sale of existing shares or directed share placing for small and medium-sized enterprises in the PRC.

Taking into account that (i) the principal business of the Disposal Group is substantially different from that of the Enlarged Group, being property development and provision of property management services after Completion, which may not create material synergy effect to the business of the Enlarged Group; (ii) the acquisition of the Disposal Group, including Skuo Digital, could potentially require additional regulatory and compliance requirements under the applicable PRC laws and regulations, for which the Group may incur extra time and effort; and (iii) it is the Group’s strategy to focus its effort and devote more resources in the existing property development segment and the newly acquired property management segment, the Directors considers and determines not to include the Disposal Group as the target of the Acquisition.

Pursuant to the Reorganisation, Mr. Shum shall procure the transfer of the entire equity interest in the PRC operating entities conducting property management business into Zhejiang Heyuan Property Management Services Co.,* (浙江禾源物業服務有限公司), the entire equity interest of which will be wholly and ultimately owned by the Target Company. Upon completion of the Reorganisation, the Target Group will comprise, among others, the Target Company as the investment holding company and the PRC operating entities conducting the property management business. Upon Completion, each of the Target Group companies will become a wholly-owned subsidiary of the Group.

LETTER FROM SOMERLEY

Please refer to the paragraphs headed “Reorganisation” in the letter from the Board in the Circular for more details regarding the Reorganisation and a chart showing the corporate and shareholding structure of the Target Group immediately after Completion.

4.6 Completion

Completion shall take place on the fifth Business Day after the day on which the conditions precedent of the Sale and Purchase Agreement have been satisfied or waived or such other day as the parties may agree.

5. Evaluation of the Consideration

As disclosed in the letter from the Board, the Consideration was arrived at after arm’s length negotiations between the parties by reference to the business valuation report (the “**Valuation Report**”) prepared by JLL, an independent and duly qualified Hong Kong valuer. The Valuation Report is set out in Appendix IV to the Circular. According to the Valuation Report, the market value of the Target Group as at the valuation date, being 30 June 2018, was RMB698.6 million (equivalent to approximately HK\$795.6 million) the (the “**Valuation**”). The Consideration of approximately HK\$689.0 million represents a discount of approximately 13.4% to the Valuation.

We have reviewed the Valuation Report and interviewed the relevant staff members of JLL with particular attention to (i) JLL’s terms of engagement with the Company; (ii) JLL’s qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by JLL in performing the Valuation. From our review of the engagement letter between the Company and JLL, we are satisfied that the terms of engagement between the Company and JLL are appropriate to the opinion JLL is required to give. JLL has confirmed that it is independent from the Company and the Target Group and its related persons. We further understand that JLL is certified with the relevant professional qualifications required to perform the Valuation and the person-in-charge of the Valuation has over 20 years of experience in conducting valuation services to a wide range of clients in different industries. We note that JLL mainly carried out its due diligence through management interviews and conducted its own proprietary research and has relied on public information obtained through its own research as well as the financial and operational information provided by the management of the Group. We were also advised by JLL that it has assumed such information to be true, complete and accurate and has accepted it without verification.

We note that the Valuation was primarily based on the market approach. The market approach considers prices recently paid for similar subject, with adjustments made to market prices to reflect condition and utility of the appraised subject relative to the market comparative. Subject for which there is an established secondary market may be valued by this approach.

LETTER FROM SOMERLEY

We have discussed with JLL the methodologies and bases and assumptions adopted for conducting the market approach. In selecting the most appropriate approach, JLL considered the purpose of the Valuation and the resulting basis of value as well as the availability and reliability of information provided. In addition, JLL also considered the relative advantages and disadvantages of different approaches to the nature and circumstances of the Target Group. Other valuation approaches, including the cost approach and income approach were determined to be inappropriate for the purpose of the Valuation because (i) the cost approach does not directly incorporate information about the economic benefit contributed by the Target Group; and (ii) the income approach relies on various subject assumptions and require detailed operational information including but not limited to long-term financial projections, which may be highly sensitive to certain inputs and is not available. For the purpose of this Valuation, JLL adopted the market approach. Having considered the above facts and circumstances as discussed above, we concur that JLL's adoption of the market approach as the primary valuation methodology for the Valuation is reasonable.

As stated in the Valuation Report in Appendix IV to the Circular, there are two common methods under market approach, namely the guideline public companies method and guideline transaction method. Guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transaction method takes reference to recent mergers and acquisition transaction between unrelated parties and ratio of transaction price to target company's financial parameters. The guideline transaction method was not adopted for the purpose of the Valuation because of the lack of recent market transactions with similar nature as the Target Company which, in the view of JLL, is insufficient for it to generate a reliable result.

We understand that JLL identified 7 comparable companies for conducting the Valuation under the guideline public companies method. We have discussed with JLL in relation to its selection criteria used for the identification of the comparable companies and assessed the appropriateness of the comparable companies selected. We understand that the criteria used in its assessment are: (i) companies deriving most, if not all, of their revenues from the same industry of the Target Company, i.e., property management services in the PRC; (ii) that are searchable on Bloomberg; (iii) public listed companies in Hong Kong as of 30 June 2018; and (iv) that sufficient data, including the PE Ratios (as defined below) as at the date of the Valuation (i.e. 30 June 2018), of the comparable companies are available. We have reviewed particulars of the comparable companies identified by JLL and the selection criteria under which the selection process followed, including the comparable companies' business nature and the percentage revenue contribution from property management business, and is of the view that the business(es) predominately carried out by the identified comparable companies are similar to that of the Target Group, and as such, we consider the basis for selection of the comparable companies in line with normal market practice and is fair and reasonable.

JLL has advised that 2018 trailing 12-month PE ratios (the "**PE Ratio(s)**") of the comparable companies as at the date of the Valuation (i.e. 30 June 2018), which are calculated with reference to the respective market capitalization of the comparable companies as at the date of Valuation and their respective trailing twelve months earnings up to 30 June 2018 (i.e. the date of Valuation) sourced from Bloomberg, were used as valuation multiples for the Valuation. JLL explained and we concur that, as the Target Group is not capital intensive and

LETTER FROM SOMERLEY

asset light and is profit making, the use of PE Ratio is a commonly adopted method for evaluating asset-light and profit-making companies and therefore, is considered suitable to be used for the purpose of the Valuation. We also understand from JLL that in view of the different risk profile attributable to, among others, different sizes of the Target Group and the comparable companies, the PE Ratio of each of the comparable companies has been adjusted by applying a specific size premium based on the size premium data published in “Duff & Phelps Cost of Capital Navigator” published by a global valuation and corporate finance advisor, Duff & Phelps Corporation) so as to take into account the size differences and accordingly, the different risk profile, between the Target Company and the comparable companies. We have reviewed that the size premium assigned to each of the comparables were in accordance to the size premium data published in “Duff & Phelps Cost of Capital Navigator” and based on which adjustments on the P/E Ratio calculation for the comparables relative to the size difference between the Target Group and the respective comparables were then made. We further note that such adjusted calculations indeed resulted in lower PE Ratios of the comparable companies, which is, in our view, prudent for the Company for the purpose of Valuation. As stated in the Valuation Report, the average adjusted PE Ratio of the comparable companies (excluded two outliers identified by JLL) as at 30 June 2018 was 13.91 times (the “**Average PE Ratio**”).

As disclosed in the Valuation Report, the Valuation of approximately RMB698.6 million (equivalent to approximately HK\$795.6 million) was then arrived at (i) by multiplying the normalised earnings of the Target Group by the Average PE Ratio; and (ii) after adjustments in respect of non-operating assets/liabilities, control premium and marketability discount.

The normalised earnings of the Target Group used by JLL in arriving at the Valuation represented (i) the twelve months trailing earnings of the Target Group which was calculated by adding the net income before taxation of RMB28.6 million for the six month ended 31 December 2017 with the interim net income before taxation for six month ended 30 June 2018 of RMB40.6 million; and (ii) excluding non-operating income and expense such as asset impairment loss, non-operating incomes and expenses, asset disposal cost, investment income and other incomes (the “**Target’s Normalised Earnings**”). Given (a) the substantial increase in net profits before taxation and extraordinary items of the Target Group in the six month periods ended 30 June 2018 to approximately RMB40.6 million which already exceeded that for the full year ended 31 December 2017 of approximately RMB38.4 million, the historical financial performance of the Target Group in the previous years therefore may not be reflective of its latest performance and growth potential. In addition, as stated in the letter from the Board, the Target Group has mid-to-long term existing contracts ranging from three to five years with certain of its customers, which will provide a recurring and stable service income for the Target Group during the remaining contract period. As such, the use of the trailing twelve months earnings is considered appropriate; and (b) the exclusion of non-operating and/or one-off and/or non-recurring items would eliminate any possible distortion resulting from those non-operating and/or one-off events and therefore, earnings after such exclusion is considered as a better reflection of the operation performance of the Target Group under its ordinary and usual course of business, we consider the determination of the Valuation based on the Target’s Normalised Earnings reasonable.

LETTER FROM SOMERLEY

We understand JLL further adjusted the product of the Target's Normalised Earnings and the Average PE Ratio, by adding back the non-operating assets and by deducting the non-operating liabilities of the Target Company as at 30 June 2018. We have discussed and understand from JLL that this is a common practice adopted for business valuations in order to take into account items that may not be directly related to the operation of a target under its ordinary and usual course of business, but may nevertheless contribute to and form part of the overall value of a target. In this regard, we have conducted researches and have identified and reviewed similar business valuation reports prepared for acquisitions by Hong Kong listed companies which adopted the use of market-based approach and noted that similar adjustments for non-operating assets/liabilities were made to determine their respective target company's valuation. Based on the aforesaid, we are of the view that the application of such adjustment is in line with market practice and fair and reasonable.

As advised by JLL, a control premium of around 10.90% was applied in arriving at the Valuation. We have discussed with JLL in relation to the adoption of control premium. JLL explained that control premium is an amount by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest a business enterprise that reflects the power of a control. JLL adopted a control premium of 10.90% with reference to a control premium study published by FactSet Research Systems Inc. ("**FactSet Research**"), an independent provider for merger and acquisition transaction data.

In addition to the control premium as discussed above, JLL also applied a discount for lack of marketability (the "**DLOM**") to account for the fact that the Target Group was not a public listed company and accordingly, the ownership interest in the Target is not readily marketable. Whilst the Average PE Ratio was determined based on public listed companies whose shares are marketable, the incorporation of DLOM is to adjust such marketable interest value back to non-marketable interest value. We understand JLL estimated the DLOM for the Target Company using the Black Scholes model which is a common and widely adopted method in estimating DLOM in the market. Based on the outcome of the pricing model used, the DLOM derived is around 20.54%.

Having discussed the above market approach adopted by JLL and reviewed, among others, the reasons for adopting such valuation methodology and the bases and assumptions used for valuing the market value of the Target Group, we are of the opinion that the valuation methodology in establishing the Valuation to be appropriate.

LETTER FROM SOMERLEY

With a view to counter-check the Valuation, we have further conducted a comparison on price-to-earnings ratio of the Target Group with those of its comparable companies in a conventional way without the various adjustments as adopted by JLL in the Valuation (the “**Conventional PE Ratio Analysis**”). In this comparison we have compared a total of 8 comparable companies which were selected based on the same selection criteria as adopted in the Valuation except for these comparable companies being listed on the Stock Exchange as of the Latest Practicable Date (instead of 30 June 2018), and accordingly comprise the same 7 comparable companies selected for and involved in the Valuation and one additional comparable company namely Xinchengyue Holdings Limited (stock code 1755) which was newly listed on the Stock Exchange in November 2018 (the “**Comparables**”). Based on the market capitalisation of the Comparables as at the Latest Practicable Date and the respective audited earnings attributable to owners of the Comparables extracted from their respective latest published annual reports, the price-to-earnings ratios of the Comparables ranged from around 4.8 times to around 68.3 times with an average of approximately 31.1 times. We note that the price-to-earnings ratio of the Target Group represented by the Consideration divided by the profit attributable to owners of the Target Group of approximately RMB28.8 million for the year 2017 of around 21.0 times is within the range of, and is below the average of, the price-to-earnings ratios of the Comparables.

Based on all the above including but not limited to, the valuation methodology and assumptions adopted in establishing the Valuation to be appropriate and the results obtained from the Conventional PE Ratio Analysis as performed by us, we consider the Valuation fair and reasonable.

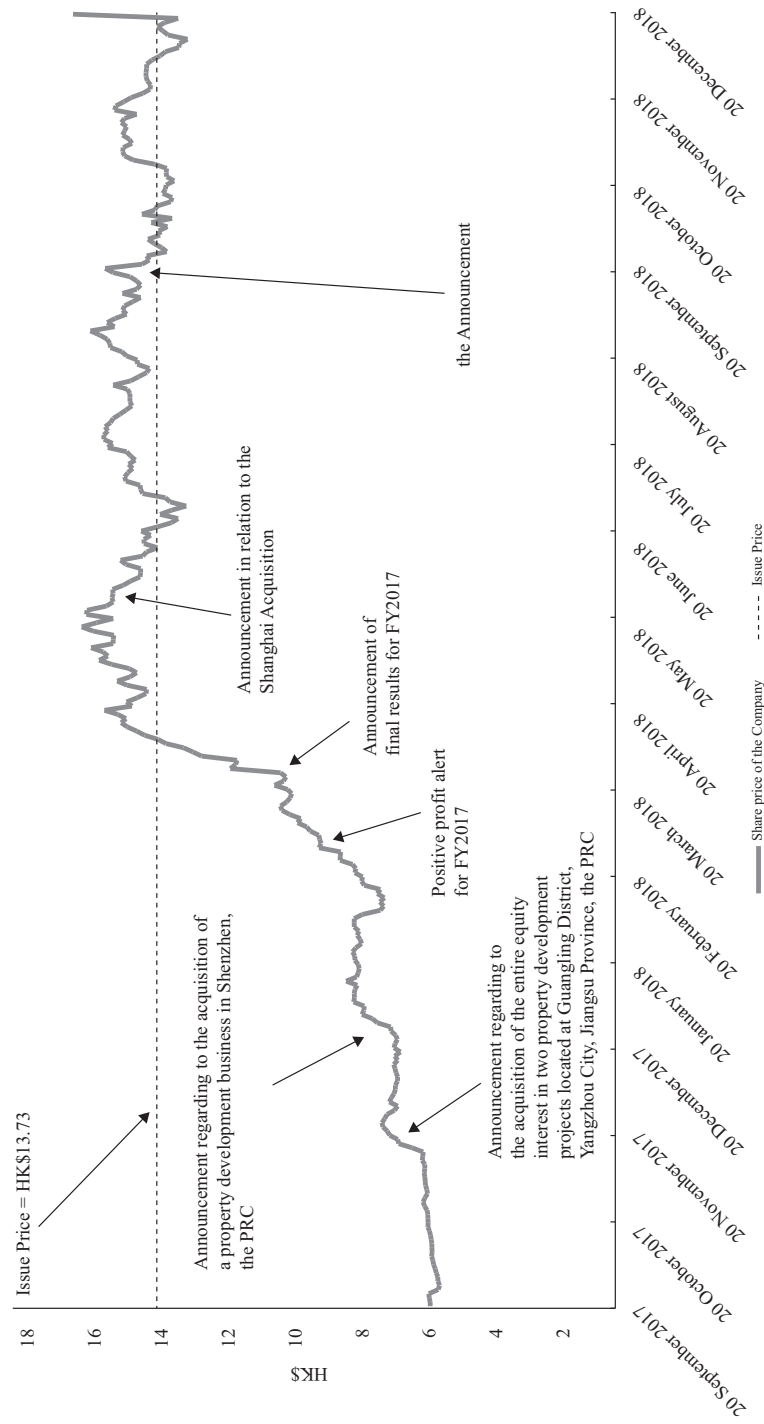
6. Evaluation of the Consideration Shares

6.1 Evaluation of the Issue Price

Pursuant to the Sale and Purchase Agreement, 50,180,189 Consideration Shares at the Issue Price of HK\$13.73 each will be issued by the Company to settle the Consideration upon Completion.

(i) *Historical Share Performance*

Set out below is a chart reflecting movements in the closing prices of the Shares from 19 September 2017, being roughly twelve months before the date of the Sale and Purchase Agreement, up to and including the Latest Practicable Date, which represented a sufficient period of time to provide a general overview on the recent market performance of the Shares (the “**Review Period**”).



Source: Website of the Stock Exchange and Bloomberg

LETTER FROM SOMERLEY

From the chart above, the Shares price closed in a range between HK\$5.25 and HK\$16.20 per Share during the period of 12 months immediately before the publication of the announcement on 19 September 2018 in relation to the Acquisition and transactions contemplated thereunder (the “**Announcement**”) (the “**Pre-Announcement Period**”) with an average of approximately HK\$10.59. The average Share closing price for the entire Review Period was approximately HK\$11.28 per Share.

Trading in the Company’s Shares was mostly sideways and Share price closed between a tight range of HK\$5.25 and HK\$6.50 from 19 September to mid-November 2017. The Company’s closing Share price rallied on the back of an announcement regarding the acquisition of property development projects in Yangzhou PRC published before trading hours on 17 November 2017 and closed at HK\$6.74 for the day which represented around 3.69% increase as compared to the previous close. The Share closing price further increased from HK\$7.26 on 29 December 2017 to HK\$7.57 on 2 January 2018, representing an increase of 4.27% following the publication of an announcement on 29 December 2017 evening in relation to the acquisition of a target company engaged in the property development business in Shenzhen, PRC. Since then the closing price of the Shares continued its increasing trend and reached HK\$8.83 per Share on 5 March 2018.

The closing price per Share reached HK\$8.86 on 6 March 2018 following the publication of a positive profit alert for FY2017 in the previous evening. The Share closing price continued to rally and closed at HK\$11.50 each on 28 March 2018 after the announcement of its annual results for FY2017. The uptrend in the Share closing price performance continued into the month of May 2018 before stabilizing at around HK\$15.00 each towards the end of May 2018. The closing price per Share fell by around 1.50% to HK\$14.48 on 6 June 2018 following the publication of the announcement in relation to the Shanghai Acquisition on 5 June 2018. The closing price per Share further dropped to HK\$12.82 each on 4 July 2018 following which the Share closing price started to pick up again and hit HK\$15.68 each on 31 August 2018 before retreating in September 2018.

The Company’s Share closing price increased by around 3.45% to HK\$15.00 each on 20 September 2018 following the publication of the Announcement before trading hours on the same day, and increased slightly further to HK\$15.24 each on 21 September 2018. The Share closing price dropped by around 7.22% to HK\$14.14 each on the next trading day, being 24 September 2018. Since then and up to 19 December 2018, the Share closing price fluctuated within the range between HK\$12.78 and HK\$14.96 each and on 20 December 2018, being the Latest Practicable Date, the Share price closed at HK\$16.20 each.

As disclosed in the letter from the Board, the Issue Price of HK\$13.73 per Consideration Share represents:

- (a) a discount of approximately 5.31% to the closing price per Share of HK\$14.50 as quoted on the Stock Exchange on 19 September 2018, being the date of the Sale and Purchase Agreement;

LETTER FROM SOMERLEY

- (b) a discount of approximately 4.25% to the average closing price per Share of HK\$14.34 as quoted on the Stock Exchange for the last 5 consecutive trading days immediately preceding the date of the Sale and Purchase Agreement;
- (c) a discount of approximately 5.31% to the average closing price per Share of HK\$14.50 as quoted on the Stock Exchange for the last 10 consecutive trading days immediately preceding the date of the Sale and Purchase Agreement;
- (d) a discount of approximately 15.25% to the closing price per Share of HK\$16.20 as quoted on the Stock Exchange on the Latest Practicable Date; and
- (e) a premium of approximately 291.2% to the equity attributable to owners of the Company per Share of approximately RMB3.09 (equivalent to approximately HK\$3.51) as at 30 June 2018, based on the total number of issued Shares of 2,510,971,802 as at the Latest Practicable Date.

Although the Issue Price is at discounts to the prevailing average closing prices of the Shares in recent terms, however, we note that the Issue Price represents (i) a premium of approximately 29.7% and 21.7% compared to the average closing price of the Shares for the Pre-Announcement Period and the Review Period respectively; and (ii) premium of approximately 291.2% to the equity attributable to owners of the Company per Share of approximately RMB3.09 (equivalent to approximately HK\$3.51) as at 30 June 2018.

(ii) Comparison with recent issue of consideration shares

To further assess the fairness and reasonableness of the Issue Price, we have conducted a comparable analysis through identifying companies listed on the Main Board of the Stock Exchange (excluding companies under prolonged suspension or debt restructuring), which announced issues of consideration shares to vendors that are connected persons for acquisition(s) during the period from 1 December 2017 up to and including the Latest Practicable Date (“**Comparable Share Issues**”). We consider such list an exhaustive list of relevant comparable issues of consideration shares based on the said criteria above.

Despite the subject companies constituting the Comparable Share Issues may have different principal activities, market capitalisation, profitability and financial position as compared with those of the Company, and different reasons for their respective acquisitions and different reasons for issuing consideration shares for their transaction, we would still consider, in light of our selection criteria, capturing recent issue of consideration shares by listed companies to connected person(s) for acquiring assets/companies under similar market conditions and sentiments can provide us with a general reference on the recent market trend of this type of transaction in Hong Kong equity capital market. Based on the aforesaid, despite the large range of discount/premium represented by the respective issue price under the Comparable Share Issues, we regard the Comparable Share Issues meaningful and representative samples for assessing the fairness and reasonableness of the Issue Price.

LETTER FROM SOMERLEY

Announcement Date	Stock Code	Listed Company	Issue Price (HK\$)	Premium/(Discount) of the issue price over/to the average closing price over the last 5 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 10 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 30 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 60 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 90 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 180 consecutive trading days prior to/up to and including the last trading day (%)
4-Dec-17	445	CIMC-TianDa Holdings Company Limited (formerly known as China Fire Safety Enterprise Group Limited)	0.366	(16.82)	(16.82)	(14.88)	(16.82)	(17.19)	(12.69)
28-Dec-17	6828	Beijing Gas Blue Sky Holdings Limited	0.500	(4.94)	(4.76)	(3.29)	(3.85)	(4.58)	(8.42)
5-Jan-18	362	China Zenith Chemical Group Limited	0.390	(2.01)	1.83	(10.55)	(15.58)	(9.51)	5.12
5-Jan-18	1177	Sino Biopharmaceutical Limited	12.730	(7.95)	(4.43)	6.88	18.01	29.81	53.74

LETTER FROM SOMERLEY

Announcement Date	Stock Code	Listed Company	Issue Price (HK\$)	Premium/(Discount) of the issue price over/to the average closing price prior to the closing price of the issue price	Premium/(Discount) of the issue price over/to the average closing price over the last 5 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 10 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 30 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 60 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 90 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 180 consecutive trading days prior to/up to and including the last trading day (%)
18-Jan-18	1196	Realord Group Holdings Limited	4.738	(7.82)	(7.46)	(8.74)	(9.49)	(11.59)	(4.38)	3.71
23-Jan-18	1312	Tongfang Kontafarma Holdings Limited	0.500	-	-	(0.60)	(3.66)	(8.59)	(11.19)	(7.75)
14-Feb-18	1717	Ausnutria Dairy Corporation Ltd.	5.000	3.31	3.52	1.83	4.38	7.76	4.17	19.16
28-Mar-18	1341	Hao Tian International Construction Investment Group Limited	0.400	17.65	15.61	24.61	35.21	36.52	35.31	35.24
9-May-18	596	Inspur International Limited	2.650	(2.93)	(2.21)	(0.75)	2.71	7.29	10.42	16.23
30-May-18	108	GR Properties Limited	0.800	2.56	(2.44)	(5.88)	(5.88)	(11.11)	(15.79)	(24.53)

LETTER FROM SOMERLEY

Announcement Date	Stock Code	Listed Company	Issue Price (HK\$)	Premium/(Discount) of the issue price over/to the average closing price over the last 5 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 10 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 30 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 60 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 90 consecutive trading days prior to/up to and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 180 consecutive trading days prior to/up to and including the last trading day (%)
5-Jun-18	2768	Jiayuan International Group Limited	14.180	(5.79)	(7.49)	(5.43)	7.59	24.80	61.23
25-Jun-18	2688	ENN Energy Holdings Limited	80.000	(1.23)	4.49	3.33	2.96	7.79	26.54
5-Jul-18	164	China Baoli Technologies Holdings Limited	0.057	(15.00)	(18.39)	(27.94)	(43.94)	(51.08)	(54.13)
30-Jul-18	1328	International Elite Ltd.	0.119	(23.00)	(18.80)	(12.90)	(16.72)	(18.92)	(22.37)
13-Aug-18	772	China Literature Limited	80.000	19.49	21.08	13.68	11.43	13.43	4.93
28-Aug-18	698	Tongda Group Holdings Limited	1.600	30.08	21.67	7.82	(0.19)	(3.89)	(8.68)
21-Sep-18	910	China Sandi Holdings Limited	0.412	(9.85)	(9.75)	(8.65)	(8.65)	(9.52)	(6.07)

LETTER FROM SOMERLEY

Announcement Date	Stock Code	Listed Company	Issue Price (HK\$)	Premium/(Discount) of the issue price over/to the average closing price over the last 5 consecutive trading days prior to/upto and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 10 consecutive trading days prior to/upto and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 30 consecutive trading days prior to/upto and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 60 consecutive trading days prior to/upto and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 90 consecutive trading days prior to/upto and including the last trading day (%)	Premium/(Discount) of the issue price over/to the average closing price over the last 180 consecutive trading days prior to/upto and including the last trading day (%)
1-Nov-18	3608	Yongsheng Advanced Materials Company Limited	2.480	0.81	3.33	1.22	-	(3.88)	4.20
7-Nov-18	6878	Differ Group Holding Company Limited	0.550	3.77	5.97	3.58	0.18	(3.17)	(3.17)
17-Dec-18	1341	Hao Tian International Construction Investment Group Limited	0.360	(1.37)	1.12	16.50	31.39	39.53	47.54
The Consideration Shares			Average	(2.34)	(1.31)	(0.58)	(0.45)	0.93	6.49
			Minimum	(33.30)	(23.00)	(18.80)	(27.94)	(51.08)	(54.13)
			Maximum	30.08	22.89	24.61	35.21	39.53	61.23
			13.73	(5.31)	(4.25)	(6.22)	(5.34)	(5.86)	11.31

Source: Website of the Stock Exchange and Bloomberg

LETTER FROM SOMERLEY

The Issue Price represents a discount of approximately 5.31% to the closing price of the Shares on the date of the Sale and Purchase Agreement which is deeper than the average discount of 2.34% represented by the issue prices under the Comparable Share Issues. We also note that whilst the discounts/premiums represented by the Issue Price are all within the range of those under the Comparable Share Issues for each of the stated periods, the Issue Price represents a premium higher than the average premium derived from the issue prices of the Comparable Share Issues as compared with the respective average closing price for the last 180 consecutive trading days prior to or up to and including the last trading day (the “**Last 180-Day Period**”).

