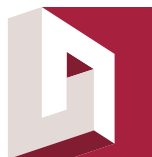

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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).

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.



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 DEVELOPMENT PROJECTS LOCATED IN SHANDONG PROVINCE INVOLVING THE ISSUE OF CONSIDERATION SHARES AND CONVERTIBLE BONDS UNDER SPECIFIC MANDATE

Financial adviser to the Company



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



A letter from the Board is set out on pages 9 to 35 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 Maxa Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-51 of this circular.

A notice convening the EGM to be held at Room 1403, 9 Queen's Road Central, Hong Kong on Friday, 16 April 2021 at 10:00 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 54, 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 10:00 a.m. on Wednesday, 14 April 2021). 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.

To ensure the health and safety of the attendees at the EGM, the Company intends to implement precautionary measures at the meeting including: (a) compulsory temperature checks at the entrance of the venue of the meeting; (b) attendees are required to bring their own surgical masks and those who had high temperature or not wearing surgical masks might be denied access to the venue of the meeting; (c) no corporate gift, refreshments or drinks will be provided at the meeting; and (d) depending on circumstances, separate rooms connected by instant electronic conference facilities may be arranged at the venue of the meeting to limit the number of attendees at each room.

26 February 2021

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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
“Capital Distribution”	any Dividend other than a Cash Dividend
“Cash Dividend”	any Dividend which is to be paid in cash
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Closing Price”	the transaction price per Share last reported on the Stock Exchange for a Trading Day or, if no transaction takes place on such Trading Day, the average of the closing bid and offered prices of Shares for such Trading Day as furnished by a leading independent securities firm licensed to trade on the Stock Exchange reasonably selected from time to time by the Company and approved by the Majority Convertible Bondholders (which approval shall not be unreasonably withheld) for the purpose of obtaining the Closing Price

DEFINITIONS

“Combined Group”	the Target Company and its subsidiaries under common control by Mr. Shum immediately before and after the Reorganisation, including Luyuan Property Development Limited, Qingdao Jiazhi Investment Co., Ltd.* (青島嘉智投資有限公司), Qingdao Jiayuan Real Estate Group Co., Ltd.* (青島佳源房地產集團有限公司), Jiaxing Xiyue Trading Co., Ltd.* (嘉興市熙悅貿易有限公司), Jiaxing Yeyuan Real Estate Development Co., Ltd.* (嘉興市業源房地產開發有限公司), Ningbo Puying Industrial Investment Partnership (Limited Partnership)* (寧波樸盈實業投資合夥企業(有限合夥)), Qingdao Shuiqingmuhua Creative Development Co., Ltd.* (青島水清木華創意發展有限公司), Weihai Xiangyuan Real Estate Development Co., Ltd.* (威海市祥源房地產開發有限公司) and Zhongwei (Qingdao) Real Estate Development Co., Ltd.* (中巍(青島)房地產開發有限公司)
“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 (i.e. all the conditions precedent set out in the Sale and the Purchase agreement have been fulfilled or waived, when applicable)
“Consideration Shares”	840,000,000 new Shares to be allotted and issued by the Company to Mr. Shum or his nominee(s) to satisfy part of the Initial Consideration
“Conversion Price”	HK\$3.30 per Conversion Share
“Conversion Shares”	1,036,557,575 new Shares to be issued by the Company upon the exercise in full of the conversion rights attached to the Convertible Bonds
“Convertible Bonds”	convertible bonds in the aggregate principal amount of HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) to be issued at Completion by the Company to Mr. Shum or his nominee(s) to satisfy part of the Initial Consideration
“Convertible Bonds Instrument”	the instrument to be executed by the Company constituting the Convertible Bonds

DEFINITIONS

“Current Market Price”	<p>the average of the daily Closing Prices for the five (5) consecutive Trading Days ending on and including the Trading Day immediately preceding such date. If the Company has more than one class of share capital comprising Shares, then the relevant Current Market Price shall be the price for that class of Shares the issue of which (or of rights or warrants in respect of, or securities convertible into or exchangeable for, that class of Shares) gives rise to the adjustment to the Conversion Price in question as set out in the paragraph headed “<i>Adjustments to Conversion Price</i>” in this circular</p> <p>If during the said five (5) Trading Days or any period thereafter up to but excluding the date as of which the adjustment to the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question) shall occur which gives rise to a separate adjustment to the Conversion Price under the provisions of the conditions under the Convertible Bonds Instrument, then the Current Market Price as determined above shall be adjusted in such manner and to such extent as an independent financial institution in Hong Kong or an independent auditors in Hong Kong reasonably selected by the Company and approved by the Majority Convertible Bondholders (which approval shall not be unreasonably withheld) shall in its absolute discretion deem appropriate and fair to compensate for the effect thereof</p>
“Deed of Non-Competition”	<p>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</p>
“Director(s)”	<p>the director(s) of the Company</p>
“Dividend”	<p>any dividend or distribution, whether of cash, assets or other property, whenever paid or made and however described</p>
“EGM”	<p>the extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider, and if thought fit, to approve, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder</p>