Though the Issue Price represents discounts deeper than the average discount/premium of those under the Comparable Share Issues as compared with the respective average closing price for last 5, 10, 30 and 60 and 90 consecutive trading days prior to/up to and including the last trading day, having considered that (i) the Issue Price represents a premium of approximately 29.7% and 21.7% as compared to the average closing price per Share for the Pre-Announcement Period and the Review Period respectively; (ii) the Issue Price represents a premium of approximately 291.2% to the equity attributable to owners of the Company per Share of approximately RMB3.09 (equivalent to approximately HK\$3.51 as at 30 June 2018; (iii) the Issue Price is considered generally in line with the market as the discounts/premiums represented by the Issue Price are all within the range of those under the Comparable Share Issues for each of the aforesaid respective periods, and the Issue Price also represents a higher premium as compared to the average premium represented by those under the Comparable Share Issues for longer period of time, we are of the view that the Issue Price is fair and reasonable.

6.2 *Effect on the shareholding structure of the Company*

As disclosed in the Circular, the shareholding structure of the Company (i) as at the Latest Practicable Date and (ii) immediately after the Completion and the allotment and issue of the Consideration Shares in full as contemplated under the Acquisition:

Shareholders	As at the Latest Practicable Date		Immediately after Completion and the allotment and issue of the Consideration Shares in full ⁽²⁾	
	<i>Number of Shares</i>	<i>approximately %</i>	<i>Number of Shares</i>	<i>approximately %⁽⁴⁾</i>
Mr. Shum and his associate(s) ⁽³⁾	1,397,291,060 ⁽¹⁾	55.65	1,447,471,249	56.52
Public Shareholders	1,113,680,742	44.35	1,113,680,742	43.48
Total	<u>2,510,971,802</u>	<u>100.00</u>	<u>2,561,151,991</u>	<u>100.00</u>

Notes:

¹. 1,377,724,660 Shares are held by Mingyuan Investment, which is 100% owned by Mr. Shum.

LETTER FROM SOMERLEY

2. The figures above assume that other than the Consideration Shares, no further Shares are issued or repurchased by the Company, and no Shares are sold or purchased by Mr. Shum or his associate(s), in each case on or after the Last Trading Date and up to the date the allotment and issue of the Consideration Shares.
3. The percentage figures included in this table are subject to rounding adjustment.

As shown in the table above and assuming the completion of the Sale and Purchase Agreement, including the issuance of the Consideration Shares, the shareholding in the Company held by the public Shareholders will be diluted and reduced by approximately 0.87% from 44.35% to 43.48%.

Although the shareholding interest of the existing public Shareholders will be diluted, considering (i) the benefits of the Acquisition as discussed under the section under “3. Reasons for and benefits of the Sale and Purchase Agreement” above; and (ii) the terms of the Sale and Purchase Agreement, including the Consideration and the Issue Price, being fair and reasonable as discussed under sections headed “5. Evaluation of the Consideration” and “6. Evaluation of the Consideration Shares” above, we are of the view that the dilution effect on the shareholding of existing public Shareholders in the Company is acceptable.

7. Financial effects

Earnings

Upon the Completion, each of the Target Group companies will become a wholly-owned subsidiary of the Group and the financial result of the Target Group will be consolidated into the consolidated financial statements of the Group. Given the profitability of the Target Group, it is expected that the Target Company will contribute property management service income to the Group and will enhance the revenue stream and earnings of the Group following Completion.

Asset and liabilities

Based on the interim report of the Group for the six months ended 30 June 2018, as at 30 June 2018, the Group had total assets, total liabilities and net assets of approximately RMB38,725.7 million, RMB30,753.4 million and RMB7,972.3 million, respectively. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, if the Acquisition had been completed on 30 June 2018, the total assets, total liabilities and net assets of the Enlarged Group would have increased to approximately RMB39,007.1 million, approximately RMB30,916.1 million and approximately RMB8,091.0 million respectively.

LETTER FROM SOMERLEY

Working capital

Since the Consideration will be satisfied fully by the allotment and issue of Consideration Shares, save for the costs related to the Transactions, the Acquisition would not result in other cash outflow and therefore would not have material adverse effect on the working capital of the Enlarged Group immediately upon completion of the Acquisition.

As we noted from the letter from the Board and note 31(c) of the notes to the historical financial information in the accountants' report of the Target Group as set out in Appendix II to the Circular, and as discussed in section headed "2.2 Financial information of the Target Group" above, subsequent to the end of the reporting period, on 23 November 2018, the Target Group declared and subsequently paid out a special dividend amounting to RMB18,000,000 from its retained earnings for the year ended 31 December 2017 to Chuangsheng and Zhejiang Jia Yuan and, in consideration of the Special Dividend, Mr. Shum has provided a Subscription Undertaking at a consideration equivalent to the amount of the Special Dividend. In this regard, we have been provided with a cashflow forecast of the Target Group which has shown that the Target Group will have sufficient working capital for operations for at least the coming twelve months. Based on the above confirmations and the Subscription Undertaking, we concur with the view of the Management that there would not be material adverse impact on the financial position and working capital of the Target Group as a whole as a result of the payment of the Special Dividend.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position/results of the Group will be upon completion of the Acquisition and the issue of the Consideration Shares pursuant to the Acquisition.

8. Discussion

Having considered, in particular:

- (i) the reasons for entering into the Sale and Purchase Agreement and transactions being in line with the Group's business focus as a horizontal diversification as discussed in detail in section headed "3. Reasons for and benefits of the Sale and Purchase Agreement" above;
- (ii) the Consideration represents a discount of approximately 13.4% to the Valuation based on the Valuation Report prepared by JLL;
- (iii) the Issue Price being at a premium to the average Share closing price for each of the Pre-Announcement Period and the Review Period respectively;
- (iv) the premium/discount represented by the Issue Price being within the range of those under the Comparable Share Issues for each of the stated periods and therefore, is considered generally in line with the market when compared with the Comparable Share Issues;

LETTER FROM SOMERLEY

- (v) the dilution factor, as detailed in section headed “6.2 Effect on the shareholding structure of the Company” above, being considered acceptable so far as the Company and the Independent Shareholders are concerned; and
- (vi) as discussed in detail in section headed “7. Financial effects” above, no material adverse effect on the financial position and profitability of the Group would be expected immediately upon Completion,

we are of the view that the terms of the Transactions are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

RECOMMENDATION

Having considered of the above principal factors and reasons, we consider that, though the Acquisition is not in the ordinary and usual course of the business of the Company, terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise that the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Lyan Tam
Director

Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 16 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The annual reports of the Group for the three years ended 31 December 2015, 2016 and 2017 and the interim report for the six months ended 30 June 2018 (the “**Reporting Periods**”) are disclosed in the following documents which have been published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.jiayuanintl.com>), and can be accessed by the direct hyperlinks below:

- (1) annual report of the Company for the year ended 31 December 2015 published on 28 April 2016 (pages 42 to 134):
<http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0428/LTN201604282138.pdf>
- (2) annual report of the Company for the year ended 31 December 2016 published on 7 April 2017 (pages 52 to 152):
<http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0407/LTN20170407083.pdf>
- (3) annual report of the Company for the year ended 31 December 2017 published on 16 April 2018 (pages 60 to 164):
<http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0416/LTN201804161153.pdf>
- (4) interim report of the Company for the six months ended 30 June 2018 published on 12 September 2018 (pages 25 to 60):
<http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0912/LTN20180912378.pdf>

2. WORKING CAPITAL

The Directors, after taking into account the financial resources available including the existing banking facilities of the Enlarged Group, internally generated funds and the effect of the Acquisition, are of the opinion that the Enlarged Group has sufficient working capital for its present requirements and for at least 12 months following the date of this circular in the absence of any unforeseeable circumstances.

3. INDEBTEDNESS**Borrowings**

As at the close of business on 31 October 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of this circular, the Enlarged Group had total indebtedness is set out below:

	<i>RMB'000</i>
Bank loans, secured, guaranteed	4,401,438
Trust loans, secured	
– Conventional loans, guaranteed	2,902,220
Senior notes, secured, guaranteed	7,913,334
Other loans, secured, guaranteed	1,835,801
	<u>17,052,793</u>

The aforesaid secured borrowings of approximately RMB17,053 million were secured by the Group's investment properties, property and equipment, insurance policy, properties under development, properties held for sales, shares of subsidiaries and pledged bank deposits as at 31 October 2018.

As at 31 October 2018, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding guarantees of approximately RMB3,905 million to banks in favour of its customers in respect of the mortgage loans provided by the banks to these customers for the purpose of the Group's properties under development. Save as disclosed above and apart from intra-group liabilities within the Group and normal trade business, the Group did not have, at the close of business on 31 October 2018, any other debt securities issued and outstanding or agreed to be issued, bank borrowings, other borrowings and indebtedness, bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchases commitments, finance lease obligation, mortgages and charges, guarantees or material contingent liabilities.

Contingent liabilities

As at the close of business on 31 October 2018, the Enlarged Group had mortgage guarantees of RMB3,905 million. The Group provided guarantees in respect of mortgage bank loans granted to purchasers of the Group's properties. Guarantees are given to banks with respect of loans procured by the purchasers of the Group's properties. Such guarantees will be released by banks upon the purchaser obtaining the relevant building ownership certificate and completion of the relevant mortgage registration.

Other liabilities

Save as disclosed above and apart from intra-group liabilities and normal trade payables, at the close of business on 31 October 2018, the Enlarged Group did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2017, being the date to which the latest published financial statements of the Company were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Looking back in the first half of 2018, despite tightening control policies imposed on the industry, the Group achieved good results by making timely adjustments to its sales strategy and quickening the recovery cycle in light of the specific conditions in different markets. For the six months ended 30 June 2018, the Group's contracted sales amounted to approximately RMB7.36 billion, representing a period-on-period increase of 90%, and the contracted sales area amounted to approximately 719,000 sq.m., representing a period-on-period increase of 54%. The average contracted sales reached RMB10,226 per sq.m., representing a period-on-period increase of 23%.

In terms of regional development strategy, the Group will maintain its focus on three main regions, namely the Guangdong-Hong Kong-Macau Bay Area, Yangtze River Delta Economic Zone and key provincial capital cities, as well as cities along the "Belt and Road" initiative and is replenishing its land bank through continuously venturing into certain key cities with high growth potentials and obtained 12 premium projects at a low price in 8 regions, including Hong Kong, Guangdong, Shanghai, Taizhou, Changzhou, Guiyang, Urumqi and Cambodia, through project merger and acquisition, tender and bidding in the public market and joint development.

At the same time, the Group sees tremendous growth potential for the property management market in the PRC in the future. According to the forecast in the report of China Index Academy, the size of the PRC's property management will reach 24.3 billion sq.m. by 2020. The Group believes that expansion of the property management market will make the core business value chains more comprehensive, for instance, building an ecosphere centered on community consumption on the basis of comprehensive property management services will effectively improve living experience for community residents, such that our profitability would be strengthened steadily and also greater synergy would be achieved, ultimately achieving preservation and increment of value of properties.

Adhering to the strategic goal of “expansion and strengthening” (「做大做強」) and adopting a development model of “focusing on affordable properties while developing a variety of other businesses”, the Group will further raise market penetration rate in existing regions and new markets so as to continuously boost the influence of the “Jiayuan” brand in the PRC and even the world.

6. MATERIAL ACQUISITION AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

Since 31 December 2017, being the date to which the latest published audited accounts of the Company were prepared, the Company has made the following acquisitions whose profits or assets make or will make a material contribution to the figures in the next published financial statements of the Company for the year ending 31 December 2018. The aggregate of the remuneration payable to and benefits in kind received by the directors of the acquiring companies will not be varied in consequence of the below acquisitions.

In May 2018, the Group entered into a sale and purchase agreement with Mr. Tang Shing Bor, under which Mr. Tang Shing Bor conditionally agreed to sell and the Group conditionally agreed to acquire 70.1% of the entire issued share capital of Jiayuan StanGroup Development Company Limited (佳源陸域發展有限公司) (“**Jiayuan StanGroup**”), a company incorporated under the laws of the BVI with limited liability, for a cash consideration of HK\$2,620,256,684 subject to adjustment. Upon certain restructuring prior to completion of the acquisition, Jiayuan StanGroup, as an investment holding company, will beneficially own three property projects that are under development and located in Tuen Mun and Kwai Chung, Hong Kong. As at the Latest Practicable Date, the Company has completed the acquisition for two property projects in Tuen Mun. On the other hand, certain conditions precedent to the completion of the other one property project has not been satisfied yet. For details, please refer to the announcement of the Company dated 24 May 2018.

In June 2018, the Company entered into the Shanghai Sale and Purchase Agreement with Mr. Shum, whereby Mr. Shum has conditionally agreed to sell and the Company has conditionally agreed to acquire the entire issued share capital of Huyuan Holdings Limited, a company incorporated under the laws of the BVI with limited liability, at a consideration of HK\$693,628,828, which will be settled (i) as to HK\$277,451,552 by the allotment and issue of the 19,566,400 consideration shares by the Company to Mr. Shum or his nominee(s) at the issue price of HK\$14.18 per consideration share; and (ii) as to HK\$416,177,276 in cash. Huyuan Holdings Limited holds 90% equity interest in three property development projects located in Shanghai, the PRC. The Shanghai Acquisition was completed on 22 November 2018. For details, please refer to the announcement of the Company dated 5 June 2018 and the circular of the Company dated 26 July 2018.

Save as disclosed above, since 31 December 2017 (the date to which the latest published audited accounts of the Company have been made up), no member of the Group has acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditors’ report or next published accounts of the Company.

The following is the text of a report set out on pages II-1 to II-97, received from the Target Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this investment circular.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF CHUANGYUAN HOLDINGS LIMITED TO DIRECTORS OF JIAYUAN INTERNATIONAL GROUP LIMITED

Introduction

We report on the historical financial information of Chuangyuan Holdings Limited (the **"Target Company"**) and its subsidiaries (together, the **"Combined Group"**) set out on pages II-4 to II-97, which comprises the combined statements of financial position as at 31 December 2015, 2016, 2017 and 30 June 2018, the statement of financial position of the Target Company as at 30 June 2018 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the three years ended 31 December 2017 and the six months ended 30 June 2018 (the **"Track Record Period"**) and a summary of significant accounting policies and other explanatory information (together, the **"Historical Financial Information"**). The Historical Financial Information set out on pages II-4 to II-97 forms an integral part of this report, which has been prepared for inclusion in the circular of Jiayuan International Group Limited (the **"Company"**) dated 24 December 2018 (the **"Circular"**) in connection with the proposed major acquisition of the entire issued capital of the Target Company.

Sole director's responsibility for the Historical Financial Information

The sole director of the Target Company is responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the sole director of the Target Company determines is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of this Circular in which the Historical Financial Information is included, are such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical

Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director of the Target Company, as well as evaluating the overall presentation of the Historical 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 the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the Combined Group’s financial position as at 31 December 2015, 2016, 2017 and 30 June 2018 and of the Target Company’s financial position as at 30 June 2018 and of the Combined Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Combined Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 30 June 2017 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The sole director of the Target Company is responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review 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 of making inquiries, primarily of persons responsible for financial substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would

become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid or declared by the Target Company and its subsidiaries in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 December 2018

HISTORICAL FINANCIAL INFORMATION OF THE COMBINED GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the consolidated financial statements of Zhejiang Jiayuan Property Management Services Group Company Limited ("**Zhejiang Jia Yuan Property**") for the Track Record Period and the management accounts of the Target Company for the period from 22 June 2018 (date of incorporation) to 30 June 2018 prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated.

HISTORICAL FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Six Months ended 30 June	
		2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (unaudited)	2018 RMB'000
Revenue	5&6	120,896	138,735	263,227	96,831	225,405
Cost of sales		(100,597)	(117,589)	(201,934)	(80,429)	(158,018)
Gross profit		20,299	21,146	61,293	16,402	67,387
Other income	7	13,352	10,638	2,286	2,247	1,094
Other gains and losses	7	(276)	(970)	8,907	588	830
Distribution and selling expenses		(793)	(692)	(2,074)	(1,050)	(2,157)
Administrative expenses		(8,182)	(11,764)	(17,237)	(6,149)	(15,731)
Finance costs	8	(13,215)	(10,570)	(2,389)	(2,213)	(445)
Profit before taxation		11,185	7,788	50,786	9,825	50,978
Income tax expense	9	(2,824)	(2,079)	(12,215)	(2,471)	(11,534)
Profit for the year/period	11	8,361	5,709	38,571	7,354	39,444
Profit for the year/period attributable to:						
– Owners of the Target Company		8,361	5,709	34,536	7,354	35,776
– Non-controlling interests		–	–	4,035	–	3,668
		8,361	5,709	38,571	7,354	39,444
Other comprehensive income:						
Item that will not be classified to profit or loss						
– Fair value (loss) gain on investment in equity instruments at fair value through other comprehensive income		–	–	(36)	–	2,635
Total comprehensive income for the year/period		8,361	5,709	38,535	7,354	42,079
Total comprehensive income for the year/period attributable to:						
– Owners of the Target Company		8,361	5,709	34,509	7,354	37,753
– Non-controlling interests		–	–	4,026	–	4,326
		8,361	5,709	38,535	7,354	42,079

COMBINED STATEMENTS OF FINANCIAL POSITION

	NOTES	At 31 December		At 30 June	
		2015	2016	2017	2018
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	14	3,351	4,441	41,946	40,717
Available-for-sale investments (“AFS”)	15	–	–	17,302	–
Equity instrument at fair value through other comprehensive income (“FVTOCI”)	15	–	–	–	20,431
Deferred tax assets	16	591	731	818	818
		<u>3,942</u>	<u>5,172</u>	<u>60,066</u>	<u>61,966</u>
Current assets					
Inventories	17	–	4,466	41,459	49,701
Trade and other receivables	18	18,429	21,583	113,827	96,383
Amounts due from related parties	19(b)	328,870	261,725	209,548	267,583
Bank balances and cash	20	11,445	18,947	68,714	78,684
		<u>358,744</u>	<u>306,721</u>	<u>433,548</u>	<u>492,351</u>
Current liabilities					
Trade and other payables	21	191,038	126,706	171,823	168,999
Contract liabilities		–	–	–	3,160
Amounts due to related parties	19(b)	54,443	61,919	34,010	33,952
Tax payable		6,350	8,704	21,397	23,365
Bank and other borrowings	22	96,000	94,000	20,000	25,000
		<u>347,831</u>	<u>291,329</u>	<u>247,230</u>	<u>254,476</u>
Net current assets		<u>10,913</u>	<u>15,392</u>	<u>186,318</u>	<u>237,875</u>
Total assets less current liabilities		<u>14,855</u>	<u>20,564</u>	<u>246,384</u>	<u>299,841</u>
Capital and reserves					
Share capital	23	5,000	5,000	50,000	50,000
Reserves		9,855	15,564	136,481	171,626
Equity attributable to owners of the Target Company		14,855	20,564	186,481	221,626
Non-controlling interests		–	–	57,829	75,263
Total equity		<u>14,855</u>	<u>20,564</u>	<u>244,310</u>	<u>296,889</u>
Non-current liabilities					
Deferred tax liabilities	16	–	–	2,074	2,952
		<u>14,855</u>	<u>20,564</u>	<u>246,384</u>	<u>299,841</u>

STATEMENT OF FINANCIAL POSITION OF THE TARGET COMPANY

	NOTES	At 30 June 2018 RMB'000
Current asset		
Amount due from ultimate controlling shareholder	19(b)	—*
		<hr/>
Capital and reserve		
Share capital	23	—*
		<hr/>
		<hr/>

* The balance was less than RMB1,000.

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Target Company							Total
	Share capital	Capital reserve	Investment revaluation reserve	Statutory surplus reserve	Retained profits	Non-		
						Subtotal	controlling interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note (i))							
At 1 January 2015	5,000	–	–	342	1,152	6,494	–	6,494
Profit and total comprehensive income for the year	–	–	–	–	8,361	8,361	–	8,361
Transfer to reserve	–	–	–	836	(836)	–	–	–
At 31 December 2015	5,000	–	–	1,178	8,677	14,855	–	14,855
Profit and total comprehensive income for the year	–	–	–	–	5,709	5,709	–	5,709
Transfer to reserve	–	–	–	571	(571)	–	–	–
At 31 December 2016	5,000	–	–	1,749	13,815	20,564	–	20,564
Profit for the year	–	–	–	–	34,536	34,536	4,035	38,571
Fair value loss on investment in equity instruments at fair value through other comprehensive income	–	–	(27)	–	–	(27)	(9)	(36)
Total comprehensive income for the year	–	–	(27)	–	34,536	34,509	4,026	38,535
Deemed contribution by controlling shareholder (note 24)	–	86,408	–	–	–	86,408	53,803	140,211
Capital injection to a Group entity	45,000	–	–	–	–	45,000	–	45,000
Transfer to reserve	–	–	–	3,878	(3,878)	–	–	–
At 31 December 2017	50,000	86,408	(27)	5,627	44,473	186,481	57,829	244,310

	Attributable to owners of the Target Company					Non-		Total
	Share capital	Capital reserve	Investment revaluation reserve	Statutory surplus reserve	Retained profits	Subtotal	controlling interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Note (i))								
Profit for the period	–	–	–	–	35,776	35,776	3,668	39,444
Fair value gain on investment in equity instruments at fair value through other comprehensive income	–	–	1,977	–	–	1,977	658	2,635
Total comprehensive income for the period	–	–	1,977	–	35,776	37,753	4,326	42,079
Issue of shares (note (ii))	–*	–	–	–	–	–*	–	–*
Partial disposal of interests in a subsidiary without loss of control (note (iii))	–	–	–	–	(2,608)	(2,608)	13,108	10,500
Transfer to reserve	–	–	–	3,865	(3,865)	–	–	–
At 30 June 2018	<u>50,000</u>	<u>86,408</u>	<u>1,950</u>	<u>9,492</u>	<u>73,776</u>	<u>221,626</u>	<u>75,263</u>	<u>296,889</u>
At 1 January 2017	5,000	–	–	1,749	13,815	20,564	–	20,564
Profit and total comprehensive income for the period	–	–	–	–	7,354	7,354	–	7,354
At 30 June 2017 (unaudited)	<u>5,000</u>	<u>–</u>	<u>–</u>	<u>1,749</u>	<u>21,169</u>	<u>27,918</u>	<u>–</u>	<u>27,918</u>

* The balance was less than RMB1,000.

Notes:

- (i) Prior to the group reorganisation (“**Reorganisation**”) as detailed in Note 1, Zhejiang Jia Yuan Property, a People’s Republic of China (“**PRC**”) limited company was 90% owned by 佳源創盛控股集團有限公司, a related company of the Company controlled by Mr. Shum Tin Ching. The remaining 10% equity interest in Zhejiang Jia Yuan Property was held by 浙江佳源房地產集團有限公司, a related company of the Company controlled by Mr. Shum Tin Ching. The share capital at 1 January 2015, 31 December 2015, 2016 and 2017 represented the registered capital of Zhejiang Jia Yuan Property held by Mr. Shum Tin Ching, director and shareholder of the Target Company.
- (ii) On 22 June 2018, as part of the Reorganisation, Mr. Shum Tin Ching subscribed for one share in the Target Company. After the subscription, the Target Company was wholly owned by Mr. Shum Tin Ching.
- (iii) During the period ended 30 June 2018, certain independent third parties injected capital amounting to RMB10,500,000 to Zhejiang Skuo Digital Technology Co., Ltd (“**Skuo Digital**”), a subsidiary of the Target Company, resulting in the dilution of equity interest in Skuo Digital held by the Target Group from 56.4% to 53.9%. The Target Group continued to have control over Skuo Digital after the capital injection.

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six Months ended	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	11,185	7,788	50,786	9,825	50,978
Adjustments for:					
Depreciation of property, plant and equipment	1,197	1,250	1,866	750	1,853
Provision of allowance for doubtful debts	–	558	347	–	–
Provision of allowance for inventories	–	–	–	–	95
Interest income	(13,352)	(10,638)	(2,286)	(2,247)	(902)
Dividend income from equity instruments at FVTOCI	–	–	–	–	(192)
Finance costs	13,215	10,570	2,389	2,213	445
Operating cash flows before movements in working capital	12,245	9,528	53,102	10,541	52,277
(Increase) decrease in inventories	–	(4,466)	(7,404)	181	(8,337)
Decrease (increase) in trade and other receivables	73,108	(3,712)	7,088	(20,329)	17,444
(Increase) decrease in amounts due from related parties	(117)	(1,461)	(33,270)	19,450	(4,318)
Increase (decrease) in trade and other payables	65,848	(64,332)	(16,964)	(7,109)	22,806
Decrease in contract liabilities	–	–	–	–	(22,470)
Increase in amounts due to related parties	4,526	4,732	9,706	13,524	663
Cash generated from (used in) operations	155,610	(59,711)	12,258	16,258	58,065
Income taxes (paid) refunded	(561)	135	(598)	(2,294)	(9,566)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	155,049	(59,576)	11,660	13,964	48,499

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

		Year ended 31 December			Six Months ended	
	NOTE	2015	2016	2017	30 June	2018
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
INVESTING ACTIVITIES						
Purchase of property, plant and equipment		(734)	(2,340)	(4,078)	(1,293)	(624)
Proceeds from disposal of property, plant and equipment		–	–	13	–	–
(Repayment from) advance to related parties		(158,792)	68,606	85,447	95,039	(53,717)
Acquisition of subsidiaries	24	–	–	43,443	–	–
Interest received		13,352	10,638	2,286	2,247	902
Dividend income received from equity instruments at FVTOCI		–	–	–	–	192
Partial redemption of financial assets at fair value through profit or loss		–	–	–	–	384
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(146,174)	76,904	127,111	95,993	(52,863)
FINANCING ACTIVITIES						
Advance from (repayment to) related parties		12,835	2,744	(37,615)	(9,341)	(721)
Raise of bank and other borrowings		–	–	–	–	5,000
Repayment of bank and other borrowings		–	(2,000)	(94,000)	(94,000)	–
Interest paid		(13,215)	(10,570)	(2,389)	(2,213)	(445)
Cash proceeds from partial disposal of interest in a subsidiary without loss of control		–	–	–	–	10,500
Capital contribution to a Group entity		–	–	45,000	–	–
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(380)	(9,826)	(89,004)	(105,554)	14,334
NET INCREASE IN CASH AND CASH EQUIVALENTS						
		8,495	7,502	49,767	4,403	9,970
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD						
		2,950	11,445	18,947	18,947	68,714
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD AND REPRESENTED BY						
Bank balances and cash		11,445	18,947	68,714	23,350	78,684

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION, GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Target Company was a limited liability company incorporated in the British Virgin Islands (“BVI”) on 22 June 2018. It is wholly-owned by Mr. Shum Tin Ching, who is also the sole director of the Target Company. The Target Company acts as an investment holding company and principal activities of the subsidiaries are set out in note 29.

Prior to the group Reorganisation, Zhejiang Jia Yuan Property was 90% owned by its immediate holding company Jiayuan Chuangsheng Holdings Group Company Limited (“**Chuangsheng Holdings**”) and 10% owned by Zhejiang Jia Yuan Property Group Co., Ltd. (“**Zhejiang Jia Yuan**”). Both Chuangsheng Holdings and Zhejiang Jia Yuan are ultimately owned by Mr. Shum Tin Ching (the “**Ultimate Controlling Shareholder**”). Jiaxing Dongyuan Investment Company Limited, a PRC limited company and its subsidiaries (the “**Disposal Group**”) was 75% owned by Zhejiang Jia Yuan Property.

The below are the major steps for the Reorganisation:

- On 29 December 2017, Chuangyuan Development Limited (“**Chuangyuan Development**”), a BVI limited company was established.
- On 20 June 2018, Jiayuan Property Management Limited (“**Jiayuan Property**”), a Hong Kong limited company was established and wholly-owned by Chuangyuan Development.
- On 20 September 2018, Zhejiang Jia Yuan Property and Jiaxing Xiangyuan Investment Management Co., Ltd. (“**Jiaxing Xiangyuan**”), a company controlled by the Ultimate Controlling Shareholder, entered into a sale and purchase agreement, pursuant to which Zhejiang Jia Yuan Property transferred all of its equity interest in the Disposal Group at a total consideration of RMB77,000,000 to Jiaxing Xiangyuan, a company controlled by the Ultimate Controlling Shareholder. Details of the disposed subsidiaries were set out in note 39.
- On 26 November 2018, Zhejiang Heyuan Property Services Co., Ltd (“**Zhejiang Heyuan**”), a PRC limited company was established and wholly-owned by Jiayuan Property.
- On 3 December 2018, Zhejiang Jia Yuan and Chuangsheng Holdings entered into a sale and purchase agreement with Zhejiang Heyuan, pursuant to which Zhejiang Jia Yuan and Chuangsheng Holdings transferred all of their equity interest in the Zhejiang Jia Yuan Property to Zhejiang Heyuan,

Pursuant to the Reorganisation detailed in section “Letter from the board – Reorganisation” in the Circular, the Target Company became the holding company of all the companies now comprising the Target Group on 3 December 2018. All the companies now comprising the Combined Group during the Track Record Period or since their respective dates of incorporation/establishment were under common control of the Ultimate Controlling Shareholder before and after the Reorganisation and that control is not transitory. Hence, the Combined Group resulting from the Reorganisation as set out above is regarded as a continuing entity. The Historical Financial Information of the Combined Group has been prepared on the basis as if the Target Company had always been the holding company of the Combined Group using the principles of merger accounting in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Combined Group for the three years ended 31 December 2017 and six months ended 30 June 2018 which include the results, changes in equity and cash flows of the companies now comprising the Combined Group have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where this is a shorter period, except for the subsidiaries acquired by the Combined Group during the Track Record Period as disclosed in note 24, which are included in the Historical Financial Information since their respective date of acquisition by the Combined Group.

The combined statements of financial position of the Combined Group as at 31 December 2015, 2016 and 2017 and 30 June 2018 have been prepared to present the assets and liabilities of the companies now comprising the Combined Group as if the current group structure upon completion of the Reorganisation had been in existence as at those dates, taking into account the respective dates of incorporation/establishment/acquisition where applicable.

The Historical Financial Information is presented in Renminbi (“RMB”), which is the same as the functional currency of the Target Company.

The Historical Financial Information has been prepared in accordance with the accounting policies set out in note 3 which conform with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622).

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

For the purpose of preparing and presenting the Historical Financial Information of the Combined Group for the Track Record Period, the Combined Group has consistently applied Hong Kong Accounting Standards (“HKAS”), Hong Kong Financial Reporting Standards, amendments and interpretations (collectively “HKFRSs”) which are effective for its accounting period beginning on 1 January 2018 throughout the Track Record Period except that the Combined Group adopted HKFRS 9 “Financial Instruments” and HKFRS 15 *Revenue from Contracts with Customers and the related Amendments* on 1 January 2018.

2.1 Impacts and changes in accounting policies of application on HKFRS 15

2.1.1 Summary of effects arising from initial application of HKFRS 15

The Combined Group has applied HKFRS 15 for the first time for the six months ended 30 June 2018. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Combined Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Combined Group has elected to apply HKFRS 15 retrospectively only to contracts that are not completed at 1 January 2018, the date of initial application of HKFRS 15. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and the related interpretations.

Details of the accounting policies resulting from application of HKFRS 15 are set out in note 3.

The Group recognises revenue under HKFRS 15 from the following major sources:

- Sales of software and system equipment;
- Provision of installation services of software and system equipment; and
- Provision of property management services.

For sales of software and system equipment, the revenue is recognised at a point in time when control of the goods has transferred, being when the goods are delivered to the customer or customer purchases the goods at the retail outlets. Payment of the transaction is due ranging from 60 to 90 days when performance obligations are satisfied.

Under the Combined Group's standard contract terms, customers have a right to exchange for dissimilar products within 30 days. The Combined Group uses its accumulated historical experience to estimate the number of exchange on a portfolio level using the expected value method. Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A contract liability is recognised for sales in which revenue has yet been recognised. The Combined Group's right to recover the product when customers exercise their right is recognised as a right to returned goods asset and a corresponding adjustment to cost of sales.

For provision of installation services of software and system equipment, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product created is controlled by customer. Revenue for these performance obligations is recognised over time as the customisation or integration work is performed, using the input method to estimate progress towards completion. As costs are generally incurred uniformly as the work progresses and are considered to be proportionate to the entity's performance, the input method provides a faithful depiction of the transfer of goods and services to the customer.

Warranties associated with sales of software and system equipment and provision of installation service of software and system equipment cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Combined Group accounts for warranties in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its previous accounting treatment.

The Combined Group's installation service of software and system equipment include payment schedules which require stage payments over the period once certain specified milestones are reached. The Combined Group requires certain customers to provide upfront deposits range from 10% to 20% of total contract sum, when the Combined Group receives a deposit before installation commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the specific contract exceeds the amount of the deposit.

For provision of property management services, the Group agrees the fixed rate for services with the customers upfront which gives rise to contract liabilities at start of the contract. As the customer simultaneously receives and consumes the benefits provided by the Group's performance, the revenue is recognised over time when the performance obligations are satisfied. Payment of the transaction is due immediately when performance obligations are satisfied.

The table below illustrates the reclassification of receipt in advance from customers included in trade and other payables to contract liabilities under HKFRS 15 at the date of initial application, 1 January 2018.

	<i>Note</i>	Trade and other payables <i>RMB'000</i>	Contract liabilities <i>RMB'000</i>
Closing balance at 31 December 2017		171,823	–
Reclassification	(a)	<u>(25,630)</u>	<u>25,630</u>
Opening balance at 1 January 2018		<u>146,193</u>	<u>25,630</u>

(a) At the date of initial application, included in trade and other payables amounting to RMB25,630,000, is related to advance from customers. The amount is reclassified to contract liabilities upon application of HKFRS 15.

The following table summarise the impacts of applying HKFRS 15 on the Group's combined statements of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the combined statement of financial position at 30 June 2018

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Current liabilities			
Trade and other payables	168,999	3,160	172,519
Contract liabilities	3,160	(3,160)	–
	<u> </u>	<u> </u>	<u> </u>

Impact on the combined statement of cash flows for the six months ended 30 June 2018

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
NET CASH FROM (USED IN) OPERATING ACTIVITIES			
Increase in trade and other payables	22,806	(22,470)	336
Decrease in contract liabilities	(22,470)	22,470	–
	<u> </u>	<u> </u>	<u> </u>

The explanations of the above changes affected for the six months ended 30 June 2018 by the application of HKFRS 15 as compared to HKAS 18 are set out in note (a) above for describing the adjustment made to the combined statement of financial position at 1 January 2018 upon the adoption of HKFRS 15.

2.2 Impact and changes in accounting policies of application on HKFRS 9

For the six months ended 30 June 2018, the Combined Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and other items (for example, contract assets and lease receivables) and 3) general hedge accounting.

The Combined Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Details of accounting policies resulting from application of HKFRS 9 are set out in note 3.

2.2.1 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Notes	Closing balance at 31 December 2017 carrying amount under HKAS 39 RMB'000	Reclassification RMB'000	Additional loss allowance recognised under HKFRS 9 RMB'000	Opening balance at 1 January 2018 under HKFRS 9 RMB'000
AFSs	AFS	–	(a)	17,302	(17,302)	–	–
Equity instruments at FVTOCI	–	FVTOCIs	(b)	–	17,302	–	17,302
Trade and other receivables	Loans and receivables at amortised cost	Financial assets at amortised cost		106,427	–	–	106,427
Amounts due from fellow subsidiaries	Loans and receivables at amortised cost	Financial assets at amortised cost		144,702	–	–	144,702
Amounts due from related parties	Loans and receivables at amortised cost	Financial assets at amortised cost		75,000	–	–	75,000
Bank balances and cash	Loans and receivables at amortised cost	Financial assets at amortised cost		68,714	–	–	68,714
Trade and other payables	Financial liabilities at amortised cost	Financial liabilities at amortised cost		186,715	–	–	186,715
Amounts due to related parties	Financial liabilities at amortised cost	Financial liabilities at amortised cost		20,335	–	–	20,335
Amounts due to related parties	Financial liabilities at amortised cost	Financial liabilities at amortised cost		4,707	–	–	4,707

(a) AFS investments

From AFS equity investments to FVTOCI

The Combined Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB17,302,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value losses of RMB27,000 relating to those investments previously carried at fair value continued to accumulate in investment revaluation reserve.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade and bills receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables, amounts due from related parties and bank balances are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

The application of the HKFRS 9 has no significant impact on the provision of impairment of financial assets for the six months ended 30 June 2018 and retained profits at 1 January 2018.

2.3 Impacts on opening combined statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the condensed combined statement of financial position of the Combined Group as at 1 January 2018 had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 RMB'000 (audited)	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 RMB'000 (restated)
Non-current assets				
AFS	17,302	–	(17,302)	–
Equity instruments at FVTOCI	–	–	17,302	17,302
Others with no adjustments	42,764	–	–	42,764
	<u>60,066</u>	<u>–</u>	<u>–</u>	<u>60,066</u>
Current assets				
Trade and other receivables	113,827	–	–	113,827
Others with no adjustments	319,721	–	–	319,721
	<u>433,548</u>	<u>–</u>	<u>–</u>	<u>433,548</u>
Current liabilities				
Trade and other payables	171,823	(25,630)	–	146,193
Contract liabilities	–	25,630	–	25,630
Others with no adjustments	75,407	–	–	75,407
	<u>247,230</u>	<u>–</u>	<u>–</u>	<u>247,230</u>
Net current assets				
	<u>247,230</u>	<u>–</u>	<u>–</u>	<u>247,230</u>
Total assets less current liabilities	<u>246,384</u>	<u>–</u>	<u>–</u>	<u>246,384</u>
Capital and reserves				
Share capital	50,000	–	–	50,000
Reserves	136,481	–	–	136,481
	<u>186,481</u>	<u>–</u>	<u>–</u>	<u>186,481</u>
Equity attributable to owners of the Target Company	186,481	–	–	186,481
Non-controlling interests	57,829	–	–	57,829
	<u>244,310</u>	<u>–</u>	<u>–</u>	<u>244,310</u>
Total equity	<u>244,310</u>	<u>–</u>	<u>–</u>	<u>244,310</u>
Non-current liability				
Deferred tax liabilities	2,074	–	–	2,074
	<u>2,074</u>	<u>–</u>	<u>–</u>	<u>2,074</u>
	<u>246,384</u>	<u>–</u>	<u>–</u>	<u>246,384</u>

At the date of this report, the Combined Group has not early applied the following new and amendments to HKFRSs and the new interpretation that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ²
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after a date to be determined

Except as described below, the director of the Target Company anticipates that the application of other new and amendments to HKFRSs and the new interpretation will have no material impact on the financial statements of the Combined Group in the foreseeable future.

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modification. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Combined Group currently presented other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Combined Group.

HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 June 2018, the Combined Group has non-cancellable operating lease commitments of RMB316,000 as disclosed in note 27. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, and hence the Combined Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Combined Group currently considers refundable rental deposits paid of RMB21,150 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4. Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information had been prepared in accordance with the accounting policies set out below which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the SEHK (the “**Listing Rules**”) and by the Hong Kong Companies Ordinance (“**CO**”).

The Historical Financial Information has been prepared on the historical cost basis except for certain financial assets that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the assets in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of combination

The combined financial statements incorporate the financial statements of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved where the Company:

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Combined Group's ownership interests in existing subsidiaries

Changes in the Combined Group's ownership interests in existing subsidiaries that do not result in the Combined Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Combined Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Combined Group and the non-controlling interests according to the Combined Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Target Company.

When the Combined Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for as if the Combined Group has directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specific/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on

initial recognition for subsequent accounting under HKFRS 9 or HKAS 39 (which is applicable after 1 January 2018), when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Combined Group, liabilities incurred by the Combined Group to the former owners of the acquiree and the equity interests issued by the Combined Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangement of the acquiree or share-based payment arrangement of the Combined Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

Merger accounting for business combinations involving business under common control

The Historical Financial Information incorporates the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the Historical Financial Information are presented as if the businesses had been combined at the end of previous reporting period or when they first came under common control, whichever is shorter.

Acquisition of a subsidiary not constituting a business

When the Combined Group acquires a group of assets and liabilities that do not constitute a business, the Combined Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets/financial liabilities at the respective fair value, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Investment in a subsidiary

Investment in a subsidiary is stated at cost less any identified impairment losses on the statements of financial position of the Target Company. The results of the subsidiary are accounted for by the Target Company on the basis of dividends received or receivable during the year/period.

Impairment on tangible asset

At the end of each reporting period, the Combined Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Combined Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventors are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Leasing

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

The Combined Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Revenue recognition (under HKAS 18 “Revenue” for the three years ended 31 December 2017)

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Combined Group and when specific criteria have been met for each of the Combined Group’s activities, as described below.

Property management services revenue

Revenue from property management services is recognised by reference to the stage of completion of the contract at the end of the reporting period. The stage of completion of the contract is determined by reference to contractual rate as labour hours and direct expense are incurred.

Installation service of software and system equipment revenue

Where the outcome of the installation service revenue can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract works. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract works.

Amounts received before the related work is performed are included in the combined statements of financial position, as a liability, as advances received included in other payables. Amounts billed for work performed but not yet paid by the customer are included in the combined statements of financial position under trade receivables.

Sales of software and system equipment

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income

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

Dividend income

Dividend income from equity instruments at FVTOCI is recognised when the rights to receive payment have been established.

Revenue recognition (upon application of HKFRS 15 on 1 January 2018)

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Specifically, the Combined Group uses a 5-step approach to revenue recognition:

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

The Combined Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good and service (or a bundle of goods and services) that is distinct or a series of distinct goods or service that are substantially the same.

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the Combined Group's performance as the Combined Group performs;
- the Combined Group's performance creates and enhances an asset that the customer controls as the Combined Group performs; or
- the Combined Group's performance does not create an asset with an alternative use to the Combined Group and the Combined Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation***Input method***

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Combined Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Combined Group's performance in transferring control of goods or services.

Property management services under lump sum basis

The Combined Group charged property management fees in respect of the property management services on a lump sum basis. Revenue is recognised when services are provided.

On a lump sum basis, the Combined Group are entitled to retain the full amount of received property management fees. From the property management fees, the Combined Group shall bear expenses associated with, among others, staff, cleaning, garbage disposal, gardening and landscaping, security and general overheads covering the common areas. During the term of the contract, if the amount of property management fees the Combined Group collected is not sufficient to cover all the expenses incurred, the Combined Group is not entitled to request the property owners to pay the shortfall.

Accordingly, on a lump sum basis, the Combined Group recognises as revenue the full amount of property management fees the Combined Group charged to the property owners and property developers when services are provided, and recognises the expenses as costs of services the Combined Group incurred in connection with performing our services.

Installation service of software and system equipment

For installation of software and system equipment, the revenue is recognised over time as the customisation or integration work is performed, using the input method to estimate progress towards completion. As costs are generally incurred uniformly as the work progresses and are considered to be proportionate to the entity's performance, the input method provides a faithful depiction of the transfer of goods and services to the customer.

Sales of software and system equipment

For sales of software and system equipment, revenue is recognised at a point in time when the control of the goods has transferred, being when the goods are delivered to the customer or customer purchases the goods at the retail outlets.

Contract assets and contract liabilities

A contract asset represents the Combined Group's right to consideration in exchange for goods or services that the Combined Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Combined Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Combined Group's obligation to transfer goods or services to a customer for which the Combined Group has received consideration (or an amount of consideration is due) from the customer. Deposit and prepayments are typically received from purchasers in advance of revenue recognition and they are presented as contract liabilities under current liabilities.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and state-managed retirement benefit scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from Goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Combined Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Combined Group's interests.

For the purposes of presenting the combined financial information, the assets and liabilities of the Combined Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Combined Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Target Company are reclassified to profit or loss.

Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018)

Financial assets and financial liabilities are recognised in the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than those classified as fair value through profit and loss ("FVTPL"), are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL loss are recognised immediately in profit or loss.

Financial assets

The Combined Group's and the Target Company's financial assets are classified as available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases on sale of financial assets are recognised and derecognised on a trade date basis. Regularly way purchases or sale of financial assets that require delivery of assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity instruments held by the Combined Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period. Dividends on AFS equity instruments are recognised in profit or loss when the Combined Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from related parties and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognized by applying the effective interest rate, except for short term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial asset are assessed for indicators of impairment at the end of each reporting period. Financial asset are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Combined Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of other reserve.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the

carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Classification as debts or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Combined Group after deducting all of its liabilities. Equity instruments issued by the Combined Group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables and amounts due to related parties) are subsequently measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

The Combined Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Combined Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Combined Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Combined Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Combined Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Combined Group derecognises a financial liability when, and only when, the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial instruments (under HKFRS 9)

Financial assets and financial liabilities are recognised when the group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets (including trade and other receivables, amounts due from fellow subsidiaries and related parties and bank balances and cash) that are within the scope of HKFRS 9 are subsequently measured in their entirety at either amortised cost or fair value on the basis of the Combined Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically

- a. debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI"), are subsequently measured at amortised cost;
- b. debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI; and
- c. all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Combined Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Combined Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies, in other comprehensive income; and
- the Combined Group may irrevocably designate a debt instrument that meets the amortised cost of FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost

The Combined Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Combined Group's business model for managing the asset.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses (“ECLs”), through the expected life of the financial assets or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Interest income is recognised in profit or loss and is included in the “other income” line item.

Investments in equity instrument at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits / will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Combined Group’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Combined Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Combined Group’s business model does not depend on management’s intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Combined Group’s business models for managing its financial instruments reflect how the Combined Group manages its financial assets in order to generate cash flows. The Combined Group’s business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Combined Group considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Combined Group does not reasonably expect to occur, such as so-called ‘worst case’ or ‘stress case’ scenarios. The Combined Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Combined Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Combined Group reassess its business models each reporting period to determine whether business models have changed since the preceding period.

Impairment of financial assets

The Combined Group recognises loss allowances for ECLs on the following financial instruments that are neither measured at FVTPL:

- a) trade and other receivables
- b) amounts due from related parties
- c) bank balances and cash

ECLs are required to be measured through a loss allowance at an amount equal to:

- a) 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- b) full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Combined Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Combined Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively for debtors.

For all other instruments, the Combined Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Combined Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Combined Group under the contract and the cash flows that the Combined Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset’s effective interest rate.

The Combined Group measures ECL on an individual basis, or on a collective basis for portfolios of financial instruments that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset’s expected cash flows using the asset’s original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Combined Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Combined Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Combined Group’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Combined Group’s core operations, namely the leisure goods, the residential properties industry and the leasing business.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in regulatory, business, financial or economic or technological conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor.

Irrespective of the outcome of the above assessment, the Combined Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Combined Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Combined Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Combined Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Combined Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

- a) significant financial difficulty of the borrower or issuer;
- b) a breach of contract such as a default or past due event;
- c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider; and
- d) the disappearance of an active market for a security because of financial difficulties.

For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on the twelve-months of lifetime ECL, as default is a component of the probability of default (“PD”) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Combined Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Combined Group; or
- the borrower is unlikely to pay its credit obligations to the Combined Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Combined Group takes into account both qualitative and quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Combined Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Irrespective of the above analysis, the Combined Group considers that default has occurred when a financial asset is more than 90 days past due unless the Combined Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the combined statements of financial position as follows:

- (a) for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- (b) for equity instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve.

Write-off policy

The Combined Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Combined Group’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Derecognition of financial assets

The Combined Group derecognises a financial asset only when the contractual rights to the asset’s cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Combined Group or a contract that will or may be settled in the Combined Group's own equity instruments and is a non-derivative contract for which the Combined Group is or may be obligated to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Combined Group's own equity instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities (including trade and other payables, amounts due to related parties and bank and other borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Combined Group derecognises financial liabilities when, and only when, the Combined Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Combined Group's accounting policies, which are described in note 4, the management of the Combined Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the key assumption concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade receivables

Before the adoption of HKFRS 9, the Combined Group makes allowances for impairment of trade receivables based on an assessment of the recoverability of accounts receivables. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of impairment of trade receivables requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed.

As at 31 December 2015, 2016 and 2017, the carrying amount of trade receivables amounted to RMB11,370,000, RMB12,095,000 and RMB93,751,000, respectively net of allowance of RMB2,365,000, RMB2,923,000 and RMB3,270,000.

Since 1 January 2018, the Combined Group follows the guidance of HKFRS 9 to estimate the amount of loss allowance for ECL on trade and other receivables and amounts due from related parties that are measured at amortised cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

As at 1 January 2018 and 30 June 2018, the carrying amounts of the Combined Group's trade receivables are RMB93,751,000 and RMB66,924,000, respectively net of allowance of RMB3,270,000 and RMB3,270,000, respectively.

5. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

	For six months ended 30 June 2018		
	Property management services RMB'000	Sales and installation service of software and system equipment RMB'000	Total RMB'000
Segments			
Types of goods or service			
Sales and installation service of software and system equipment	–	61,572	61,572
Property management services	163,833	–	163,833
Total	163,833	61,572	225,405
Geographical market			
Mainland China	163,833	61,572	225,405
Timing of revenue recognition			
A point in time	–	55,332	55,332
Over time	163,833	6,240	170,073
Total	163,833	61,572	225,405

6. OPERATING SEGMENTS

Information regularly reported to the Combined Group's chief executive officer (the chief operating decision maker) for the purposes of resource allocation and assessment of performance focuses on the type of operation. The Combined Group's reportable and operating segments under HKFRS 8 are as follows:

Property management services	– Provision of property management services to primarily residential communities
Sales and installation services of software and system equipment	– Sales and installation service provision of software and system equipment

The following is an analysis of the Combined Group's revenue and results by reportable and operating segments:

The accounting policies of the reportable and operating segments are the same as the Combined Group's accounting policies described in note 4. Segment result represents the profit earned by each segment without allocation of central administration costs. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

The following is an analysis of the Combined Group's revenue and results by operating and reportable segment.

	Sales and installation service of software and system equipment RMB'000	Property management services RMB'000	Total RMB'000
Six months ended 30 June 2018			
Revenue			
Revenue from external customers	40,664	144,150	184,814
Revenue from related parties	20,908	19,683	40,591
	<u>61,572</u>	<u>163,833</u>	<u>225,405</u>
Segment revenue	<u>61,572</u>	<u>163,833</u>	<u>225,405</u>
Segment results	<u>17,847</u>	<u>49,540</u>	<u>67,387</u>
Central administrative costs			<u>(16,409)</u>
Profit before tax			<u>50,978</u>

The following is an analysis of the Group's revenue and results by reportable and operating segments:

Segment revenue and results

The following is an analysis of the Combined Group's revenue and results by reportable segment.

	Sales and installation services RMB'000	Property management services RMB'000	Total RMB'000
For the year ended 31 December 2015			
Segment revenue	–	120,896	120,896
Segment results	–	20,299	20,299
For the year ended 31 December 2016			
Segment revenue	–	138,735	138,735
Segment results	–	21,146	21,146
For the year ended 31 December 2017			
Segment revenue	48,873	214,354	263,227
Segment results	7,103	54,190	61,293
Six months ended 30 June 2017 (unaudited)			
Segment revenue	–	96,831	96,831
Segment results	–	16,402	16,402
Six months ended 30 June 2018			
Segment revenue	61,572	163,833	225,405
Segment results	17,847	49,540	67,387

The accounting policies of the operating and reportable segments are the same as the Combined Group's accounting policies described in note 3. Segment result represents the profit or loss incurred by each segment without allocation of central administration costs and director's salaries, other income, finance costs, share of results of associates, gain on disposal of subsidiaries and income tax expenses. This is a measure reported to the CODM for the purposes of resources allocation and assessment of segment performance.

For the purposes of monitoring segment performance and allocating resources between segments:

- all the segment assets attributable to operating segments other than deferred tax assets, available-for-sale investment, equity instruments at FVTOCI, amounts due from related parties, bank balances and cash and other unallocated corporate assets; and
- all liabilities are allocated to operating segments other than current and deferred tax liabilities, amounts due to related parties and bank and other borrowings and other unallocated corporate liabilities.

Segment assets and liabilities

The following is an analysis of the Combined Group's assets and liabilities by reportable segment.

	Sales and installation services RMB'000	Property management services RMB'000	Total RMB'000
As at 31 December 2015			
Segment assets	–	14,721	14,721
Segment liabilities	–	1,815	1,815
As at 31 December 2016			
Segment assets	–	21,002	21,002
Segment liabilities	–	1,508	1,508
As at 31 December 2017			
Segment assets	134,247	42,909	177,156
Segment liabilities	35,265	4,702	39,967
As at 30 June 2018			
Segment assets	129,733	27,609	157,342
Segment liabilities	30,299	3,454	33,753

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Total segment assets	14,721	21,002	177,156	157,342
Other unallocated amounts				
Other receivables	7,059	9,488	20,076	29,459
AFS	—	—	17,302	—
Equity instruments at FVTOCI	—	—	—	20,431
Deferred tax assets	591	731	818	818
Amounts due from related parties	328,870	261,725	209,648	267,583
Bank balances and cash	11,445	18,947	68,714	78,684
	<u>362,686</u>	<u>311,893</u>	<u>493,714</u>	<u>554,317</u>
Combined total assets	<u>362,686</u>	<u>311,893</u>	<u>493,714</u>	<u>554,317</u>
Liabilities				
Total segment liabilities	1,815	1,508	39,967	33,753
Other unallocated amounts				
Other payables	189,223	125,198	131,856	138,406
Tax payable	6,350	8,704	21,397	23,365
Amounts due to related parties	54,443	61,919	34,010	83,952
Deferred tax liabilities	—	—	2,074	2,952
Bank and other borrowings	96,000	94,000	20,000	25,000
	<u>347,831</u>	<u>291,329</u>	<u>249,304</u>	<u>307,428</u>
Combined total liabilities	<u>347,831</u>	<u>291,329</u>	<u>249,304</u>	<u>307,428</u>

Other segment information

	Sales and installation service of software and system equipment RMB'000	Property management services RMB'000	Total RMB'000
Year ended 31 December 2015			
Segment information included in the measure of segment results:			
Depreciation of property, plant and equipment	—	1,197	1,197
Addition to non-current assets	—	734	734
	<u>—</u>	<u>734</u>	<u>734</u>

	Sales and installation service of software and system equipment <i>RMB'000</i>	Property management services <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2016			
Segment information included in the measure of segment results:			
Depreciation of property, plant and equipment	–	1,250	1,250
Provision of allowance for doubtful debts	–	558	558
Addition to non-current assets	–	39,384	39,384
	<u> </u>	<u> </u>	<u> </u>
Year ended 31 December 2017			
Segment information included in the measure of segment results:			
Depreciation of property, plant and equipment	227	1,639	1,866
Provision of allowance for doubtful debts	–	347	347
Addition to non-current assets	42,026	2,360	44,386
	<u> </u>	<u> </u>	<u> </u>
Six months ended 30 June 2017 (unaudited)			
Segment information included in the measure of segment results:			
Depreciation of property, plant and equipment	–	750	750
	<u> </u>	<u> </u>	<u> </u>
Six months ended 30 June 2018			
Segment information included in the measure of segment results:			
Depreciation of property, plant and equipment	835	1,018	1,853
Provision of allowance for inventories	95	–	95
Addition to non-current assets	294	330	624
	<u> </u>	<u> </u>	<u> </u>

Geographical information

The Combined Group's revenue from external customers is derived solely from its operations and services rendered in the PRC, and operation and location of non-current assets of the Combined Group are substantially located in the PRC.

Information about major customers

During the years ended 31 December 2015, 2016 and 2017 and six months ended 30 June 2017 and 2018, there was no revenue from transactions with a single external customer amounted to 10% or more of the Combined Group's total revenue.

7. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December			Six Months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Other income					
Bank interest income	8	28	73	34	902
Interest income on amounts due from related parties	13,344	10,610	2,213	2,213	–
Dividend income from equity instruments at FVTOCI	–	–	–	–	192
	<u>13,352</u>	<u>10,638</u>	<u>2,286</u>	<u>2,247</u>	<u>1,094</u>
Other gains and losses					
Provision of allowance for doubtful debts	–	558	347	–	–
Refunded value-added tax for self developed products	–	–	7,447	–	–
Others	<u>(276)</u>	<u>(1,528)</u>	<u>1,113</u>	<u>588</u>	<u>830</u>
	<u>(276)</u>	<u>(970)</u>	<u>8,907</u>	<u>588</u>	<u>830</u>

8. FINANCE COSTS

	Year ended 31 December			Six Months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interests on bank and other borrowings	<u>13,215</u>	<u>10,570</u>	<u>2,389</u>	<u>2,213</u>	<u>445</u>

9. INCOME TAX EXPENSE

	Year ended 31 December			Six Months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax					
PRC Enterprise					
Income Tax ("EIT")	2,824	2,219	12,311	2,471	10,656
Deferred tax	—	(140)	(96)	—	878
	<u>2,824</u>	<u>2,079</u>	<u>12,215</u>	<u>2,471</u>	<u>11,534</u>

Under the Law of the People's Republic of China on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The income tax expense for the year/period can be reconciled to the profit before tax as follows:

	Year ended 31 December			Six Months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profit before tax	<u>11,185</u>	<u>7,788</u>	<u>50,786</u>	<u>9,825</u>	<u>50,978</u>
Tax at the PRC					
EIT rate of 25%	2,796	1,947	12,696	2,456	12,744
Tax effect of expenses not deductible for tax purpose	28	132	91	15	345
Tax effect of tax losses not recognised	—	—	820	—	(185)
Utilisation of tax losses previously not recognised	—	—	402	—	6
Effect of different tax rates of group entities	—	—	(1,663)	—	(1,007)
Research and development expense additional deduction	—	—	(131)	—	(369)
Income tax expense	<u>2,824</u>	<u>2,079</u>	<u>12,215</u>	<u>2,471</u>	<u>11,534</u>

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Mr. Shum Tin Ching is the sole director of the Target Company since the date of incorporation. No director's emoluments were paid by the Target Company during the Track Record Period.

The five individuals with the highest emoluments in the Combined Group did not include any director during the Track Record Period. The emoluments of the five highest paid individuals are as follows:

	Year ended 31 December			Six Months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (unaudited)	2018 RMB'000
Salaries, bonus, allowance and benefits	1,086	961	1,323	626	959
Retirement benefit contributions	93	98	122	61	63
	<u>1,179</u>	<u>1,059</u>	<u>1,445</u>	<u>687</u>	<u>1,022</u>

Their emoluments individually were all below HK\$1,000,000.

During the Track Record Period, no emoluments had been paid by the Combined Group to the director of the Target Company or the five highest paid individuals as inducement to join the Combined Group or as compensation for loss of office.

11. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Six Months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (unaudited)	2018 RMB'000
Profit for the year/period has been arrived at after charging:					
Auditors' remuneration	–	–	144	–	307
Director's emoluments	–	–	–	–	–
Other staff's salaries and other benefits	67,728	82,468	106,365	53,050	73,182
Other staff's contributions to retirement benefit scheme	1,010	1,367	1,234	559	402
Total staff costs	<u>68,798</u>	<u>83,895</u>	<u>108,469</u>	<u>53,953</u>	<u>74,578</u>
Depreciation of property, plant and equipment	1,197	1,250	1,866	750	1,853
Provision of allowance for doubtful debts	–	558	347	–	–
Rental expenses	106	157	701	185	263
Provision of allowance for inventories	–	–	–	–	95

12. EARNINGS PER SHARE

No earnings per share for the Track Record Period is presented as its inclusion is considered not meaningful for the purpose of this report.

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

13. DIVIDENDS

No dividend was paid or declared by the Combined Group for the Track Record Period.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
COST					
At 1 January 2015	1,119	4,833	1,264	303	7,519
Additions	–	580	154	–	734
At 31 December 2015	1,119	5,413	1,418	303	8,253
Additions	–	2,238	102	–	2,340
Disposals	–	(165)	–	–	(165)
At 31 December 2016	1,119	7,486	1,520	303	10,428
Additions	55	3,522	501	–	4,078
Acquisition of subsidiaries (note 24)	27,629	7,601	76	–	35,306
Disposals	–	(13)	(12)	–	(25)
At 31 December 2017	28,803	18,596	2,085	303	49,787
Additions	–	434	190	–	624
Disposals	–	(75)	–	–	(75)
At 30 June 2018	28,803	18,955	2,275	303	50,336
ACCUMULATED DEPRECIATION					
At 1 January 2015	378	2,279	755	293	3,705
Provided for the year	59	933	195	10	1,197
At 31 December 2015	437	3,212	950	303	4,902
Provided for the year	50	1,142	58	–	1,250
Disposals	–	(165)	–	–	(165)
At 31 December 2016	487	4,189	1,008	303	5,987
Provided for the year	185	1,450	231	–	1,866
Disposals	–	(12)	–	–	(12)

	Leasehold land and buildings <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2017	672	5,627	1,239	303	7,841
Provided for the period	600	1,098	155	–	1,853
Disposals	–	(75)	–	–	(75)
At 30 June 2018	1,272	6,650	1,394	303	9,619
CARRYING VALUES					
At 30 June 2018	27,531	12,305	881	–	40,717
At 31 December 2017	28,131	12,969	846	–	41,946
At 31 December 2016	632	3,297	512	–	4,441
At 31 December 2015	682	2,201	468	–	3,351

The above items of property, plant and equipment are depreciated on a straight-line basis at the following period:

Leasehold improvement	Over the shorter of relevant lease term or 3 to 5 years
Office equipment	3 to 5 years
Motor vehicles	3 to 5 years
Leasehold land and buildings	Over the shorter of relevant lease term or 20 years

15. AFS/EQUITY INSTRUMENTS AT FVTOCI

	At 31 December 2017 <i>RMB'000</i>
Unlisted equity investment classified as AFS	17,302

The balance at 31 December 2017 represented the 7.69% equity investment in Zhejiang Huarui Deyin Venture Capital Company Limited. (浙江華睿德銀創業投資有限公司) (“Zhejiang Huarui”), which engaged in investment management service in the PRC. The Combined Group does not have any board seat in this entity.

	At 30 June 2018 <i>RMB'000</i>
Unlisted equity investment classified as equity instruments at FVTOCI	20,431

The balance at 30 June 2018 represented the 7.69% equity investment in Zhejiang Huarui. The Combined Group does not have any board seat in the entity.

16. DEFERRED TAXATION

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the Track Record Period:

	Provision for doubtful debts <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2015 and 31 December 2015	591	–	591
Credit to profit or loss	140	–	140
At 31 December 2016	731	–	731
Acquisition of a subsidiary (<i>note 24</i>)	–	(2,083)	(2,083)
(Charge) credit to profit or loss	87	9	96
At 31 December 2017	818	(2,074)	(1,256)
Charge to profit or loss	–	(878)	(878)
At 30 June 2018	818	(2,952)	(2,134)

For the presentation purposes on the combined statements of financial position, certain deferred tax assets (liabilities) have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	Year ended 31 December			Six Months ended 30 June
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets	591	731	818	818
Deferred tax liabilities	–	–	(2,074)	(2,952)
	591	731	(1,256)	(2,134)

At 31 December 2017 and 30 June 2018, the Combined Group had unused tax losses of approximately RMB1,600,000 and RMB1,580,000 respectively, which will be expired on the year 2022 and 2021 respectively available to offset against future profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams.

17. INVENTORIES

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	–	–	3,907	1,503
Work in progress	–	–	17,541	17,665
Finished goods	–	4,466	20,011	30,533
	<u>–</u>	<u>4,466</u>	<u>41,459</u>	<u>49,701</u>

18. TRADE AND OTHER RECEIVABLES

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	13,735	15,018	97,021	70,194
Less: allowance for doubtful trade receivables	<u>(2,365)</u>	<u>(2,923)</u>	<u>(3,270)</u>	<u>(3,270)</u>
Total trade receivables	11,370	12,095	93,751	66,924
Bills receivable	<u>–</u>	<u>–</u>	<u>900</u>	<u>800</u>
	<u>11,370</u>	<u>12,095</u>	<u>94,651</u>	<u>67,724</u>
Other receivables:				
Advances to independent third parties	3,057	1,872	4,268	4,268
Prepayments	732	1,469	5,192	7,789
Deposits and payments on behalf of residents (<i>note</i>)	2,674	5,522	8,358	15,029
Others	<u>596</u>	<u>625</u>	<u>1,358</u>	<u>1,573</u>
Total	<u>18,429</u>	<u>21,583</u>	<u>113,827</u>	<u>96,383</u>

Note: The balance represented the amount paid on behalf of residential communities to the utilities service provider as deposit or for the service provided.

Property management services income from providing property management services are required to be settled by property owners and property developers within 90 days upon signing of the contracts, the settlement pattern of the property management services income from property management services are normally within 30 days to 90 days after the issuance of demand note to the property owners and property developers.

For the sales of software and system equipment, invoices are normally payable in 90 days by the customers from date of issuance.

The following is an aged analysis of trade and bills receivables, net of allowance for doubtful debts, presented based on the date of demand note at the end of each reporting period, which approximated the respective revenue recognition dates:

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 60 days	11,370	12,095	64,845	22,156
61 to 180 days	–	–	7,707	24,499
181 to 365 days	–	–	5,101	4,227
Over 1 year	–	–	16,998	16,842
	<u>11,370</u>	<u>12,095</u>	<u>94,651</u>	<u>67,724</u>

The Combined Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9 since 1 January 2018, which permits the use of the lifetime expected loss provision for all trade and bills receivables. To measure the expected credit losses, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. Based on evaluation on expected loss rate and gross carrying amount, the director of the Target Company is of the opinion that the ECL in respect of these balances is considered immaterial and loss allowance as 1 January 2018 and 30 June 2018 are RMB3,270,000 and RMB3,270,000 respectively.

Included in the Combined Group's trade and bills receivable balance are receivables with aggregate carrying amount of RMB5,758,000, nil and RMB27,114,000 at 31 December 2015, 2016 and 2017 respectively, which are past due as at the end of the reporting period for which the Combined Group has not provided for impairment loss. The Combined Group does not hold any collateral over these balances.

Ageing of trade and bills receivables which are past due but not impaired is as below:

	At 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
0-60 days	–	–	–
61-180 days	5,758	–	7,769
181-365 days	–	–	5,617
over 1 year	–	–	13,728
	<u>5,758</u>	<u>–</u>	<u>27,114</u>

Movement in the allowance for doubtful trade and bills receivables

	At 31 December		At 30 June
	2015	2016	2018
	RMB'000	RMB'000	RMB'000
Balance at beginning of the reporting period	2,365	2,365	3,270
Allowances recognised on doubtful trade receivables	–	558	–
Balance at end of the reporting period	<u>2,365</u>	<u>2,923</u>	<u>3,270</u>

The movement for the six months ended 30 June 2018, i.e. in lifetime ECL, has been recognised for trade and bills receivables in accordance with the simplified approach set out in HKFRS 9. During the six months ended 30 June 2018, no impairment loss was recognised for credit impaired trade receivables.

19. RELATED PARTY DISCLOSURES

(a) Names and relationships with related parties during the Track Record Period are as follows:

Name of company		Relationship
Zhejiang Jiayuan Anhui Property Development Co., Limited	浙江佳源安徽房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Taixing Guangyuan Property Development Co., Limited	泰興市廣源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Yangzhou Jialian Property Development Co., Limited	揚州嘉聯置業發展有限公司	A company under control by Mr. Shum Tin Ching
Tongxiang Juneng Property Co., Limited	桐鄉市巨能置業有限公司	A company under control by Mr. Shum Tin Ching
Yangzhou Yurun Property Development Co., Limited	揚州雨潤房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Haiyan Jiayuan Property Development Co., Limited	海鹽縣佳源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Shaoxing Guangyuan Property Development Co., Limited	紹興廣源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Taizhou Baili Haocheng Property Co., Limited	台州貝利豪成置業有限公司	A company under control by Mr. Shum Tin Ching
Fushun Jiayuan Property Development Co., Limited	撫順市佳源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Nantong Lishun Property Limited	南通力順置業有限公司	A company under control by Mr. Shum Tin Ching
Jiangsu Derun Hongxiang Property Limited	江蘇德潤鴻翔置業有限公司	A company under control by Mr. Shum Tin Ching
Hangzhou Xiangyuan Property Development Co., Limited	杭州湘源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Yangzhou Xiangjiang New City Center Property Limited	揚州香江新城市中心置業有限公司	A company under control by Mr. Shum Tin Ching
Anji Jiayuan Property Development Co., Limited	安吉佳源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Changxing Jiayuan Property Development Co., Limited	長興佳源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Nanjing Xinhaoning Property Development Co., Limited	南京新浩寧房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Zhejiang Jia Yuan Property Group Co., Limited	浙江佳源房地產集團有限公司	A company under control by Mr. Shum Tin Ching
Huzhou Fengmao Property Co., Limited	湖州豐茂置業有限公司	A company under control by Mr. Shum Tin Ching
Tongxiang Jiayuan Property Development Co., Limited	桐鄉市佳源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Shanghai Dingyuan Property Development Co., Limited	上海定源房地產有限公司	A company under control by Mr. Shum Tin Ching
Zhejiang Shenghe Property Co., Limited	浙江盛禾置業有限公司	A company under control by Mr. Shum Tin Ching
Jiaxing Guangyuan Property Co., Limited	嘉興市廣源置業有限公司	A company under control by Mr. Shum Tin Ching
Hangzhou Chongyuan Property Development Co., Limited	杭州崇源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Zhejiang Guangyuan Property Development Co., Limited	浙江廣源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Chongqing Zhongnong Guosen Education Information Consulting Service Co., Limited	重慶中農國信教育信息諮詢服務有限公司	A company under control by Mr. Shum Tin Ching

Name of company		Relationship
Haining Jiayuan Hongxiang Property Development Co., Limited	海寧市佳源鴻翔房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Jiaxing Chongyuan Property Development Co., Limited	嘉興崇源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Taizhou Jiayuan Property Development Co., Limited	泰州市佳源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Siyang Fengyuan Property Development Co., Limited	泗陽豐源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Taixing Hengyuan Property Development Co., Limited	泰興市恒源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Bengbu Mingyuan Property Development Co., Limited	蚌埠明源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Shaoyang Jiayuan Property Development Co., Limited	邵陽佳源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Jiaxing Guoyuan Property Development Co., Limited	嘉興國源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Suqian Jiayuan Property Development Co., Limited	宿遷市佳源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Jiaxing Deyuan Property Development Co., Limited	嘉興德源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Jiaxing Mingyuan Property Development Co., Limited	嘉興市明源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
An Jixiang Yuan Property Development Co., Limited	安吉祥源房地產開發有限公司	A company under control by Mr. Shum Tin Ching
Huzhou Mingyuan Property Development Co., Limited	湖州明源房地產開發有限公司	A company under control by Mr. Shum Tin Ching

* The English name is for identification purpose only.

(b) Related party balances

The Combined Group

At the end of each reporting period, the Combined Group have the following significant balances with related parties:

	At 31 December				Maximum amount during the year/period ended			
	2015	2016	2017	2018	31 December 2015	2016	2017	30 June 2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The Combined Group								
Amounts due from related parties (note (iii))								
Non-trade nature (note (i))	301,212	232,606	147,259	200,876	308,130	304,727	314,594	270,397
Trade nature (note (ii))	27,658	29,119	62,289	66,707	27,658	62,389	62,389	66,767
	<u>328,870</u>	<u>261,725</u>	<u>209,548</u>	<u>267,583</u>				
Amounts due to related parties (note (iii))								
Non-trade nature (note (i))	46,311	49,055	11,440	10,719				
Trade nature (note (ii))	8,132	12,864	22,570	23,233				
	<u>54,443</u>	<u>61,919</u>	<u>34,010</u>	<u>33,952</u>				

The following is an aging analysis of amounts due to related parties in trade nature presented based on the invoice date at the end of each reporting period:

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
0–60 days	2,602	5,531	11,736	11,849
61–180 days	4,717	5,789	7,448	9,990
181–365 days	813	1,544	3,386	1,394
	<u>8,132</u>	<u>12,864</u>	<u>22,570</u>	<u>23,233</u>

Notes:

- (i) Except for the amounts due from a related company of RMB96,000,000 and RMB94,000,000 as at 31 December 2015 and 2016 which are of non-trade nature, unsecured, carrying interest at 14% and 7.5% per annum respectively and repayable within one year, the remaining balances are of non-trade nature, unsecured, interest-free and repayable on demand.
- (ii) The amounts are of trade nature, unsecured, interest-free and repayable on demand.
- (iii) Mr. Shum Tin Ching, director and shareholder of the Target Company, is the controlling shareholder of the related companies.

The Target Company

Amount due from ultimate controlling shareholder

	At 30 June
	2018
	RMB'000
Mr. Shum Tin Ching	—*

* The balance was less than RMB1,000.

(c) Related parties transactions

During the Track Record Period, the Combined Group entered into the following significant transactions with related parties as follows:

Property management services income

Name of related party	Year ended 31 December			Six Months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (unaudited)	2018 RMB'000
Zhejiang Jiayuan Anhui Property Development Co., Limited	1,176	1,886	1,601	801	1,627
Taixing Guangyan Property Development Co., Limited	6,611	2,736	1,797	899	1,625
Yangzhou Jialian Property Development Co., Limited	–	–	–	–	1,547
Tongxiang Juneng Property Co., Limited	23,311	18,081	3,362	1,681	1,343
Yangzhou Yurun Property Development Co., Limited	–	–	–	–	1,313
Haiyan Jiayuan Property Development Co., Limited	–	–	948	474	758
Shaoxing Guangyuan Property Development Co., Limited	–	–	1,790	895	712
Taizhou Baili Haocheng Property Co., Limited	–	–	568	284	661
Fushun Jiayuan Property Development Co., Limited	1,590	744	1,241	621	648
Nantong Lishun Property Company Limited	–	–	1,434	717	625
Jiangsu Derun Hongxiang Property Co., Limited	–	–	1,015	508	612
Hangzhou Xiangyuan Property Development Co., Limited	–	–	660	330	591
Yangzhou Xiangjiang New City Center Occupation Co., Limited	–	272	1,289	645	570
Siyang Fengyuan Property Development Co., Limited	1,884	742	800	400	460
Anji Jiayuan Property Development Co., Limited	–	12,759	1,809	905	453
Changxing Jiayuan Property Development Co., Limited	1,026	1,475	739	370	303
Nanjing Xinhaoning Property Development Co., Limited	923	1,148	2,270	1,135	272
Zhejiang Jia Yuan Property Group Co., Limited	–	–	1,401	701	212
Huzhou Fengmao Property Co., Limited	485	1,419	242	121	176
Tongxiang Jia Yuan Property Development Co., Limited	2,974	3,017	832	416	67
Shanghai Dingyuan Property Development Co., Limited	2,098	1,042	92	46	34

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

Name of related party	Year ended 31 December			Six Months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (unaudited)	2018 RMB'000
Zhejiang Shenghe Property Co., Limited	715	1,993	1,548	774	7
Suqian Jiayuan Property Development Co., Limited	1,957	149	118	59	2
Hangzhou Chongyuan Property Development Co., Limited	942	1,522	719	360	–
Zhejiang Guangyuan Property Development Co., Limited	213	4,351	70	35	–
Jiaxing Guangyuan Property Co., Limited	3,019	1,276	–	–	–
Jiaxing Mingyuan Property Development Co., Limited	1,898	93	–	–	–
	<u>50,822</u>	<u>54,705</u>	<u>26,345</u>	<u>13,177</u>	<u>14,618</u>

Sales and installation services income

Name of related party	Year ended 31 December			Six Months ended 30 June	
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2017 RMB'000 (unaudited)	2018 RMB'000
Taixing Guangyuan Property Development Co., Limited	–	–	1,119	–	4,908
Nanjing Xinhaoning Property Development Co., Limited	–	–	–	–	3,657
Chongqing Zhongnong Guosen Education Information Consulting Service Co., Limited	–	–	–	–	2,200
Haining Jiayuan Hongxiang Property Development Co., Limited	–	–	1,640	–	2,146
Jiaxing Chongyuan Property Development Co., Limited	–	–	–	–	1,064
Taizhou Jiayuan Property Development Co., Limited	–	–	–	–	968
Siyang Fengyuan Property Development Co., Limited	–	–	–	–	877
Taixing Hengyuan Property Development Co., Limited	–	–	–	–	834
Bengbu Mingyuan Property Development Co., Limited	–	–	650	–	816
Shaoyang Jiayuan Property Development Co., Limited	–	–	147	–	793
Jiaxing Guoyuan Property Development Co., Limited	–	–	365	–	346
Suqian Jiayuan Property Development Co., Limited	–	–	719	–	180

Name of related party	Year ended 31 December			Six Months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Jiaxing Deyuan Property Development Co., Limited	–	–	648	–	–
Jiaxing Mingyuan Property Development Co., Limited	–	–	187	–	–
An Jixiang Yuan Property Development Co., Limited	–	–	121	–	–
Huzhou Mingyuan Property Development Co., Limited	–	–	87	–	–
	<u>–</u>	<u>–</u>	<u>5,683</u>	<u>–</u>	<u>18,789</u>

(d) Compensation of key management personnel

The remuneration of key management personnel during the Track Record Period was as follows:

	Year ended 31 December			Six Months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Short-term employee benefits	<u>1,239</u>	<u>1,119</u>	<u>1,771</u>	<u>687</u>	<u>1,826</u>

The remuneration of key management personnel is determined by reference to the performance of individuals and market trend.

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

20. BANK BALANCES AND CASH

Bank balances and cash

The bank balances carry interest at variable rate with an average interest rate of 0.3%, 0.3%, 0.3% and 0.3% per annum, for the year ended 31 December 2015, 2016 and 2017 and six months ended 30 June 2018, respectively.

21. TRADE AND OTHER PAYABLES

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	1,815	1,508	39,967	30,593
Bills payables	–	–	500	–
	<u>1,815</u>	<u>1,508</u>	<u>40,467</u>	<u>30,593</u>
Other payables:				
Accrued staff costs	8	78	108	111
Accrued charges	177	35	380	44
Deposits received	28,378	22,353	4,201	24,812
Receipts in advance	5,071	10,458	25,630	–
Receipts on behalf of residents	149,192	82,840	80,172	97,190
Other payables	3,406	5,452	6,243	5,416
Other tax payable	2,991	3,982	14,622	10,833
	<u>189,223</u>	<u>125,198</u>	<u>131,856</u>	<u>138,406</u>
Total other payables				
	<u>189,223</u>	<u>125,198</u>	<u>131,856</u>	<u>138,406</u>
Total	<u>191,038</u>	<u>126,706</u>	<u>171,823</u>	<u>168,999</u>

The credit period granted by suppliers to the Combined Group ranges from 30 days to 90 days during the Track Record Period. The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of each reporting period:

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 60 days	1,492	1,140	39,018	28,475
61 to 180 days	164	77	399	725
181 to 365 days	159	54	435	608
Over 1 year	–	237	615	785
	<u>1,815</u>	<u>1,508</u>	<u>40,467</u>	<u>30,593</u>

22. BANK AND OTHER BORROWINGS

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans, secured	–	–	20,000	25,000
Trust loans, secured	96,000	94,000	–	–
Total	96,000	94,000	20,000	25,000
Carrying amount repayable within one year*	96,000	94,000	20,000	25,000
Less: Amounts due within one year shown under current liabilities	(96,000)	(94,000)	(20,000)	(25,000)
Amounts shown under non-current liabilities	–	–	–	–

* The amount due is based scheduled repayment set out in the loan agreement.

Note:

Bank and other borrowings amounting to nil, nil, RMB20,000,000 and RMB25,000,000 as at 31 December 2015, 2016 and 2017 and 30 June 2018 respectively are secured by the pledge of assets of the Combined Group and held by related parties as set out in note 26, RMB96,000,000, RMB94,000,000, nil and nil are also guaranteed by a subsidiary of the Combined Group and related parties which controlling shareholder is Mr. Shum Tin Ching, director and shareholder of the Target Company. Bank and other borrowings amounting to nil, nil, RMB20,000,000 and RMB25,000,000 as at 31 December 2015, 2016 and 2017 and 30 June 2018 respectively are guaranteed by a key management personnel of the Combined Group.

All the Combined Group's borrowings are fixed rate borrowings and denominated in RMB.

The range of effective interests rates of borrowings at the end of each reporting period were as follows:

	At 31 December			At 30 June
	2015	2016	2017	2018
Fixed rate borrowings	14% per annum	7.5% to 14% per annum	4.40% per annum	4.40% to 7.5% per annum

Details of pledge of the Combined Group's assets are set out in note 26.

23. SHARE CAPITAL

The Combined Group

The share capital as at 30 June 2018 represented the combined share capital of Target Company and Zhejiang Jia Yuan Property

	<i>Note</i>	At 30 June 2018 <i>RMB'000</i>
Zhejiang Jia Yuan Property	(a)	50,000
Target Company		—*
		<u>50,000</u>

The amount as at 1 January 2015, 31 December 2015, 2016 and 2017 represents the share capital of Zhejiang Jia Yuan Property.

The Target Company

	<i>Notes</i>	Number of shares	Nominal value
Ordinary shares of US\$1 each			
Authorised:			
On date of incorporation and 30 June 2018	(b)	<u>50,000</u>	<u>US\$50,000</u>
Issued and paid:			
1 share allotted and issued on the date of incorporation and 30 June 2018	(c)	<u>1</u>	<u>US\$1</u>

Shown in the statement of financial position of the Target Company as

	<i>RMB'000</i>
At 30 June 2018	<u>—*</u>

* The balance was less than RMB1,000.

Notes:

- (a) On 31 October 2017, Chuangsheng Holdings, a related company of the Company, injected RMB45,000,000 to Zhejiang Jia Yuan Property in cash. After injection, Zhejiang Jia Yuan Property was 90% owned by Chuangsheng Holdings.
- (b) The Target Company was incorporated in the BVI on 22 June 2018 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each.
- (c) On 22 June 2018, 1 share of US\$1 each was issued to the shareholder at par to provide the initial capital to Target Company.

24. ACQUISITION OF BUSINESS

- (a) On 7 November 2017, the Combined Group acquired 75% equity interest in Jiaxing Dongyuan Investment Co., Ltd. (“Jiaxing Dongyuan”), from a company controlled by Mr. Shum Tin Ching, at a consideration of RMB75,000,000. This transaction has been accounted for as a business combination using acquisition accounting. Upon completion of the acquisition, Jiaxing Dongyuan became an indirect wholly-owned subsidiary of the Target Company. Jiaxing Dongyuan and its subsidiaries are primarily engaged in investment holding and sales and installation service of software and system equipment. Details of its subsidiaries are set out in note 28. The acquisition was part of the business strategy plan of the Combined Group with the aim of enhancing property owner’s adherence to the Combined Group’s property management business.

Fair value of assets acquired and liabilities recognised at the date of acquisition are as follows:

	<i>RMB’000</i>
Property, plant and equipment	35,306
Trade and other receivables	99,180
Bank balances and cash	118,942
Available-for-sale investment	17,338
Inventories	29,589
Trade and other payable	(63,681)
Tax payable	(980)
Deferred tax liabilities	(2,083)
Bank borrowings	(20,000)
	<hr/>
Total	215,211
	<hr/>
Consideration	75,000
Add: Non-controlling interests (25% in Jiaxing Dongyuan)	53,803
Less: Net assets acquired	(215,211)
	<hr/>
Deemed contribution by controlling shareholder recognised in capital reserve	(86,408)
	<hr/>
Cash inflow arising on acquisition:	
Bank balances and cash acquired	118,942
Consideration paid	(75,000)
	<hr/>
	43,942
	<hr/>

The fair value and the gross contractual amounts of trade and other receivables at the date of acquisition amounted to RMB99,180,000. All contractual cash flows are expected to be collected under the best estimate at acquisition date.

Included in the profit for the year ended 31 December 2017 was a profit of RMB9,800,000 attributable to the business generated by Jiaxing Dongyuan. Revenue for the year includes RMB48,873,000 generated from Jiaxing Dongyuan.

Had the acquisition been completed on 1 January 2017, total group revenue for the year would have been increased by RMB70,562,000, and profit for the year would have been increased by RMB15,416,000. The pro forma information is for illustrative purposes only and is not necessarily

an indication of revenue and results of operations of the Combined Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

- (b) On 8 November 2017, the Combined Group acquired the entire equity interest in Chongqing Zhongnong Guoxing Property Management Limited (“Chongqing Zhongnong”), a related party, for a consideration of RMB500,000. This acquisition has been accounted for as business combination using acquisition accounting. Upon completion of the acquisition, Chongqing Zhongnong became an indirect wholly-owned subsidiary of the Combined Group. Chongqing Zhongnong is primarily engaged in the property management services. The acquisition is to expand the operation of the Combined Group’s property management service to Chongqing.

Fair value of assets acquired at the date of acquisition are as follows:

	<i>RMB’000</i>
Trade and other receivables	499
Bank balances and cash	1
	<hr/>
Total	500
	<hr/> <hr/>
Consideration	500
	<hr/> <hr/>
Consideration transferred:	
Cash	500
	<hr/> <hr/>
Net cash outflow arising on acquisition:	
Consideration paid in cash	500
Bank balances and cash acquired	(1)
	<hr/>
	499
	<hr/> <hr/>

Included in the profit for the year ended 31 December 2017 was a profit of approximately RMB260,000 attributable to the additional business generated by Chongqing Zhongnong. Revenue for the year includes approximately RMB600,000 generated from Chongqing Zhongnong.

Had the acquisition been completed on 1 January 2017, total group revenue for the year would have been increased by RMBnil, and profit for the year ended 31 December 2017 would have been decreased by RMB233. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Combined Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

25. RECONCILIATION OF LIABILITIES ARRIVING FROM FINANCIAL ACTIVITIES

The table below details changes in the Combined Group’s liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or the future cash flow will be, classified in the Combined Group’s combined financial statements of cash flows from financing activities.

	Bank and other borrowings <i>RMB'000</i>	Interest payable <i>RMB'000</i>	Amounts due to related parties (non-trade) <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2015	96,000	–	33,476	129,476
Financing cash flows	–	(13,215)	12,835	(380)
Finance cost recognised	–	13,215	–	13,215
At 31 December 2015	96,000	–	46,311	142,311
Financing cash flows	(2,000)	(10,570)	2,744	(9,826)
Finance cost recognised	–	10,570	–	10,570
At 31 December 2016	94,000	–	49,055	143,055
Financing cash flows	(94,000)	(2,389)	(37,615)	(134,004)
Finance cost recognised	–	2,389	–	2,389
Acquisition of subsidiaries	20,000	–	–	20,000
At 31 December 2017	20,000	–	11,440	31,440
Financing cash flows	5,000	(445)	279	4,834
Finance cost recognised	–	445	–	445
At 30 June 2018	25,000	–	11,719	36,719
At 1 January 2017	94,000	–	49,055	143,055
Financing cash flows	(94,000)	(2,213)	(9,341)	(105,554)
Finance cost recognised	–	2,213	–	2,213
At 30 June 2017 (unaudited)	–	–	39,714	39,714

26. PLEDGE OF ASSETS

The charge over the leasehold land and buildings of subsidiaries at RMB27,310,000 and RMB26,244,000 were pledged to secure the bank and other borrowings granted to certain subsidiaries of the Target Company at 31 December 2017 and 30 June 2018. The aggregated principal amounts of bank and other borrowings of the subsidiaries secured by the pledge of assets were RMB20,000,000 and RMB25,000,000 at 31 December 2017 and 30 June 2018, respectively.

27. OPERATING LEASES

The Combined Group as lessee

	Year ended 31 December			Six Months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Minimum lease payments paid under operating leases in respect of rented premises during the Track Record Period	9	105	265	132	172

At the end of each reporting period, the Combined Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff dormitories which fall due as follows:

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	41	105	351	313
In the second to fifth years inclusive	—	—	16	3
	41	105	367	316

Operating lease payment represent rentals payable by the Combined Group for its office premises and staff dormitories. Leases are negotiated and rentals are fixed for terms of one to two years.

28. INTERESTS IN SUBSIDIARIES

At the end of each reporting period and the date of this report, the Target Company has the following subsidiaries and their particulars are as follows:

Name of subsidiary	Place and date of establishment/ incorporation	Registered capital/issued and fully paid share capital	Effective equity interest attributable to the Combined Group				Date of this report	Principal activities	Name of auditor
						At			
			At 31 December 2015	2016	2017	30 June 2018			
Disposal Group									
Jiaxing Dongyuan Investment Co., Ltd. 嘉興東源投資有限公司	PRC 9 July 2010	RMB100,000,000	–	–	75%	75%	–	Investment holding	<i>Note i</i>
Zhejiang Skuo Digital Technology Co., Ltd. 浙江西谷數字技術股份有限公司	PRC 15 August 2006	RMB31,300,000	–	–	56.4%	53.9%	–	Sales and installation and sale of software and system equipment	Ruihua Certified Public Accountants
Jiaxing City Deyu Electronics Technology Co., Ltd. 嘉興市德宇電子科技有限公司	PRC 1 September 2005	RMB10,000,000	–	–	56.4%	53.9%	–	Sales and installation and sale of software and system equipment	<i>Note i</i>
Zhejiang Zhiyuan Technology Co., Ltd 浙江智源網絡科技有限公司	PRC 14 September 2017	RMB500,000	–	–	65.2%	63.1%	–	Sales of software and system equipment	<i>Note i</i>
Target Group									
Chuangyuan Development Limited 創源發展有限公司	BVI 29 December 2017	US\$1	–	–	100%	100%	100%	Investment holding	<i>Note i</i>
Jiayuan Property Management Limited 佳源物業管理有限公司	Hong Kong 20 June 2018	HK\$1	–	–	–	100%	100%	Investment holding	<i>Note i</i>
Zhejiang Heyuan Property Management Service Co., Limited* 浙江禾源物業服務有限公司	PRC 26 November 2018	RMB30,000,000	–	–	–	–	100%	Investment holding	<i>Note i</i>
Zhejiang Jia Yuan Property Management Services Group Co., Ltd. 浙江佳源物業服務集團有限公司	PRC 26 April 2004	RMB50,000,000	100%	100%	100%	100%	100%	Property management	<i>Note i</i>
Anhui Chongyuan Property Management Co., Ltd. 安徽崇源物業管理有限公司	PRC 15 March 2018	RMB5,000,000	–	–	–	100%	100%	Property management	<i>Note i</i>
Zhejiang Meiyuan Domestic Service Co., Ltd 浙江美源家庭服務有限公司	PRC 17 May 2017	RMB10,000,000	–	–	100%	100%	100%	Property management	<i>Note i</i>
Chongqing Zhongnong Guoxing Property Management Limited 重慶中農國信物業管理有限公司	PRC 29 March 2010	RMB5,000,000	–	–	100%	100%	100%	Property management	<i>Note i</i>
Xinjiang Jiayuan Metropolis Property Management Co., Limited 新疆佳源都市物業管理有限公司	PRC 25 June 2018	RMB5,000,000	–	–	–	100%	100%	Property management	<i>Note i</i>

Note i As at the date of this report, no statutory financial statements have been prepared for these subsidiaries of the Target Company as they are not required to do so in their respective regions.

* The Company is a wholly foreign owned enterprise established in the PRC.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interests voting rights held by non-controlling interest				Profit (loss) allocated to non-controlling interests				Accumulated non-controlling interests			
		At 31 December		At 30 June		At 31 December		At 30 June		At 31 December		At 30 June	
		2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
		RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000 RMB'000											
Zhejiang Skuo Digital Technology Co., Ltd.	PRC	-	-	43.6%	46.1%	-	-	4,712	3,901	-	-	51,453	63,145
Individually immaterial subsidiaries with non-controlling interests						-	-	(677)	(233)	-	-	6,376	12,118
						-	-	4,035	3,668	-	-	57,829	75,263

(c) Details of a non-wholly owned subsidiary that has material non-controlling interests

Summarised financial information in respect of Zhejiang Skuo Digital Technology Co., Ltd. 浙江西谷數字技術股份有限公司 that has material non-controlling interest is set out below. The summarized financial information/combined financial information below represents amounts before intragroup eliminations.

Zhejiang Skuo Digital Technology Co., Ltd.

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	—	—	45,958	44,673
Current assets	—	—	144,946	157,254
Current liabilities	—	—	72,892	64,953
Non-current liabilities	—	—	—	—
Total equity	—	—	118,012	136,974
	For the year ended 31 December			For the six months ended 30 June
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	—	—	108,088	36,257
Expenses	—	—	82,985	27,795
Profit and total comprehensive income for the year/period	—	—	25,103	8,462
Net cash inflow from operating activities	—	—	13,520	14,456
Net cash outflow from investing activities	—	—	(11,633)	(13,729)
Net cash (outflow) inflow from financing activities	—	—	(176)	5,960
Net cash inflow	—	—	1,711	6,687

29. CAPITAL RISK MANAGEMENT

The Combined Group manages its capital to ensure that entities in the Combined Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Combined Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Combined Group consists of amount due to related parties and bank and other borrowings, net of bank balances and cash and equity attributable to owners of the Company comprising paid-in capital/share capital and reserves.

The management of the Combined Group reviews the capital structure periodically. The executive directors of the Company consider the cost of capital and the risks associated with each class of capital and balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debts or the redemption of existing debts.

30. FINANCIAL INSTRUMENTS**(a) Categories of financial instruments**

	At 31 December		At 30 June	
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets				
Loans and receivables (including cash and cash equivalents)	358,013	300,795	389,651	387,313
AFS	–	–	17,302	–
Equity instrument at FVTOCI	–	–	–	20,431
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Financial liabilities				
Amortised cost	333,416	268,180	185,580	217,118
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(b) Financial risk management objectives and policies

The Combined Group's financial instruments include trade and other receivables, amounts due from related parties, bank balances and cash, trade and other payables, amounts due to related parties, bank and other borrowings, AFS and equity instrument at FVTOCI. Details of these financial instruments are disclosed in respective notes.

The management of the Combined Group monitors and manages the financial risks relating to the operations of the Combined Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below and remained unchanged during the Track Record Period. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk***Interest rate risk***

The Combined Group is exposed to fair value interest rate risk in relation to fixed-rate amount due from a related company and bank and other borrowings. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value rate risk on bank deposits is insignificant as the fixed deposits are short-term.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances.

The Combined Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this notes.

Sensitivity analysis

The management considered that interest rate risk of bank balances is insignificant.

Credit risk

The Combined Group and the Target Company

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Combined Group. As at 31 December 2015, 2016 and 2017, the Combined Group's maximum exposure to credit risk which would cause a financial loss to the Combined Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

In order to minimise the credit risk, the Combined Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Combined Group reviews the recoverable amount of each individual trade debt at the end of each relevant reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the director of Target Company considers that the Combined Group's credit risk is significantly reduced.

Overview of the Combined Group's exposure to credit risk before adoption of HKFRS 9

The Combined Group

The Combined Group has no significant concentration of credit risk on trade receivables, with exposure spread over a number of counterparties and customers at the end of each relevant reporting period.

The Combined Group's credit risk on liquid funds is limited because the counterparties are banks with high credit ratings and good reputation established in the PRC.

The credit risk of trade and other receivables and amounts due from related parties is managed through an internal process. The credit quality of each counterparty is investigated before an advance is made. The Combined Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. The Combined Group reviews the recoverable amount of these receivables at the end of each relevant reporting period to ensure adequate impairment losses are made for unrecoverable amounts.

Apart from the amounts due from related parties, the Combined Group does not have significant credit risk exposure to any single counterparty at 31 December 2015, 2016 and 2017.

With respect to the amounts due from related parties, the sole director of the Target Company considers the credit risk is insignificant because they are beneficially owned and controlled by the Ultimate Controlling Shareholder.

The Target Company

The Target Company has no significant credit risk as at 31 December 2015, 2016 and 2017.

Overview of the Combined Group's exposure to credit risk after adoption of HKFRS 9 as at 1 January 2018

The Combined Group

For trade receivables, the Combined Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Combined Group determines the ECL on these items on a collective basis.

The Combined Group's credit risk on liquid funds is limited because the counterparties are banks with high credit ratings and good reputation established in the PRC.

The credit risk of trade and other receivables and amounts due from related parties is managed through an internal process. The credit quality of each counterparty is investigated before an advance is made. The Combined Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. The Combined Group reviews the recoverable amount of these receivables at 30 June 2018.

For other receivables, the Combined Group has applied 12-month ECL in HKFRS 9 to measure the loss allowance at lifetime ECL unless there is significant increase in credit risk since initial recognition. The Combined Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

The Target Company

The Target Company has no significant credit risk as at 30 June 2018.

Liquidity risk

The Combined Group

In the management of liquidity risk, the Combined Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Combined Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Combined Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Combined Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

	Weighted average %	On demand and less than 1 year RMB'000	Between 2 and 5 years RMB'000	Total undiscounted cash flows RMB'000	Total RMB'000
As at 31 December 2015					
Trade and other payables	–	182,973	–	182,973	182,973
Amounts due to related parties	–	54,443	–	54,443	54,443
Bank and other borrowings	14	99,682	–	99,682	96,000
		<u>337,098</u>	<u>–</u>	<u>337,098</u>	<u>333,416</u>
As at 31 December 2016					
Trade and other payables	–	112,261	–	112,261	112,261
Amounts due to related parties	–	61,919	–	61,919	61,919
Bank and other borrowings	14	96,009	–	96,009	94,000
		<u>270,189</u>	<u>–</u>	<u>270,189</u>	<u>268,180</u>

	Weighted average %	On demand and less than 1 year RMB'000	Between 2 and 5 years RMB'000	Total undiscounted cash flows RMB'000	Total RMB'000
As at 31 December 2017					
Trade and other payables	–	131,570	–	131,570	131,570
Amounts due to related parties	–	34,010	–	34,010	34,010
Bank and other borrowings	4.4	20,682	–	20,682	20,000
		<u>186,262</u>	<u>–</u>	<u>186,262</u>	<u>185,580</u>
As at 30 June 2018					
Trade and other payables	–	158,166	–	158,166	158,166
Amounts due to related parties	–	33,952	–	33,952	33,952
Bank and other borrowings	4.4	25,246	–	25,246	25,000
		<u>217,364</u>	<u>–</u>	<u>217,364</u>	<u>217,118</u>

The Target Company

All of the Target Company's liabilities are carried at amounts not materially different from their contractual undiscounted cash flows as all the financial liabilities are repayable on demand as at 30 June 2018.

Fair value measurements

Financial asset that are measured at fair value on a recurring basis

Certain financial asset of the Combined Group are measured at fair value at 31 December 2017 and 30 June 2018. The following table gives information about how the fair value of the financial asset are determined (in particular, the valuation technique and inputs used).

Financial asset	Fair value at 31 December 2017 RMB'000	Fair value at 30 June 2018 RMB'000	Fair value hierarchy	Valuation technique and inputs used	Significant unobservable input
Equity instruments at FVTOCI (2017: classified as AFS)	17,302	20,431	Level 3	Market comparable approach	Market multiples ranging from 2.44 to 29.27 (2017: 3.92 to 36.60) (Note)

Note: The higher the market multiples, the higher the fair value.

Financial assets and financial liabilities not measured at fair value on a recurring basis

The sole director of the Target Company considers that the carrying amounts of financial assets and financial liabilities recognised in the combined statement of financial position approximate their fair values.

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) Disposal of subsidiaries

As at 30 June 2018, the Combined Group comprised the Disposal Group (principally engaged in investment holding and sales and installation service of software and system equipment) and the Target Group (principally engaged in property management). Pursuant to the sale and purchase agreement between Jiayuan International Group Limited and Mr. Shum dated 19 September 2018, Mr. Shum agreed to procure the Reorganisation, pursuant to which the Target Group will comprise companies conducting property management business only. As part of the Reorganisation, in September 2018, the Combined Group transferred all of its equity interests in the Disposal Group to Jiaxing Xiangyuan Investment Management Company Limited, a company controlled by the Ultimate Controlling Shareholder.

The Historical Financial Information comprises the financial positions, results and cash flows of the Combined Group throughout the Track Record Period. The financial information of the Disposal Group has been included in the Historical Financial Information throughout the Track Record Period as they formed an integral part of the businesses of the Combined Group prior to the transfer of these companies to its immediate holding company by way of disposal of equity interests before the Acquisition. The financial information of the Target Group and the Disposal Group disclosed below was prepared by the director of the Target Company as additional information and was prepared on a combined basis before elimination of transactions and balances between the Target Group and the Disposal Group.

The details of the financial information of the Target Group and the Disposal Group are as follows:

Financial performance

For the year ended 31 December 2015

	Target group RMB'000	Disposal group RMB'000	Intergroup elimination RMB'000	Combined group RMB'000
Revenue	120,896	–	–	120,896
Cost of sales	(100,597)	–	–	(100,597)
Gross profit	20,299	–	–	20,299
Other income	13,352	–	–	13,352
Other gains and losses	(276)	–	–	(276)
Distribution and selling expenses	(793)	–	–	(793)
Administrative expenses	(8,182)	–	–	(8,182)
Finance costs	(13,215)	–	–	(13,215)
Profit before taxation	11,185	–	–	11,185
Income tax expense	(2,824)	–	–	(2,824)
Profit for the year	8,361	–	–	8,361
Other information				
Revenue from goods and services				
Property management services	120,896	–	–	120,896
Sales and installation services of software and system equipment	–	–	–	–
Others	–	–	–	–
	120,896	–	–	120,896
Other income				
Bank interest income	8	–	–	8
Interest income amounts due from related parties	13,344	–	–	13,344
	13,352	–	–	13,352
Finance costs				
Interests on bank and other borrowings	13,215	–	–	13,215
Attributable to:				
Owners of the Target Company	8,361	–	–	8,361
Non-controlling interests	–	–	–	–
	8,361	–	–	8,361

For year ended 31 December 2016

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
Revenue	138,735	–	–	138,735
Cost of sales	(117,589)	–	–	(117,589)
Gross profit	21,146	–	–	21,146
Other income	10,638	–	–	10,638
Other gains and losses	(970)	–	–	(970)
Distribution and selling expenses	(692)	–	–	(692)
Administrative expenses	(11,764)	–	–	(11,764)
Finance costs	(10,570)	–	–	(10,570)
Profit before taxation	7,788	–	–	7,788
Income tax expense	(2,079)	–	–	(2,079)
Profit for the year	5,709	–	–	5,709
Other information				
Revenue from goods and services				
Property management services	138,735	–	–	138,735
Sales and installation services of software and system equipment	–	–	–	–
Others	–	–	–	–
	138,735	–	–	138,735
Other income				
Bank interest income	28	–	–	28
Interest income amounts due from related parties	10,610	–	–	10,610
	10,638	–	–	10,638
Finance costs				
Interests on bank and other borrowings	10,570	–	–	10,570
Attributable to:				
Owners of the Target Company	5,709	–	–	5,709
Non-controlling interests	–	–	–	–
	5,709	–	–	5,709

For the six months ended 30 June 2017 (unaudited)

	Target group RMB'000	Disposal group RMB'000	Intergroup elimination RMB'000	Combined group RMB'000
Revenue	96,831	–	–	96,831
Cost of sales	(80,429)	–	–	(80,429)
Gross profit	16,402	–	–	16,402
Other income	2,247	–	–	2,247
Other gains and losses	588	–	–	588
Selling and distribution expenses	(1,050)	–	–	(1,050)
Administrative expenses	(6,149)	–	–	(6,149)
Finance costs	(2,213)	–	–	(2,213)
Profit before tax	9,825	–	–	9,825
Income tax expense	(2,471)	–	–	(2,471)
Profit and total comprehensive income for the period	7,354	–	–	7,354
Other information				
Revenue from goods and services				
Property management services	96,831	–	–	96,831
Sales and installation services of smart home appliances	–	–	–	–
Others	–	–	–	–
	96,831	–	–	96,831
Other income				
Interest income on bank deposits	–	–	–	–
Investment income	–	–	–	–
Others	588	–	–	588
	588	–	–	588
Finance costs				
Interest on bank and other borrowings	2,213	–	–	2,213
Attributable to:				
Owners of the Target Company	7,354	–	–	7,354
Non-controlling interests	–	–	–	–
	7,354	–	–	7,354

For the year ended 31 December 2017

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
Revenue	214,354	48,873	–	263,227
Cost of sales	(160,164)	(41,770)	–	(201,934)
Gross profit	54,190	7,103	–	61,293
Other income	2,273	13	–	2,286
Other gains and losses	393	8,514	–	8,907
Distribution and selling expenses	(1,564)	(510)	–	(2,074)
Administrative expenses	(14,634)	(2,603)	–	(17,237)
Finance costs	(2,213)	(176)	–	(2,389)
Profit before taxation	38,445	12,341	–	50,786
Income tax expense	(9,674)	(2,541)	–	(12,215)
Profit for the year	28,771	9,800	–	38,571
Other information				
Revenue from goods and services				
Property management services	214,354	–	–	214,354
Sales and installation services of software and system equipment	–	48,863	–	48,863
Others	–	10	–	10
	214,354	48,873	–	263,227
Other income				
Bank interest income	62	11	–	73
Interest income on amounts due from related parties	2,213	–	–	2,213
	2,275	11	–	2,286
Finance costs				
Interests on bank and other borrowings	2,213	176	–	2,389
Attributable to:				
Owners of the Target Company	28,771	5,765	–	34,536
Non-controlling interests	–	4,035	–	4,035
	28,771	9,800	–	38,571

For the six months ended 30 June 2018

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
Revenue	163,833	61,572	–	225,405
Cost of sales	(114,293)	(43,725)	–	(158,018)
Gross profit	49,540	17,847	–	67,387
Other income	124	970	–	1,094
Other gains and losses	(125)	955	–	830
Distribution and selling expenses	(1,302)	(855)	–	(2,157)
Administrative expenses	(7,670)	(8,061)	–	(15,731)
Finance costs	(5)	(440)	–	(445)
Profit before taxation	40,562	10,416	–	50,978
Income tax expense	(10,105)	(1,429)	–	(11,534)
Profit for the period	30,457	8,987	–	39,444
Other information				
Revenue from goods and services				
Property management services	163,833	–	–	163,833
Sales and installation services of software and system equipment	–	61,442	–	61,442
Others	–	130	–	130
	163,833	61,572	–	225,405
Other income				
Bank interest income	124	778	–	902
Dividend income from equity instruments at FVTOCI	–	192	–	192
	124	970	–	1,094
Finance costs				
Interests on bank and other borrowings	5	440	–	445
Attributable to:				
Owners of the Target Company	30,457	5,319	–	35,776
Non-controlling interests	–	3,668	–	3,668
	30,457	8,987	–	39,444

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

Financial position

As at 31 December 2015

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	3,351	–	–	3,351
Deferred tax assets	591	–	–	591
	<u>3,942</u>	<u>–</u>	<u>–</u>	<u>3,942</u>
CURRENT ASSETS				
Trade and other receivables	18,429	–	–	18,429
Amounts due from related parties	328,870	–	–	328,870
Bank balances and cash	11,445	–	–	11,445
	<u>358,744</u>	<u>–</u>	<u>–</u>	<u>358,744</u>
CURRENT LIABILITIES				
Trade and other payables	191,038	–	–	191,038
Amount due to related parties	54,443	–	–	54,443
Tax payable	6,350	–	–	6,350
Bank and other borrowings	96,000	–	–	96,000
	<u>347,831</u>	<u>–</u>	<u>–</u>	<u>347,831</u>
NET CURRENT ASSETS	<u>10,913</u>	<u>–</u>	<u>–</u>	<u>10,913</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>14,855</u>	<u>–</u>	<u>–</u>	<u>14,855</u>
CAPITAL AND RESERVES				
Share capital	5,000	–	–	5,000
Reserves	9,855	–	–	9,855
Equity attributable to owners of Target Company	14,855	–	–	14,855
Non-controlling interests	–	–	–	–
TOTAL EQUITY	<u>14,855</u>	<u>–</u>	<u>–</u>	<u>14,855</u>

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

As at 31 December 2016

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	4,441	–	–	4,441
Deferred tax assets	731	–	–	731
	<u>5,172</u>	<u>–</u>	<u>–</u>	<u>5,172</u>
CURRENT ASSETS				
Inventories	4,466	–	–	4,466
Trade and other receivables	21,583	–	–	21,583
Amounts due from related parties	261,725	–	–	261,725
Bank balances and cash	18,947	–	–	18,947
	<u>306,721</u>	<u>–</u>	<u>–</u>	<u>306,721</u>
CURRENT LIABILITIES				
Trade and other payables	126,706	–	–	126,706
Tax payable	8,704	–	–	8,704
Amount due to fellow subsidiaries	61,919	–	–	61,919
Bank borrowings	94,000	–	–	94,000
	<u>291,329</u>	<u>–</u>	<u>–</u>	<u>291,329</u>
NET CURRENT ASSETS	<u>15,392</u>	<u>–</u>	<u>–</u>	<u>15,392</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>20,564</u>	<u>–</u>	<u>–</u>	<u>20,564</u>
CAPITAL AND RESERVES				
Share capital	5,000	–	–	5,000
Reserves	15,564	–	–	15,564
Equity attributable to owners of Target Company	20,564	–	–	20,564
Non-controlling interests	–	–	–	–
TOTAL EQUITY	<u>20,564</u>	<u>–</u>	<u>–</u>	<u>20,564</u>

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

As at 31 December 2017

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	6,723	35,223	–	41,946
AFS	–	17,302	–	17,302
Investment in subsidiaries	75,000	–	(75,000)	–
Deferred tax assets	818	–	–	818
	<u>82,541</u>	<u>52,525</u>	<u>(75,000)</u>	<u>60,066</u>
CURRENT ASSETS				
Inventories	4,270	37,189	–	41,459
Trade and other receivables	48,536	65,291	–	113,827
Amounts due from related parties	89,733	120,015	(200)	209,548
Bank balances and cash	21,794	46,920	–	68,714
	<u>164,333</u>	<u>269,415</u>	<u>(200)</u>	<u>433,548</u>
CURRENT LIABILITIES				
Trade and other payables	120,332	51,491	–	171,823
Amount due to related parties	17,311	16,799	(100)	34,010
Tax payable	14,855	6,542	–	21,397
Bank borrowings	–	20,000	–	20,000
	<u>152,498</u>	<u>94,832</u>	<u>(100)</u>	<u>247,230</u>
NET CURRENT ASSETS	<u>11,835</u>	<u>174,583</u>	<u>(100)</u>	<u>186,318</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>94,376</u>	<u>227,108</u>	<u>(75,100)</u>	<u>246,384</u>
CAPITAL AND RESERVES				
Share capital	50,000	100,000	(100,000)	50,000
Reserves	44,376	81,622	10,483	136,481
Equity attributable to owners of Target Company	94,376	181,622	(89,517)	186,481
Non-controlling interests	–	43,412	14,417	57,829
TOTAL EQUITY	<u>94,376</u>	<u>225,034</u>	<u>(75,100)</u>	<u>244,310</u>
NON-CURRENT LIABILITY				
Deferred tax liabilities	–	2,074	–	2,074
	<u>94,376</u>	<u>227,108</u>	<u>(75,100)</u>	<u>246,384</u>

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

As at 30 June 2018

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	6,861	33,856	–	40,717
Equity instrument at FVTOCI	–	20,431	–	20,431
Investments in subsidiaries	75,100	–	(75,100)	–
Deferred tax assets	818	–	–	818
	<u>82,779</u>	<u>54,287</u>	<u>(75,100)</u>	<u>61,966</u>
CURRENT ASSETS				
Inventories	4,264	45,437	–	49,701
Trade and other receivables	40,169	56,214	–	96,383
Amounts due from related parties	147,531	122,863	(2,811)	267,583
Bank balances and cash	22,426	56,258	–	78,684
	<u>214,390</u>	<u>280,772</u>	<u>(2,811)</u>	<u>492,351</u>
CURRENT LIABILITIES				
Trade and other payables	131,196	37,803	–	168,999
Contract liabilities	1,467	1,693	–	3,160
Amount due to related parties	20,483	16,280	(2,811)	33,952
Tax payable	19,189	4,176	–	23,365
Bank borrowings	–	25,000	–	25,000
	<u>172,335</u>	<u>84,952</u>	<u>(2,811)</u>	<u>254,476</u>
NET CURRENT ASSETS	<u>42,055</u>	<u>195,820</u>	<u>–</u>	<u>237,875</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>124,834</u>	<u>250,107</u>	<u>(75,100)</u>	<u>299,841</u>
CAPITAL AND RESERVES				
Share capital	50,000	100,000	(100,000)	50,000
Reserves	74,834	84,677	12,115	171,626
Equity attributable to owners of Target Company	124,834	184,677	(87,885)	221,626
Non-controlling interests	–	62,478	12,785	75,263
TOTAL EQUITY	<u>124,834</u>	<u>247,155</u>	<u>(75,100)</u>	<u>296,889</u>
NON-CURRENT LIABILITY				
Deferred tax liabilities	–	2,952	–	2,952
	<u>124,834</u>	<u>250,107</u>	<u>(75,100)</u>	<u>299,841</u>

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

Cash flows

For the year ended 31 December 2015

	Target group RMB'000	Disposal group RMB'000	Intergroup elimination RMB'000	Combined group RMB'000
OPERATING ACTIVITIES				
Profit before taxation	11,185	–	–	11,185
Adjustments for:				
Depreciation of property, plant and equipment	1,197	–	–	1,197
Interest income	(13,352)	–	–	(13,352)
Finance costs	13,215	–	–	13,215
Operating cash flows before movements in working capital	12,245	–	–	12,245
Decrease in trade and other receivables	73,108	–	–	73,108
Increase in amounts due from related parties	(117)	–	–	(117)
Increase in trade and other payables	65,848	–	–	65,848
Increase in amounts due to related parties	4,526	–	–	4,526
Cash generated from operations	155,610	–	–	155,610
Income taxes paid	(561)	–	–	(561)
NET CASH FROM OPERATING ACTIVITIES	155,049	–	–	155,049
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(734)	–	–	(734)
Advance to related parties	(158,792)	–	–	(158,792)
Interest received	13,352	–	–	13,352
NET CASH USED IN INVESTING ACTIVITIES	(146,174)	–	–	(146,174)
FINANCING ACTIVITIES				
Advance from fellow subsidiaries	12,835	–	–	12,835
Interest paid	(13,215)	–	–	(13,215)
NET CASH USED IN FINANCING ACTIVITIES	(380)	–	–	(380)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,495	–	–	8,495
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	2,950	–	–	2,950
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY				
Bank balances and cash	11,445	–	–	11,445

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

For the year ended 31 December 2016

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
OPERATING ACTIVITIES				
Profit before taxation	7,788	–	–	7,788
Adjustments for:				
Depreciation of property, plant and equipment	1,250	–	–	1,250
Provision of allowance for doubtful debts	558	–	–	558
Interest income	(10,638)	–	–	(10,638)
Finance costs	10,570	–	–	10,570
Operating cash flows before movements in working capital	9,528	–	–	9,528
Increase in inventories	(4,466)	–	–	(4,466)
Increase in trade and other receivables	(3,712)	–	–	(3,712)
Increase in amounts due from related parties	(1,461)	–	–	(1,461)
Increase in trade and other payables	(64,332)	–	–	(64,332)
Increase in amounts due to related parties	4,732	–	–	4,732
Cash used in operations	(59,711)	–	–	(59,711)
Income taxes refunded	135	–	–	135
NET CASH USED IN OPERATING ACTIVITIES	(59,576)	–	–	(59,576)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(2,340)	–	–	(2,340)
Repayment from related parties	68,606	–	–	68,606
Interest received	10,638	–	–	10,638
NET CASH FROM INVESTING ACTIVITIES	76,904	–	–	76,904

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
FINANCING ACTIVITIES				
Advance from related parties	2,744	–	–	2,744
Repayment of other loans	(2,000)	–	–	(2,000)
Interest paid	(10,570)	–	–	(10,570)
	<hr/>	<hr/>	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(9,826)	–	–	(9,826)
	<hr/>	<hr/>	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,502	–	–	7,502
	<hr/>	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	11,445	–	–	11,445
	<hr/>	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY				
Bank balances and cash	18,947	–	–	18,947
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APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

For the six months ended 30 June 2017 (unaudited)

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
OPERATING ACTIVITIES				
Profit before taxation	9,825	–	–	9,825
Adjustments for:				
Depreciation of property, plant and equipment	750	–	–	750
Provision of allowance for doubtful debts	–	–	–	–
Interest income	(2,247)	–	–	(2,247)
Finance costs	2,213	–	–	2,213
Operating cash flows before movements in working capital	10,541	–	–	10,541
Decrease in inventories	181	–	–	181
Increase in trade and other receivables	(20,329)	–	–	(20,329)
Decrease in amounts due from related parties	19,450	–	–	19,450
Decrease in trade and other payables	(7,109)	–	–	(7,109)
Increase in amounts due to related parties	13,524	–	–	13,524
Cash generated from operations	16,258	–	–	16,258
Income taxes paid	(2,294)	–	–	(2,294)
NET CASH FROM OPERATING ACTIVITIES	13,964	–	–	13,964
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,293)	–	–	(1,293)
Advance to related parties	95,039	–	–	95,039
Interest received	2,247	–	–	2,247
NET CASH FROM INVESTING ACTIVITIES	95,993	–	–	95,993

APPENDIX II
FINANCIAL INFORMATION OF THE COMBINED GROUP

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
FINANCING ACTIVITIES				
Repayment to related parties	(9,341)	–	–	(9,341)
Repayment of other loans	(94,000)	–	–	(94,000)
Interest paid	(2,213)	–	–	(2,213)
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NET CASH USED IN FINANCING ACTIVITIES	(105,554)	–	–	(105,554)
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NET INCREASE IN CASH AND CASH EQUIVALENTS	4,403	–	–	4,403
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	18,947	–	–	18,947
	<hr/>	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY				
Bank balances and cash	23,350	–	–	23,350
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APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

For the year ended 31 December 2017

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
OPERATING ACTIVITIES				
Profit before taxation	38,444	12,342	–	50,786
Adjustments for:				
Depreciation of property, plant and equipment	65	1,801	–	1,866
Provision of allowance for doubtful debts	347	–	–	347
Interest income	(2,273)	(13)	–	(2,286)
Finance costs	2,213	176	–	2,389
Operating cash flows before movements in working capital	38,796	14,306	–	53,102
Decrease (increase) in inventories	196	(7,600)	–	(7,404)
Increase (decrease) in trade and other receivables	(26,758)	(15,683)	49,529	7,088
Increase (decrease) in amounts due from related parties	(7,902)	7,086	(32,454)	(33,270)
(Decrease) increase in trade and other payables	(6,375)	8,831	(19,420)	(16,964)
(Decrease) increase in amounts due to related parties	(2,387)	(5,092)	17,185	9,706
Cash generated (used in) from operations	(4,430)	1,848	14,840	12,258
Income taxes (paid) refunded	(3,609)	3,011	–	(598)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(8,039)	4,859	14,840	11,660
INVESTING ACTIVITIES				
Repayment for the acquisition of long term investment	(75,000)	–	75,000	–
Purchase of property, plant and equipment	(2,360)	(1,718)	–	(4,078)
Proceeds from disposal of property, plant and equipment	13	–	–	13
Acquisition of subsidiaries	(499)	–	43,942	43,443
Repayment from (advance to) related parties	179,894	–	(19,447)	160,447
Interest received	2,273	13	–	2,286
NET CASH FROM (USED IN) INVESTING ACTIVITIES	104,321	(1,705)	24,495	127,111

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
FINANCING ACTIVITIES				
(Repayment to) advance from related parties	(42,222)	–	4,607	(37,615)
Repayment of other loans	(94,000)	–	–	(94,000)
Interest paid	(2,213)	(176)	–	(2,389)
Capital contribution to a Group entity	45,000	–	–	45,000
	<hr/>	<hr/>	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(93,435)	(176)	4,607	(89,004)
	<hr/>	<hr/>	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,847	2,978	43,942	49,767
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	18,947	43,942	(43,942)	18,947
	<hr/>	<hr/>	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR AND REPRESENTED BY				
Bank balances and cash	21,794	46,920	–	68,714
	<hr/>	<hr/>	<hr/>	<hr/>

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

For the six months ended 30 June 2018

	Target group <i>RMB'000</i>	Disposal group <i>RMB'000</i>	Intergroup elimination <i>RMB'000</i>	Combined group <i>RMB'000</i>
OPERATING ACTIVITIES				
Profit before taxation	40,562	10,416	–	50,978
Adjustments for:				
Depreciation of property, plant and equipment	156	1,697	–	1,853
Provision of allowance for inventories	–	95	–	95
Interest income	(571)	(331)	–	(902)
Dividend income from equity instruments at FVTOCI	–	(192)	–	(192)
Finance costs	5	440	–	445
Operating cash flows before movements in working capital	40,152	12,125	–	52,277
Decrease (increase) in inventories	6	(8,343)	–	(8,337)
Decrease in trade and other receivables	8,369	9,075	–	17,444
Increase in amounts due from related parties	(1,221)	(3,097)	–	(4,318)
Increase (decrease) in trade and other payables	34,370	(11,564)	–	22,826
Decrease in contract liabilities	(22,038)	(432)	–	(22,470)
Increase in amounts due to related parties	603	60	–	663
Cash generated from operations	60,241	(2,176)	–	58,065
Income taxes paid	(5,771)	(3,795)	–	(9,566)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	54,470	(5,971)	–	48,499
INVESTING ACTIVITIES				
Payment for the long term investment	(100)	–	100	–
Purchase of property, plant and equipment	(294)	(330)	–	(624)
Advance to (repayment from) related parties	(56,577)	249	2,611	(53,717)
Partial redemption of financial assets at fair value through profit or loss	–	384	–	384
Interest received	571	331	–	902
Dividend income received from equity instruments at FVTOCI	–	192	–	192
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(56,400)	826	2,711	(52,863)

	Target group RMB'000	Disposal group RMB'000	Intergroup elimination RMB'000	Combined group RMB'000
FINANCING ACTIVITIES				
(Repayment to) advance from related parties	2,567	(577)	(2,711)	(721)
Raise of other loans	–	5,000	–	5,000
Interest paid	(5)	(440)	–	(445)
Cash proceeds from partial disposal of interest in a subsidiary without loss of control	–	10,500	–	10,500
NET CASH FROM FINANCING ACTIVITIES	2,562	14,483	(2,711)	14,334
NET INCREASE IN CASH AND CASH EQUIVALENTS	632	9,338	–	9,970
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	21,794	46,920	–	68,714
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD AND REPRESENTED BY				
Bank balances and cash	22,426	56,258	–	78,684

(b) Acquisition of a subsidiary

On 9 November 2018, the Target Company acquired the entire equity interest in 杭州民安物業管理有限公司 (“杭州民安物業”) for a consideration of RMB3,836,166. 杭州民安物業 is primarily engaged in the property management services and was acquired from independent third parties so as to continue the expansion of the Target Group’s property management service operations.

(c) Declaration of special dividend

Subsequent to the end of the Track Record Period and the entering into of the Sale and Purchase Agreement between Jiayuan International Group Limited and Mr. Shum dated 19 September 2018 for the acquisition of the Target Company, as part of the Reorganisation, Zhejiang Jia Yuan Property declared a special dividend on to the original shareholders of the Target Group (being companies controlled by Mr. Shum) in the amount of RMB18,000,000 (the “Special Dividend”) from its retained earnings for the year ended 31 December 2017. Mr. Shum has undertaken to, as part of the Reorganisation, invest into and subscribe for one new share of the Target Company (“the “Subscription”) at the same consideration of RMB18,000,000 (or its US\$ equivalent) (the “Subscription Undertaking”). Given the decrease in equity at the Zhejiang Jia Yuan Property company level as a result of the payment of the Special Dividend being in the same amount as the increase in equity at the Target Company level pursuant to Subscription Undertaking, the Directors consider that, there will not be any financial effect on the equity of the Target Group as a whole upon completion.

32. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 June 2018.

B. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis on the Target Group for the three financial years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 (the “**Track Record Period**”).

Market review

In recent years, the property industry has become increasingly concentrated, underpinning the situation where strong players stayed competitive. Residents’ pursuit of a better life and in turn improvements in household life and service quality have resulted in their inelastic demand. In the next five years, the market scale of basic property services will be approximately RMB1.2 trillion. In tandem with the latest trend, property service providers seek technological innovations and extend their services in terms of mix of offerings, while scaling-up and refining and enhancing their services. With a momentum of rapid development, branded property companies will engage in large-scale, capital-intensive, and platform-based development in a coordinated manner.

Focusing on the needs of property owners, the realm of basic property services is expanding to all-aged living services and the entire life cycle of assets, capturing the opportunity to enter the community and diversifying businesses. Having adequate cash flow and bright market prospect, property corporations are expected to constantly grow in terms of valuation and key indicators and achieve excellent results, of which the capital market has been optimistic about.

During the Track Record Period, the external economic situation is full of challenge and ever-changing, and the property service industry enhances the living standard of people to suit the needs of owners and residents for better living. The Group sustained a steady growth in sales by precisely capturing the home purchase demand in second-tier and third-tier cities and adopting proactive sales tactics in response to the regional development strategy of the PRC. The Company believes that the property management capability of the Target Group which could bring the synergy effect to the existing property development business of the Group in the future.

Financial review

Revenue

Revenue of the Target Group mainly derives from the provision of property management service to residential communities, commercial properties and carpark and value-added services such as home service.

During the three years ended 31 December 2017, revenue of the Target Group increased from approximately RMB120.9 million in 2015 to approximately RMB138.7 million in 2016 and further increased to approximately RMB214.4 million in 2017. Revenue for the six months ended 30 June 2018 was approximately RMB163.8 million.

The increase in revenue was mainly driven by the increase in the property management services income by approximately 14.8% from 2015 to 2016, by approximately 54.5% from 2016 to 2017, and by approximately 69.2% for the six-period ended 30 June 2017 and 30 June 2018.

The Target Group recognized revenue from the services income of property management when the significant risks and rewards of ownership have been transferred to the purchaser, i.e. when the relevant property services have been rendered to the residents and owners of its managed properties.

The properties managed by the Target Group were mainly located in Zhejiang region, Jiangsu region and Anhui region of the PRC. As at 30 June 2018, the properties under management by the Target Group mainly consisted of 104 residential communities, 14 commercial properties and 3 other properties with an aggregate contracted GFA under management of over 30,000,000 square meters.

Total GFA under management and number of properties

The table below sets forth the total GFA under management and number of properties managed by the Target Group by property type as at the dates indicated:

	As at 31 December												As at 30 June			
	2015				2016				2017				2018			
	No. of properties	%	('000 sq.m.)	%	No. of properties	%	('000 sq.m.)	%	No. of properties	%	('000 sq.m.)	%	No. of properties	%	('000 sq.m.)	%
Residential communities	51	79.7	18,454.2	89.9	55	80.9	19,215.0	90.2	79	84.0	23,989.1	90.8	104	86.0	27,792.3	91.4
Commercial properties	12	18.8	2,079.8	10.1	12	17.6	2,079.8	9.8	14	14.9	2,431.7	9.2	14	11.5	2,431.7	8.0
Others properties*	1	1.5	5.2	0	1	1.5	5.2	0	1	1.1	5.2	0	3	2.5	197.3	0.6
Total	64	100.0	20,539.2	100.0	68	100.0	21,300.0	100.0	94	100.0	26,426.0	100.0	121	100.0	30,421.3	100.0

* Other properties include school and office.

APPENDIX II FINANCIAL INFORMATION OF THE COMBINED GROUP

Geographical Region

The table below sets forth the total GFA under management managed by the Target Group by different regions in the PRC as at the dates indicated:

	2015		As at 31 December 2016		2017		As at 30 June 2018	
	('000 sq.m.)	%	('000 sq.m.)	%	('000 sq.m.)	%	('000 sq.m.)	%
Zhejiang Region	7,313.3	35.6%	7,581.6	35.6%	9,935.6	37.6%	1,1734.2	38.6%
Jiangsu Region	6,961.7	33.9%	7,137.6	33.5%	8,386.7	31.7%	9,323.2	30.6%
Anhui Region	3,168.1	15.4%	3,484.7	16.4%	4,283.1	16.2%	4,954.8	16.3%
Other regions*	3,096.1	15.1%	3,096.1	14.5%	3,820.6	14.5%	4,409.1	14.5%
Total	20,539.2	100.0	21,300.0	100.0	26,426.0	100.0	30,421.3	100.0

* Other regions include Shanghai, Hunan and Shandong.

The Target Group has been experiencing a stable expansion during the Track Record Period. The number of properties projects under management by the Target Group increased from 64 as at 31 December 2015, 68 as at 31 December 2016, 94 as at 31 December 2017 to 121 as at 30 June 2018 covering residential communities, commercial properties and other properties.

The growth was mainly driven by the Target Group's expanding development strategy leading to the increasing number of properties projects under management. Since 2017, the Target Group has been actively expanding its customer reach to and revenue contribution from independent customers other than related customers such as the Group and the Private Group. Over the Track Record Period, the Target Group expanded its business mainly through obtaining new service engagements from new independent customers and obtained 8 and 11 new property projects in 2017 and 2018 (up till 30 June 2018) from independent customers.

Customers

The customers of the Target Group primarily include (i) property developers for the pre-delivery property management services; and (ii) property owners, residents and tenants for the post-delivery property management services. The Target Group has established long term business relationships with most of its major customers, which it provides property management services to, for over 10 years.

Among which, the Group and the Private Group were the top customers of the Target Group during the Track Record Period. Most of the property development projects developed by the Group and the Private Group were managed by the Target Group during the pre-delivery stage. For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, revenue derived from transactions between the Target Group with (i) the Private Group accounted for approximately 22.4%, 13.0%, 13.6% and 12.7% of the total revenue of the Target Group, respectively, and (ii) the Group accounted for approximately 4.8%, 2.7%, 3.4% and 3.1% of the total revenue of the Target Group, respectively, while revenue contributed by independent customers accounted for approximately 72.8%, 84.3%, 83.0% and 84.2% of the total revenue of the Target Group.

At the pre-delivery stage of newly developed properties, where property units have not yet been sold or occupied or property owners' associations have not yet been formed, the initial property management service provider is generally selected by a tender process conducted by the property developer. After delivery of properties, the Target Group will enter into service contracts with the property owners and property owners' associations for the provision of property management services. The service contracts entered into between the Target Group and property owners' associations generally have a term ranging from three to five years, which will provide a recurring and stable service income for the Target Group during the remaining contract period.

Gross Profit and Margin

The Target Group's gross profit amounted to approximately RMB17.5 million, RMB20.8 million, RMB45.2 million and RMB39.8 million for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, respectively, while the Target Group's gross profit margin was 14.8%, 14.8%, 21.4% and 24.9% for the same periods respectively. The increase was mainly due to the increase in revenue, as a result from the business expansion of the Target Group during the Track Record Period with more real estate projects under management. Revenue increased more significantly than cost of sales while both recorded an increasing trend during the Track Record Period. Slight increase in cost of sales was mainly driven by increasing salaries of the staff and welfare expenses of the branches of Zhejiang Jia Yuan Property while the number of properties managed by the Zhejiang Jia Yuan Property kept increasing. The Target Group ensures its gross profit margin by good control of cost in Zhejiang Jia Yuan Property.

Distribution and Selling Expenses

The distribution and selling expenses were approximately RMB0.8 million, RMB0.7 million, RMB1.6 million and RMB1.3 million for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 respectively. The increase was mainly attributable to an increase in advertising and printing expenses for property management service in the property projects which was in line with the increase in revenue for the Track Record Period.

Administrative Expenses

The Target Group's administrative expenses were approximately RMB8.2 million, RMB11.8 million, RMB14.6 million and RMB7.7 million for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 respectively. The increase was mainly attributable to an increase in staff costs and office administration fee brought by participation of Top 100 Ranking among property management companies in the PRC and service scale expansion during the Track Record Period.

Finance Costs

The Target Group's finance costs were approximately RMB13.2 million, RMB10.6 million, RMB2.2 million and RMB1.0 million for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 respectively. The decrease in finance cost was attributable to repayment of borrowings during the Track Record Period.

Income Tax Credit/(Expense)

The Target Group's income tax credit/(expenses) were approximately RMB nil, RMB2.3 million, RMB(9.3 million) and RMB(7.7 million) for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 respectively. The increase during the Track Record Period was due to an increase in the Target Group's profit from the property management segment.

Profit and Total Comprehensive Income attributable to Owners of the Target Group

For the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018, the profit and total comprehensive income attributable to owners of the Target Group was approximately RMB8.4 million, RMB9.7 million, RMB20.1 million and RMB23.0 million respectively. The increase was in line with the expansion of the Target Group's operation during the Track Record Period.

Liquidity, Financial Resources and Capital Structure

The Target Group had no significant exposure to interest rate risk, credit risk, equity price risk, foreign currency risk and did not have any foreign exchange expose arising from its assets and liabilities. Generally, the target group employs a conservative strategy regarding its risk management and the objective is to maintain a balance between continuity of funding for its provision of property management services. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Target Group recorded net current liabilities of approximately RMB18.2 million as at 30 June 2018, while it had net current assets of approximately RMB12.7 million, RMB19.0 million and RMB84.0 million as at 31 December 2015, 2016 and 2017, respectively.

The Target Group's had bank balances and cash of approximately RMB11.4 million, RMB18.9 million, RMB21.8 million and RMB22.4 million as at 31 December 2015, 2016 and 2017 and at 30 June 2018, respectively, due to the increase in bank deposits from the increasing number of properties projects from 64 to 121 during the Track Record Period.

The Target Group had trust loans of RMB96.0 million, RMB94.0 million, nil, and nil as at 31 December 2015, 2016 and 2017 and 30 June 2018, respectively.

The Target Group monitors capital on the basis of net gearing ratio which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (i.e. the total amount of trust loans) less cash and cash equivalents. As at 31 December 2017 and 30 June 2018, the Target Group has no bank and other borrowing and thus no gearing ratio is presented, while as at 31 December 2015 and 2016, the gearing ratio of the Target Group was approximately 5.08 times and 2.85 times respectively.

Amounts due from related parties

The following table sets out the unaudited aggregate breakdown of amounts due from related parties to the Target Group as at 30 June 2018:

	<i>RMB'000</i>
The Private Group	127,800
The Group	16,920
The Disposal Group	2,811
	<u>147,531</u>

All amounts due from the Private Group to the Target Group (whether trade or non-trade in nature) will be settled on or before the 31 December 2018 or completion of the Acquisition, whichever is earlier.

Employees and remuneration policies

As at 31 December 2015, 2016 and 2017 and at 30 June 2018, the Target Group employed a total of 1,817, 2,003, 2,513, and 2,551 employees, respectively. Total staff costs for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 were approximately RMB68.7 million, RMB83.8 million, RMB107.7 million and RMB73.9 million, respectively. The increase in the total remuneration amount during the Track Record Period was mainly attributable to recruitment of additional administrative personnel to support the business growth in the property management segment.

Defined contribution plans are post-employment benefit plans under which the Target Group pays fixed contributions into separate entities of funds and will have no legal or constructive obligation to pay further contribution if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years.

Charges on assets

As at 31 December 2015 and 2016, the trust loans of Target Group are secured by a charge over the land use right of a related party.

Segmental information

During the Track Record Period, the Target Group's main operation is the provision of property management services to primarily residential communities. As such, there was no segmental information available for the Track Record Period.

Significant investments

The Target Group did not have any significant investments for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018.

The Target Group had not introduced or announced any new product or service during the Track Record Period.

Acquisition subsequent to the end of the Track Record Period

On 9 November 2018, the Target Company acquired the entire equity interest in 杭州民安物業管理有限公司 (“杭州民安物業”) for a consideration of RMB3.8 million. 杭州民安物業 is primarily engaged in the property management services and was acquired from independent third parties so as to continue the expansion of the Target Group’s property management services operations. It currently manages the property projects with an aggregate GFA of 1.0 million sq. meters in seven districts and one building in Hangzhou, the PRC.

Material acquisitions and disposal

There was no significant acquisition or disposal of the Target Group for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018.

Foreign Exchange Risk

The Target Group operates mainly in the PRC, and is not exposed to foreign currency risks arising from various currency exposures.

Contingent liability

No material contingent liability had come to the attention of the Directors up to the Latest Practicable Date.

Capital commitments and future plans

As at the Latest Practicable Date, save as disclosed in this circular, the Target Group has no capital commitments and no plans for material investments up to the period ending 30 June 2018.

Future business plan***Geographical expansion***

Leveraging the Private Group’s long presence and substantial property development experience in Zhejiang Province and Jiangsu Province, the geographical focus of the Target Group has been in Zhejiang Province and Jiangsu Province where it has a strong understanding of local customers’ needs and ample resources and reputation. While Zhejiang Province and Jiangsu Province serve as the main bases, the Target Group has deployed and will continue to deploy resources to expand its operation in the Southwest Region of the PRC such as Chongqing. The Target Group has reached a strategic cooperation agreement with a state-owned enterprise property developer located in Chongqing to form a joint venture for the purpose of jointly cooperating and developing the property management services in the area.

It is the business strategy of the Target Group to enter into strategic cooperation or formation of joint venture with selected large-scaled property developer as business partners when tapping into new territories and markets. The Target Group may also consider to acquire existing property management companies in these new territories as and when suitable opportunities arise.

The Enlarged Group will leverage on the expertise, skills and experience of the Target Group's management team to conduct property management business. Subject to the applicable laws and regulation, the Group intends to invite the Target Group to submit bidding or engage the Target Group for all of the property development projects developed or to be developed by the Group. Depending on the then resources deployment, cost efficiency and profitability, the Target Group may accept such engagement and expand its property management services into new territories such as Pearl-river delta region, Xinjiang and Hong Kong and Macau as and where the Group's property development projects in these areas proceed to completion stage. As at the Latest Practicable Date, the Target Group has established subsidiaries in different regions to prepare itself to undertake the projects developed by the Group, including Xinjiang Jiayuan Metropolis Property Management Co., Ltd.* (新疆佳源都市物業管理有限公司) for the Group's projects under development in Xinjiang.

Provision of value-added services

During the Track Record Period, the Target Group generally source new properties from new independent customers. The selection of a property management company depends on a number of factors, including but not limited to the quality of services provided, the level of pricing and the operating history, qualification and reputation of the property management company. Leveraging its understanding of customers' needs, the branding of Jiayuan and established track record over the years, the number of new property management service contracts obtained by the Target Group was in a stable increase trend over the Track Record Period.

To attract new customers and achieve high levels of customer satisfaction with better customer experience, the Target Group provides value-added services to its customers, which primarily include property inspection and acceptance, handover service and greening conservation service for property developers and home and household service for home owners and tenants.

Going forward, it is the business strategy of the Target Group to develop community ecosystem with comprehensive value-added services and products that are tailored to the daily needs of the home owners and residents. With the focus on health management, the Target Group, in the course of its property management services, aims to offer home owners and residents with convenient access to medical institutions, and promote healthy lifestyle by providing frequent recreational and leisure activities. In addition, the Target Group aims to provide a full range household services to the home owners and residents including laundry services, canteen and catering services, house custody, auto insurance and elderly home care services.

The Target Group will carefully select vendors based on their product or service quality and post-sales delivery capabilities and continuously evaluate their performance to ensure the quality services and a good experience are provided to home owners and residents. The Target Group seeks to tap the purchasing power of home owners and residents by providing the aforementioned value-added services with acceptable charges through its established network. The Target Group recently launched its online platform and mobile APP to provide its customers in selected regions with more convenient access to its service offerings and drive new revenue streams. The Directors believe the Target Group can boost customer satisfaction, diversify revenue base and expand core competency in property management by providing these value-added services.

The information set out in this Appendix does not form part of the Accountants' Reports on the Combined Group issued by Deloitte Touche Tohmatsu, the Company's reporting accountants, as set out in "Appendix II — Financial Information of the Combined Group" and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with "Financial Information of the Group" set out in Appendix I and "B. Management Discussion and Analysis of the Target Group" set out in Appendix II.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(I) Basis of Preparation of the Unaudited Pro Forma Consolidated Financial Information of the Enlarged Group

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition on the basis of notes set out below for illustrating the effect of the Acquisition, as if the Acquisition had taken place on 30 June 2018 for the preparation of the unaudited pro forma combined statement of financial position.

The unaudited proforma financial information is prepared for illustrative purposes only and because of its hypothetical nature, it does not purport to represent what the financial position of the Enlarged Group would have been upon completion of the Acquisition in as at 30 June 2018 or on any future dates.

The unaudited pro forma combined statement of financial position as at 30 June 2018 is prepared based on (i) the unaudited combined statement of financial position of the Group as at 30 June 2018 as extracted from the unaudited condensed consolidated financial statements set out in the latest published interim report of the Group for the six months ended 30 June 2018 and (ii) the audited combined statement of financial position of the Target Group as at 30 June 2018 as extracted from the Accountants' Report on the Combined Group set out in Appendix II to this Circular, after making pro forma adjustments to the Acquisition, as if the Acquisition had completed on 30 June 2018.

(II) Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group

	Pro-forma adjustments					Unaudited pro forma for the
	The Group as at 30 June 2018	The Target Group as at 30 June 2018				Enlarged Group
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000 (Note 4)	RMB'000 (Note 5)	RMB'000
NON-CURRENT ASSETS						
Investment properties	4,619,505	–				4,619,505
Property, plant and equipment	110,381	6,861				117,242
Interests in associates	31,656	–				31,656
Financial assets at fair value through profit or loss	77,943	–				77,943
Deposits paid for acquisition of subsidiaries	1,961,378	–				1,961,378
Deferred tax assets	358,382	818				359,200
	<u>7,159,245</u>	<u>7,679</u>				<u>7,166,924</u>
CURRENT ASSETS						
Inventory of properties						
– held for sale	671,988	–				671,988
– under development	17,909,876	–				17,909,876
Inventories	–	4,264				4,264
Financial assets at fair value through profit or loss	584,546	–				584,546
Trade and other receivables, deposits and prepayments	2,173,464	40,169				2,213,633
Prepaid income tax	237,730	–				237,730
Amounts due from related parties	4,500	147,531	77,000	(9,640)		219,391
Restricted/pledged bank deposits	1,397,993	–				1,397,993
Bank balances and cash	8,586,341	22,426			(8,000)	8,600,767
	<u>31,566,438</u>	<u>214,390</u>				<u>31,840,188</u>
CURRENT LIABILITIES						
Trade and other payables and accrued expenses	3,931,746	131,196				4,062,942
Contract liabilities	–	1,467				1,467
Pre-sale deposits received	7,649,316	–				7,649,316
Tax payable	1,220,573	19,189				1,239,762
Amounts due to related parties	11,000	20,483		(9,640)		21,843
Bank and other borrowings	3,329,922	–				3,329,922
Senior notes	6,796,642	–				6,796,642
	<u>22,939,199</u>	<u>172,335</u>				<u>23,101,894</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	Pro-forma adjustments					Unaudited pro forma for the Enlarged Group RMB'000
	The Group as at 30 June 2018 RMB'000 (Note 1)	The Target Group as at 30 June 2018 RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000 (Note 4)	RMB'000 (Note 5)	
NET CURRENT ASSETS	8,627,239	42,055				8,738,294
TOTAL ASSETS LESS CURRENT LIABILITIES	15,786,484	49,734				15,905,218
NON-CURRENT LIABILITIES						
Bank and other borrowings	6,619,849	–				6,619,849
Deferred income	690,093	–				690,093
Deferred tax liabilities	504,283	–				504,283
	7,814,225	–				7,814,225
NET ASSETS	7,972,259	49,734				8,090,993

Notes:

1. The amounts are extracted from the unaudited condensed consolidated financial position of the Group as at 30 June 2018 as set out in the published interim report of the Company for the six months ended 30 June 2018. Items of the statement of assets and liabilities are translated into RMB at the exchange rate ruling at 30 June 2018 of RMB1 to HK\$1.1852 and at 31 December 2017 of RMB1 to HK\$1.2007.
2. The amounts are extracted from the combined statement of financial position of the Target Group as set out in the note 31 of Accountants' Report on the Combined Group as set out in Appendix II to this Circular excluding financial information pertaining to the Disposal Group.
3. On 21 September 2018, the Group entered into the Agreement with Mr. Shum Tin Ching (the "Vendor"), who is the ultimate controlling shareholder of the Company and pursuant to which the Group has conditionally agreed to acquire the entire share capital of the Target Company at a consideration of HK\$688,974,000, which is fully satisfied by the issue of 50,180,189 ordinary shares of the Company ("Consideration Shares") to the Vendor.

As both the Company and the Target Company are under common control by Mr. Shum Tin Ching and the control is not transitional, the Company has applied merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants to account for the Acquisition.

Assuming the Acquisition was completed on 30 June 2018, the consideration receivable by the Target Group for the disposal of the Disposal Group to Ultimate Controlling Shareholder amounting to RMB77,000,000 is recognised as amounts due from related parties and the difference between the consideration receivable and the interests in subsidiaries of the Disposal Group would be credited to merger reserve of equity.

Assuming the Acquisition was completed on 30 June 2018, the total consideration of the Acquisition is recognised in merger reserve of equity. The fair value of the Consideration Shares of the Company at 30 June 2018 was determined, based on the closing share price of the Company as at 29 June 2018. Par value of HK\$0.01 per share of the Company was credited to the share capital and the remaining was credited to the share premium of the Company.

4. The adjustment represents the elimination of the intercompany balance between the Target Group and the Group at 30 June 2018 upon the completion of the Acquisition.
5. The adjustment represents expenditures incurred directly in connection with the Acquisition including financial advisor fees, legal fees, printing costs, accountants' fees, and other related expenses to be borne by the Group of approximately RMB8,000,000.
6. Except for the Acquisition and provision of estimated amount paid for legal and professional fees, no adjustments have been made, to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 30 June 2018.

**(B) INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON
THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL
INFORMATION**

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte.**德勤****To the Directors of Jiayuan International Group Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Jiayuan International Group Limited (the **"Company"**) and its subsidiaries (hereinafter collectively referred to as the **"Group"**) by the directors of the Company (the **"Directors"**) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 30 June 2018 and related notes as set out on Section (A)(II) to Appendix II to the circular issued by the Company dated 24 December 2018 (the **"Circular"**). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on Section (A)(I) to Appendix II to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed major acquisition of Chuangyuan Holdings Limited (the **"Acquisition"**) on the Group's financial position as at 30 June 2018 as if the Acquisition had taken place at 30 June 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the six months ended 30 June 2018 on which a review report has been published.

Directors' Responsibilities 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 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" (**"AG 7"**) issued by the Hong Kong Institute of Certified Public Accountants (the **"HKICPA"**).

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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 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 unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2018 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 event or transaction, 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 event or transaction 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 December 2018



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1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

24 December 2018

The Board of Directors
Jiayuan International Group Limited
Room 1403
9 Queen's Road
Central Hong Kong

Dear Sirs,

In accordance with the instructions received from Jiayuan International Group Limited (the "Company"), we have undertaken a valuation exercise which requires Jones Lang LaSalle Corporate Appraisal and Advisory Limited to express an independent opinion on the market value of 100 per cent equity interest in 浙江佳源集團物業管理公司 (the "Target Company") as at 30 June 2018 (the "Valuation Date"). The report which follows is dated 24 December 2018 (the "Report Date").

The purpose of this valuation is to express an independent opinion of the market value of the equity interest in the Target Company as at 30 June 2018 for transaction reference.

Our valuation was carried out on a market value basis. Market value is defined as *"the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."*

INTRODUCTION

Established during the year of 2004, the Target Company is incorporated in the People's Republic of China and mainly engaged in property management services. On 19 September 2018, the Company entered into the sale and purchase agreement with Mr. Shum, pursuant to which the Company has conditionally agreed to acquire and Mr. Shum has conditionally agreed to sell the entire issued share capital of the Target Company.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely, the market approach, cost approach and income approach.

The Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established used market may be valued by this approach.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach can sometimes provide an indication of value for assets without a known used market.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

To select the most appropriate approach, we have considered the purpose of the valuation assignment and the resulting basis of value as well as the availability and reliability of information provided to us to form perform an analysis. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Target Company. In our opinion, the cost approach is inappropriate for valuing the Target Company, as it does not directly incorporate information about the economic benefits contributed by the Target Company. The income approach is inappropriate as this approach require detailed operational information and long-term financial projection of the Target Company but such information is not available. We have therefore relied on the market approach in determining our opinion of value.

There are two common methods under market approach, namely, guideline public companies method and guideline transaction method. Guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transaction method takes reference to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to target company's financial parameters.

In this study, the market value of the Target Company was developed through the guideline public company method. The guideline transaction method is not adopted due to lack of recent market transactions with similar nature as the Target Company. The guideline public company method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple. In order to reflect the latest financial performance of the Target Company, we have adopted the adjusted trailing 12-month price-to-earnings ratio as at the Valuation Date ("Adjusted PE Ratio") of the comparable companies to the normalized earnings of the Target Company.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. The valuation procedures employed include a review of legal status and economic condition of the Target Company and an assessment of key assumptions, estimates, and representations made by the proprietor. All matters essential to the proper understanding of the valuation are disclosed in this valuation report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of the Target Company;
- Financial and business risk of the business including continuity of income; and
- Consideration and analysis on the micro and macro economy affecting the Target Company assets.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on the Target Company.

VALUATION ASSUMPTIONS

In determining the value of the equity interest in the Target Company, we make the following key assumptions:

- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target Company;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- We have assumed that the facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge;
- We have assumed the accuracy of the financial and operational information such as management accounts, contractual agreements and manufacturing capabilities, provided to us by the Company relied to a considerable extent on such information in arriving at our opinion of value; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

MAJOR ASSUMPTIONS**Financials**

Based on the consolidated financial statement of the Target Company, the normalized earnings after taxation is estimated by adjusting non-operating income and expense of the Target Company, which includes asset impairment loss, non-operating incomes and expenses, asset disposal cost, investment income and other incomes. The normalized earnings after taxation of the Target Company for trailing-12-month figure as at the Valuation Date is estimated to be RMB52,014,000.

Market Multiples

In determining the price multiple, a list of comparable companies was identified. The selection criteria include the following.

1. Companies derive most, if not all, of their revenues from the same industry of the Target Company, i.e., property management services in the People's Republic of China;
2. Companies are searchable in Bloomberg;
3. Companies are publicly listed in Hong Kong; and
4. Sufficient data, including the price-to-earnings ratio as at the Valuation Date, of the companies are available.

As sourced from Bloomberg, the market multiples of the comparable companies satisfying the above criteria, and their corresponding price-to-earnings ratio are listed in below table.

Stock Code	Company Name	Price-to-earnings Ratio
2869 HK	Greentown Service Group Company Limited	39.18
1778 HK	Colour Life Services Group Company Limited	23.29
2669 HK	China Overseas Property Holdings Limited	23.69
1538 HK	Zhong Ao Home Group Limited	9.62
3319 HK	A-Living Services Company Limited	31.66
1417 HK	Riverine China Holdings Limited	23.93
6098 HK	Country Garden Services Holdings Company Limited	31.47

Risk Adjustment

We consider that the Target Company possesses different risk profile from the comparable companies such as size factor. For this reason, the market multiples are needed to be adjusted by factors which will take into account the size differences between the Target Company and the comparable companies. Such adjustment can be reflected through the implied cap rate. Theoretically, an entity larger in size implies it possesses lower inherent risk that leads to a higher fair value. Hence, that entity should have a higher market multiple. For a comparable company with smaller size compared to the Target Company, the risk adjustment represents a discount on the market multiple of the comparable company as the Target Company possesses a higher inherent risk, and vice versa. Based on the market capitalization, we have extracted the size premium of the Target Company and the comparable companies from the Duff & Phelps Cost of Capital Navigator.

The magnitude of the risk adjustment is related to the difference in size premium between the Target Company and the comparable companies. Below is the table showing the difference in size premium of the Target Company and comparable companies and the respective adjustments on the price-to-earnings ratio for the valuation of the Target Company.

The implied cap rate is being the quotient of the comparable companies' trailing 12-month earnings divided by their market capitalization as at the Valuation Date, while the adjustment factor is being the difference in size premium of the Target Company and the comparable companies.

Stock Code	Implied Cap Rate	Adjustment Factor	Adjusted PE Ratio
2869 HK	2.55%	3.77%	15.82
1778 HK	4.29%	3.79%	12.37
2669 HK	4.22%	3.49%	12.97
1538 HK	10.40%	0.00%	9.62 (outlier)
3319 HK	3.16%	3.77%	14.43
1417 HK	4.18%	0.00%	23.93 (outlier)
6098 HK	3.18%	3.99%	13.95
Average, excluding outliers			13.91

The Adjusted PE Ratio derived above is ranging from 9.62 to 23.93. Taking into accounts the outlier effect, we have excluded the Adjusted PE Ratio that falls into the lower and upper end of the range (i.e. Adjusted PE Ratio of companies with stock code being 1538 HK and 1417 HK). After removing the outlier, we then adopted the average of the Adjusted PE Ratio at 13.91.

Discount for Lack of Marketability (“DLOM”)

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

We have assessed the DLOM of this investment using put option method. The concept is that when comparing a public share and a private share, holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. As the time to a liquidity event getting shorter, the degree of the DLOM becomes smaller.

We have adopted Black-Scholes model with the following parameters to estimate the DLOM.

Parameter	Input	Source	Remark
Option Type	European Put	Not Applicable	Assumed
Spot Price (RMB)	1.00	Not Applicable	Assumed
Exercise Price (RMB)	1.00	Not Applicable	Assumed
Risk Free Rate (%)	3.27	Bloomberg	2-year generic yield rate on China government bond
Volatility (%)	43.86	Bloomberg	Historical volatility of comparable companies
Implied DLOM (%)	20.54	Not Applicable	Calculated

Control Premium

Control premium is an amount by which the pro rata value of a minority interest is less than the pro rata value of a controlling interest a business enterprise reflecting the ownership of a control. It recognizes that control owners have rights that minority owners do not and that the difference in those rights and, perhaps more importantly, how those rights are exercisable and to what economic benefits, cause a differential in the per-share value of a control ownership block versus a minority ownership block. The control premium adopted in this valuation is 10.90%, with reference to a control premium study published by FactSet Research Systems Inc.

Equity Value

The market value of Target Company is then produced based on the adjusted profits of the Target Company and the Adjusted PE Ratio, with the consideration of control premium and discount for lack of marketability adjustments. The result is as follows:

Trailing 12-month adjusted profits of the Target Company	
as at the Valuation Date	RMB52,014,000
Multiply by: Adjusted PE Ratio	13.91
Add: non-operating assets	RMB87,783,000
Less: non-operating liabilities	(RMB18,403,000)
Multiply by: (1 + Control Premium)	1.11
Multiply by: (1 - Discount for Lack of Marketability)	0.79
	<hr/>
100% Equity Value	<u>RMB698,600,000</u>

LIMITING CONDITIONS

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target Company over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report is issued subject to our Limiting Conditions as attached.

Based on the results of our investigations and analyses, we are of the opinion that as at 30 June 2018, the market value of 100% equity interest in 浙江佳源集團物業管理公司 is reasonably stated at the amount of **RMB698.6 million**.

Yours faithfully,
 For and on behalf of
Jones Lang LaSalle
Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Regional Director

Note: Simon M.K. Chan is a CPA Fellow member of the Hong Kong Institute of Certified Public Accountants, a CPA Fellow member of CPA Australia, a Certified Valuation Analyst and fellow member of Royal Institution of Chartered Surveyors, who has extensive experience in valuation and corporate advisory business. He has provided a wide range of valuation and advisory services to numerous listed and private companies in different industries in Mainland China and Hong Kong for over 20 years.

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/Target Company and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the analysis of the Company/Target Company in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the Target Company property rests solely with the Company/Target Company.
2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.
3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however, we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.
4. The board of directors and the management of Client/Target Company have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.
5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.
6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.
7. The use of and/or the validity of the report is subject to the terms of the Agreement and the full settlement of the fees and all the expenses.
8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

9. We assume that there are no hidden or unexpected conditions associated with the Target Company matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation Date. We cannot provide assurance on the achievability of the results forecasted by the Company/Target Company because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.
10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any their party without our prior written consent. We shall not under any circumstances whatsoever be liable to any third party.
11. This report is confidential to the Company and the calculation of values expressed herein is valid only for the purpose stated in the Agreement as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.
12. Where a distinct and definite representation has been made to us by parties interested in the Target Company, we are entitled to rely on that representation without further investigation into the veracity of the representation.
13. The Company/Target Company agrees to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. 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 fee 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.
14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the Target Company property.

15. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Company/Target Company and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.
16. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by any reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/Target Company and other sources. Actual transactions involving the assets or businesses of the Target Company might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the assets or businesses, and the knowledge and motivation of the buyers and sellers at that time.
17. The board of directors, management and/or staff of the Company/Target Company and/or its representatives have confirmed to us that the transaction or themselves or the parties involved in the pertained assets or transaction are independent to our firm and JLL in this valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independency in our work, the Company/Target Company and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

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 enquires, 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. SHARE CAPITAL OF THE COMPANY

The authorized and issued share capital of the Company (a) as at the Latest Practicable Date; and (b) immediately after the issue and allotment of the Consideration Shares (assuming there is no other change to the share capital of the Company prior to the issue and allotment of the Consideration Shares) will be as follows:

(a) As at the Latest Practicable Date

<i>Authorised:</i>		<i>HK\$</i>
<u>10,000,000,000</u>	Shares of HK\$0.01 each	<u>100,000,000</u>
<i>Issued and fully paid or credited as fully paid:</i>		
<u>2,510,971,802</u>	Shares of HK\$0.01 each	<u>25,109,718.02</u>

(b) Immediately after the issue and allotment of the Consideration Shares (assuming there is no other change to the share capital of the Company prior to the issue and allotment of the Consideration Shares)

<i>Authorised:</i>		<i>HK\$</i>
<u>10,000,000,000</u>	Shares of HK\$0.01 each	<u>100,000,000</u>
<i>Issued and fully paid or credited as fully paid:</i>		
<u>2,510,971,802</u>	Shares of HK\$0.01 each	<u>25,109,718.02</u>
50,180,189	Consideration Shares to be allotted and issued	501,801.89
<u><u>2,561,151,991</u></u>	Total	<u><u>25,611,519.91</u></u>

All the Shares in issue rank pari passu with each other in all respects, including the rights as to dividends, voting and return of capital. The Consideration Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Shares in issue on the date of allotment and issue of the Consideration Shares.

No part of the share capital or any other securities of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares or the Consideration Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

3. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as contained in Appendix 10 to the Listing Rules, were as follows:

(a) Interest in Shares of the Company

Name of Director	Nature of interest	Total number of Shares ⁽¹⁾	Approximate percentage of total shareholding ⁽⁵⁾
Mr. Shum	Interest of a controlled corporation	1,377,724,660 ⁽²⁾ (L)	54.87%
	Beneficial owner	69,746,589 ⁽³⁾ (L)	2.78%
	Interest of a controlled corporation	628,032,000 ⁽⁴⁾⁽⁵⁾ (S)	25.01%

Notes:

- The letters “L” and “S” denote the Director’s long position and short position in the Shares respectively.
- The disclosed interest represents an interest in 1,377,724,660 Shares held by Mingyuan Investment. Mingyuan Investment is wholly owned by Mr. Shum. Therefore, Mr. Shum is deemed to be interested in Mingyuan Investment’s interest in the Company by virtue of the SFO.

3. The disclosed interest represents interest in (a) 50,180,189 Consideration Shares to be allotted and issued by the Company to Mr. Shum or his nominee(s) under the Sale and Purchase Agreement; and (b) 19,566,400 shares wholly owned by Mr. Shum as a beneficial owner.
4. On 29 June 2017, Mingyuan Investment entered into a share mortgage agreement with CCB International Overseas Limited, pursuant to which, Mingyuan Investment agreed to pledge 600,000,000 Shares out of 1,350,000,000 Shares held by it in favour of CCB International Overseas Limited as one of the collaterals for a secured note issued by a company wholly owned by Mr. Shum to CCB International Overseas Limited.
5. On 23 July 2018, Mingyuan Investment entered into a share charge deed with China International Capital Corporation Hong Kong Securities Limited (“CICC”), pursuant to which, Mingyuan Investment agreed to pledge 28,032,000 Shares out of 1,350,000,000 Shares held by it in favour of CICC as security for the payment and discharge of the secured obligation of Mr. Shum.
6. The percentage shareholding in the Company is calculated on the basis of 2,510,971,802 Shares in issue as at the Latest Practicable Date.

(b) Interest in shares of Mingyuan Investment

Name of Director	Nature of interest	Total number of Shares ⁽¹⁾	Approximate percentage of total shareholding ⁽⁵⁾
Mr. Shum	Beneficial owner	150,000(L)	100%

Note:

1. The letter “L” denotes the Director’s long position in the shares of Mingyuan Investment.

Save as disclosed above, as at the Latest Practicable Date, no other Directors and 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 interests and short positions which any such Director was taken or deemed to have under such provisions of the SFO); or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(c) Other Directors’ interest

At the Latest Practicable Date, except Mr. Shum, being the sole director of Mingyuan Investment, none of the Directors was a director or employee of a company which had or was deemed to have an interest or short position in the Shares or underlying shares in respect of equity derivatives of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).

4. DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

As at the Latest Practicable Date, save for the Sale and Purchase Agreement, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, save for (a) Mr. Shum's interest in those target group companies which is the subject of the Shanghai Acquisition; and (b) Mr. Shum's interest in the Target Group which is the subject of the Acquisition, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2017, being the date to which the latest published audited accounts of the Company were made up.

6. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years preceding the date of this circular and are or may be material:

- (a) an investment framework agreement dated 18 November 2016 and entered into between 佳源(深圳)投資諮詢有限公司 (Jiayuan (Shenzhen) Investment Consultancy Co., Ltd.*) ("**Jiayuan (Shenzhen)**"), an indirect wholly-owned subsidiary of the Company, as the purchaser, Mr. Lin Juncheng and Mr. Zhong Shaowei, as the vendors (the "**Vendors**"), the Vendors together with 深圳市春江廬山大酒店有限公司 (Shenzhen Chunjiang Lushan Hotel Co., Ltd.*), as the guarantors and 深圳市鼎曦房地產開發有限公司 (Shenzhen Dingxi Real Estate Development Co., Ltd.*) ("**Shenzhen Dingxi**"), as the target company, which sets out the principal terms in respect of the sale and purchase of the entire equity interest in Shenzhen Dingxi for an estimated consideration of approximately RMB693,400,000, details of which are set out in the announcement of the Company dated 18 November 2016;

- (b) an equity transfer framework agreement dated 30 December 2016 and entered into between Jiayuan (Shenzhen), as the purchaser, Ms. Yuan Aiqing and Mr. Xu Yanfeng, as the vendors, and 深圳市松齡實業有限公司 (Shenzhen Songling Industrial Co., Ltd.)* (“**Shenzhen Songling**”), as the target company, which set out the principal terms in respect of the sale and purchase of 49% equity interest in Shenzhen Songling for an initial consideration of RMB610,000,000, details of which are set out in the announcement of the Company dated 30 December 2016;
- (c) a land use right transfer contract dated 12 January 2017 and entered between 揚州香江新城市中心置業有限公司 (Yangzhou Xiangjiang New City Center Property Co., Ltd.*), an indirect wholly-owned subsidiary of the Company, and 揚州市江都區國土資源局 (Bureau of Land and Resources of Jiangdu District, Yangzhou City*) (“**Yangzhou Land Bureau**”), pursuant to which Yangzhou Land Bureau agreed to transfer a state-owned construction land use right of Land Plot 2016G13, situated at the intersection of South Side of Wenchang East Road and West Side of Guangzhou Road, Yangzhou City, Jiangsu Province, the PRC to Yangzhou Xiangjiang at a consideration of RMB1,451,000,000, details of which are set out in the circular of the Company dated 25 January 2017;
- (d) a note purchase agreement dated 7 April 2017 and as amended 18 May 2017 entered into among the Company as the issuer, Mr. Shum as the shareholder guarantor, Jiayuan Investment Management Limited, Guo Xiang Property Co., Limited and Hong Kong Jia Yuan Holdings Limited (“**Hong Kong Jia Yuan**”) as the subsidiary guarantors and Harbor Sure (HK) Investments Limited (“**Harbor Sure**”) as the purchaser pursuant to which and subject to certain conditions contained therein, the Company had agreed to issue and sell to Harbor Sure, and Harbor Sure had agreed to purchase the notes from the Company at the aggregate purchase price of 100% of the aggregate principal amount of the US\$50,000,000 8.50% senior secured notes due 7 April 2019;
- (e) a note purchase agreement dated 18 May 2017 entered into and as amended 18 May 2017 among the Company as the issuer, Mr. Shum as the shareholder guarantor, Jiayuan Investment Management Limited, Guo Xiang Property Co., Limited and Hong Kong Jia Yuan as the subsidiary guarantors and Design Time Limited (“**Design Time**”) as the private note holder pursuant to which and subject to certain conditions contained therein, the Company had agreed to issue and sell to Design Time, and Design Time had agreed to purchase the notes from the Company at the aggregate purchase price of 100% of the aggregate principal amount of the US\$50,000,000 8.50% senior secured notes due 19 May 2019;
- (f) a placing agreement dated 6 June 2017 and entered into between Mingyuan Investment, as the vendor, Haitong International Securities Company Limited and Huarong International Securities Limited, as the placing agents (the “**June Placing Agents**”) and the Company, pursuant to which the June Placing Agents

agreed to place, on a best effort basis, a total of up to 352,500,000 existing shares of the Company at the placing price of HK\$3.35 per Share, details of which are set out in the announcement of the Company dated 6 June 2017;

- (g) a subscription agreement dated 6 June 2017 and entered into between Mingyuan Investment and the Company, pursuant to which, Mingyuan Investment agreed to subscribe for up to 352,500,000 new Shares at a price of HK\$3.35 per Share, details of which are set out in the announcement of the Company dated 6 June 2017;
- (h) a sale and purchase agreement dated 6 September 2017 and entered into between Xiangyuan Property Development Limited (“**Xiangyuan Property**”), an indirect wholly-owned subsidiary of the Company, as the purchaser, San Kin Tai Property Development Limited, as the seller, and Mr. Kwan Wai Lam, as the guarantor, pursuant to which Xiangyuan Property agreed to purchase and San Kin Tai Property Development Limited agreed to sell two parcels of land located at Taipa District of Macau for a consideration of HK\$3,510 million, details of which are set out in the announcement of the Company dated 6 September 2017 and the circular of the Company dated 13 October 2017;
- (i) an indenture dated 19 October 2017 entered into among the Company as the issuer, Jiayuan Investment Management Limited, Guo Xiang Property Co., Limited and Hong Kong Jia Yuan as the subsidiary guarantors, Citicorp International Limited as the trustee and collateral agent and Citibank, N.A., London Branch as the paying agent, transfer agent and registrar, for the issue and sale of the US\$160,000,000 aggregate principal amount of the Company’s 8.00% senior secured notes due 18 October 2018;
- (j) an indenture dated 15 November 2017 entered into among the Company as the issuer, Jiayuan Investment Management Limited, Guo Xiang Property Co., Limited and Hong Kong Jia Yuan as the subsidiary guarantors, Citicorp International Limited as the trustee and collateral agent and Citibank, N.A., London Branch as the paying agent, transfer agent and registrar, for the issue and sale of the US\$300,000,000 aggregate principal amount of the Company’s 8.25% senior secured notes due 14 November 2018;
- (k) an equity transfer agreement dated 16 November 2017 and entered into between 南京港源投資諮詢有限公司 (Nanjing Gangyuan Investment Consulting Co., Ltd.*) (“**Nanjing Gangyuan**”), an indirect wholly-owned subsidiary of the Company, as the purchaser, and 江蘇地華房地產開發有限公司 (Jiangsu Dihua Property Development Co., Ltd.*) (“**Jiangsu Dihua**”), as the seller, pursuant to which Jiangsu Dihua agreed to transfer the entire equity interest in 揚州雨潤房地產開發有限公司 (Yangzhou Yurun Property Development Co., Ltd.*) to Nanjing Gangyuan for a consideration of RMB2,450 million, details of which are set out in the announcement of the Company dated 16 November 2017;

- (l) a placing agreement dated 18 December 2017 and entered into between the Mingyuan Investment, as the vendor, Huajin Securities (International) Limited, Head & Shoulders Securities Limited and Yue Xiu Securities Company Limited, as the placing agents of the vendor (the “**December Placing Agents**”) and the Company, pursuant to which, the December Placing Agents agreed to place, on a best effort basis, a total of up to 232,000,000 existing shares of the Company at the placing price of HK\$6.11 per placing share, details of which are set out in the announcement of the Company dated 18 December 2017;
- (m) a subscription agreement dated 6 June 2017 and entered into between Mingyuan Investment and the Company, pursuant to which, Mingyuan Investment agreed to subscribe for up to 232,000,000 new Shares at a price of HK\$6.11 per Share, details of which are set out in the announcement of the Company dated 18 December 2017;
- (n) an equity transfer agreement dated 29 December 2017 and entered into between Jiayuan (Shenzhen), as the purchaser, Ms. Yuan Aiqing and Mr. Xu Yanfeng, as the vendors and Shenzhen Songling, as the target company, pursuant to which, Jiayuan (Shenzhen) agreed to acquire the 51% equity interest in Shenzhen Songling at the consideration of RMB320,000,000, details of which are set out in the announcement of the Company dated 29 December 2017;
- (o) an indenture dated 18 January 2018 entered into among the Company as the issuer, Jiayuan Investment Management Limited, Guo Xiang Property Co., Limited and Hong Kong Jia Yuan as the subsidiary guarantors, Citicorp International Limited as the trustee and collateral agent and Citibank, N.A., London Branch as the paying agent, transfer agent and registrar, for the issue and sale of the US\$250,000,000 aggregate principal amount of the Company’s 8.125% senior secured notes due 17 January 2019;
- (p) a cooperation agreement dated 8 March 2018 and entered into between Jiayuan (Shenzhen), and 貴州恒豐偉業房地產開發有限公司 (Guizhou Hengfeng Weiye Property Development Co., Ltd.*) (“**Guizhou Hengfeng**”), pursuant to which Jiayuan (Shenzhen) and Guizhou Hengfeng agreed to form a joint venture company (the “**Guiyang JV**”) on 61:39 basis for the purpose of investing into the shanty town redevelopment project in respect of a parcel of land located in Guiyang city of the PRC, where the contribution to the registered capital and the project capital of Guiyang JV by the Group shall be in an aggregate amount of RMB3,739,300,000, details of which are set out in the announcement of the Company dated 8 March 2018;
- (q) a purchase agreement dated 19 April 2018 entered into among the Company as the issuer, Jiayuan Investment Management Limited, Guo Xiang Property Co., Limited and Hong Kong Jia Yuan as the subsidiary guarantors, Founder Securities (Hong Kong) Limited and Zhongrong PT Securities Limited as the initial

purchasers, for the issue and sale of the US\$100,000,000 aggregate principal amount of the Company's 8.125% senior secured notes due 18 January 2019 (to be consolidated and form a single series with the US\$250,000,000 8.125% senior secured notes due 2019 issued on 18 January 2018);

- (r) a sale and purchase agreement dated 10 May 2018 and entered into between Gang Yuan (Cambodia) Development Co., Ltd. ("**Gang Yuan**"), an indirect wholly-owned subsidiary of the Company, as the purchaser, Y Seng Co., Ltd., as the vendor, and Mr. Heng Kimleng and Mr. Chan Dara (the "**Registered Owner**"), pursuant to which Y Seng Co., Ltd. has agreed to procure, the Registered Owner has agreed to sell, and Gang Yuan or its designee has agreed to acquire, a total of five plots of adjoining lands measuring approximately 608,140 square meters in aggregate, located in Cambodia, for an initial purchase price of US\$35,576,190 subject to downward adjustment, details of which are set out in the announcement of the Company dated 10 May 2018;
- (s) a sale and purchase agreement dated 24 May 2018 and entered into between Jiayuan (Hong Kong) Holdings Limited, as the purchaser, and Mr. Tang Shing Bor, as the vendor, pursuant to which, Mr. Tang Shing Bor has conditionally agreed to sell and Jiayuan (Hong Kong) Holdings Limited has conditionally agreed to acquire 701 issued ordinary shares in Jiayuan StanGroup Development Company Limited, representing 70.1% of its entire issued share capital, for the consideration of HK\$2,620,256,684 subject to adjustment, details of which are set out in the announcement of the Company dated 24 May 2018;
- (t) the Shanghai Sale and Purchase Agreement, details of which are set out in the announcement of the Company dated 5 June 2018 and the circular of the Company dated 26 July 2018;
- (u) an indenture dated 22 October 2018 entered into among the Company as the issuer, Jiayuan Investment Management Limited, Guo Xiang Property Co., Limited and Hong Kong Jia Yuan as the subsidiary guarantors, Citicorp International Limited as the trustee and collateral agent and Citibank, N.A., London Branch as the paying agent, transfer agent and registrar, for the issue and sale of the US\$225,000,000 aggregate principal amount of the Company's 12.00% senior secured notes due 22 October 2020;
- (v) a purchase agreement dated 6 November 2018 entered into among the Company as the issuer, Jiayuan Investment Management Limited, Guo Xiang Property Co., Limited and Hong Kong Jia Yuan as the subsidiary guarantors, CEB International Capital Corporation Limited, China Industrial Securities International Brokerage Limited, Guotai Junan Securities (Hong Kong) Limited, Haitong International Securities Company Limited, Southwest Securities (HK) Brokerage Limited, SSIF Securities Limited and Yue Xiu Securities Company Limited as the initial purchasers, for the issue and sale of the US\$70,000,000 aggregate principal amount of the Company's 12.00% senior secured notes due 22 October 2022 (to

be consolidated and form a single series with the US\$225,000,000 12% senior secured notes due 2020 issued on 22 October 2018); and

(w) the Sale and Purchase Agreement.

** For identification purpose only*

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any other member of the Enlarged Group was engaged in any material litigations or claims and no litigations or claims of material importance is pending or threatened against the Company or any member of the Enlarged Group.

8. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Shum is the non-executive Director and the Chairman of the Company, as well as the ultimate owner of a group of real estate development companies (other than members of the Group) (i.e. the Private Group). The core businesses of the Private Group are real estate development in the non-target cities in the PRC other than those cities which the Group has operation therein, as more fully described in the section headed "Relationship with the Controlling Shareholder" of the Prospectus.

Mr. Shum and Mingyuan Investment entered into the Deed of Non-Competition in favour of the Company pursuant to which Mr. Shum and Mingyuan Investment have jointly and severally undertaken not to compete with the property development business of the Group.

Mr. Shum, through the Private Group, also has interests in the Retained Property Management Business. Pursuant to the Sale and Purchase Agreement, Mr. Shum has agreed and undertaken in favour of the Company that starting from the date of Completion, he shall and shall procure companies controlled by him (other than members of the Group) not to, directly or indirectly, engage in, invest in or participate in any property management services in the PRC.

Further, Mr. Shum is fully aware of, and has been discharging, his fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and its Shareholders as a whole. Therefore, the Group is capable of carrying on its business independently of, and at arm's length from, the business of the Private Group.

Saved as disclosed above, as at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business which competes or may compete with the business of the Group, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

9. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinions or advice which are contained in this circular:

Name	Qualification
Somerley	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	independent valuer

- (a) As at the Latest Practicable Date, each of the above experts had no shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (b) As at the Latest Practicable Date, each of the above experts did not have any interest, direct or indirect, in any assets which have been, since 31 December 2017 (being the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or report (as the case may be) and references to its name in the form and context in which it appears.
- (d) The letter or report (as the case may be) from the above experts is given as of the date of this circular for incorporation therein.

10. GENERAL

- (a) Unless otherwise stated, the English text of this circular shall prevail over the Chinese text in case of inconsistency.

- (b) The company secretary of the Company is Ms. Wong Tak Yee, *FCS, FCIS*. Ms. Wong is a Chartered Secretary and a Fellow of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.
- (c) The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (d) The principal place of business of the Company in the PRC is situated at No. 59, Gu Jia Ying Road, Xuanwu District, Nanjing, PRC.
- (e) The headquarters is situated at Room 1403, 9 Queen's Road Central, Hong Kong.
- (f) The principal share registrar of the Company is Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (g) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at the Company's headquarters at Room 1403, 9 Queen's Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday (public holidays excluded) from the date of this circular up to and including the date which is 14 days from the date of this circular:

- (i) the Sale and Purchase Agreement;
- (ii) the Shanghai Sale and Purchase Agreement;
- (iii) the memorandum and articles of association of the Company;
- (iv) the annual reports of the Company for the two years ended 31 December 2016 and 2017;
- (v) the interim report of the Company for the six months ended 30 June 2018;
- (vi) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;
- (vii) the letter from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from Somerley" of this circular;

- (viii) the accountants' report on the Combined Group, the text of which is set out in the Appendix II to this circular;
- (ix) the report on unaudited pro forma financial information of the Enlarged Group, the text of which is set out in the Appendix III to this circular;
- (x) the valuation report on the market value of the Target Company as at 30 June 2018 prepared by JLL, the text of which is set out in Appendix IV to this circular;
- (xi) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;
- (xii) the written consents referred to in the paragraph headed "Experts and Consents" in this Appendix;
- (xiii) the circular dated 26 July 2018 in relation to Shanghai Acquisition; and
- (xiv) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Jiayuan International Group Limited 佳源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2768)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Jiayuan International Group Limited (the “**Company**”) will be held at Kennedy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 15 January 2019 at 11:00 a.m., or any adjournment thereof, for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company. Capitalised terms defined in the circular dated 24 December 2018 issued by the Company (the “**Circular**”) of which this notice forms part shall have the same meanings when used herein unless otherwise specified:

ORDINARY RESOLUTION

“THAT:

- (A) the Sale and Purchase Agreement (a copy of which has been produced to the meeting and initialled by the chairman of the meeting for identification purpose) and the transactions contemplated thereunder and the implementation thereof be and are hereby approved, confirmed and ratified;
- (B) the grant of the Specific Mandate for the allotment and issue of the 50,180,189 Consideration Shares subject to the terms and conditions set out in the Circular be and is hereby approved, confirmed and ratified; and
- (C) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, ancillary to or in connection with the matters contemplated in the Sale and Purchase Agreement and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

By Order of the Board
Jiayuan International Group Limited
Cheuk Hiu Nam
Executive Director

Hong Kong, 24 December 2018

NOTICE OF EXTRAORDINARY GENERAL MEETING

Headquarters:

Room 1403
9 Queen's Road Central
Hong Kong

Registered Office:

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111 Cayman Islands

Notes:

1. A form of proxy for the meeting is enclosed.
2. The resolution at the meeting will be taken by poll (except where the chairman of the meeting decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the articles of association of the Company. The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
3. Any shareholder of the Company entitled to attend and vote at the above meeting is entitled to appoint more than one proxy to attend, and on a poll, vote instead of him. A proxy need not be a shareholder of the Company. If more than one proxy is appointed, the number of shares in respect of which each such proxy so appointed must be specified in the relevant form of proxy.

On a show of hands every shareholder who is present in person or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a shareholder which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. If a shareholder (other than a clearing house (or its nominees)) appoints more than one proxy, only one of the proxies so appointed and specified in the form of proxy is entitled to vote on the resolution on a show of hands. In the case of a poll, every shareholder present in person or by proxy(ies) shall be entitled to one vote for each share held by him.

4. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the meeting (i.e. not later than 11:00 a.m. on Sunday, 13 January 2019) or the adjourned meeting (as the case may be). Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Shareholders of the Company who are entitled to attend and vote at the meeting are those whose names appear as shareholders of the Company on the register of members of the Company as at the close of business on Monday, 14 January 2019. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 14 January 2019.
6. A circular containing further details concerning items set out in the notice will be sent to the all shareholders of the Company.
7. Reference to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, the non-executive Director of the Company is Mr. Shum Tin Ching; the executive Directors of the Company are Mr. Huang Fuqing, Ms. Cheuk Hiu Nam and Mr. Wang Jianfeng; and the independent non-executive Directors of the Company are Mr. Tai Kwok Leung, Alexander, Dr. Cheung Wai Bun, Charles, JP and Mr. Gu Yunchang.