DEFINITIONS

“Enlarged Group”	the Group as enlarged by the Target Group upon Completion
“Fair Market Value”	the fair market value of any property on any date as determined in good faith by the mutual agreement of the Company and the Majority Convertible Bondholders, provided that the Fair Market Value of a Cash Dividend paid or to be paid shall be the amount of such Cash Dividend and provided further that if the Company and the Majority Convertible Bondholders fail to determine the fair market value of that property, the said fair market value shall be determined by an independent valuer in Hong Kong, an independent financial institution in Hong Kong or an independent auditors in Hong Kong reasonably selected by the Company and approved by the Majority Convertible Bondholders (which approval shall not be unreasonably withheld)
“Final Consideration”	the final consideration after making the adjustment as set out in the paragraph headed “ <i>Consideration Adjustment Mechanism</i> ” in this circular
“GFA”	gross floor area
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Holder”	a person in whose name a Convertible Bond is registered in the register of holders of Convertible Bonds (or in the case of joint holders, the first named thereof)
“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 advise and give recommendations to the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder

DEFINITIONS

“Independent Financial Adviser” or “Maxa Capital”	Maxa Capital Limited, 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
“Initial Consideration”	the initial consideration of HK\$7,247,560,000 (equivalent to approximately RMB6,142,000,000) (subject to adjustment) for the Sale Share as set out in the paragraph headed “ <i>Adjusted NAV and Initial Consideration</i> ” in this circular
“Issue Date”	the date on which the Convertible Bonds are issued, which shall be no later than the date of Completion unless otherwise agreed by the Company and Mr. Shum
“Issue Price”	HK\$3.30 per Consideration Share
“JLL”	Jones Lang Lasalle Corporate Appraisal and Advisory Limited, an independent property valuer appointed by the Group
“Latest Practicable Date”	25 February 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Lingshihuafu”	Qingdao Lingshihuafu Property Co., Ltd. (青島領世華府房地產開發有限公司), a company incorporated under the laws of the PRC on 31 May 2006 with limited liability. The address of Lingshihuafu’s registered office is International Business Centre, Hong Kong East Road 107, Laoshan District, Qingdao, Shangdong Province, the PRC. Lingshihuafu is principally engaged in property development in the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Majority Convertible Bondholders”	the Holder(s) of at least 50% of the aggregate principal amount of the Convertible Bonds or such lesser amount as is outstanding under the Convertible Bonds Instrument from time to time

DEFINITIONS

“Maturity Date”	the date falling 60 months from the Issue Date of the Convertible Bonds
“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, and together with Mr. Shum, is interested in approximately 67.96% of the issued share capital of the Company as at the Latest Practicable Date
“Mr. Shum”	Mr. Shum Tin Ching, the chairman, a non-executive Director, the ultimate controlling shareholder of the Company and the ultimate beneficial owner of the Private Group
“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”	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 its subsidiaries from time to time
“Property Development Project Companies”	all the property development project companies in Shandong Province, the PRC, wholly or partially-owned by Mr. Shum and/ or companies controlled by him after the completion of the Reorganisation, to be acquired by the Group pursuant to the Sale and Purchase Agreement
“Prospectus”	the prospectus of the Company dated 26 February 2016
“Qingdao Jiazhi”	Qingdao Jiazhi Investment Co., Ltd.* (青島嘉智投資有限公司), a company established under the laws of the PRC on 28 June 2020 with limited liability, which will be indirectly wholly-owned by the Target Company upon completion of the Reorganisation
“Reorganisation”	such arrangement and restructuring of companies comprising the Target Group in accordance with the terms of the Sale and Purchase Agreement, further details of which are set out in the paragraph headed “ <i>Reorganisation</i> ” in the “ <i>Letter from the Board</i> ” section of this circular
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“Sale and Purchase Agreement”	the sale and purchase agreement dated 13 January 2021 and entered into between the Company and Mr. Shum in relation to the Acquisition (as subsequently amended and supplemented by the Supplemental Agreement)
“Sale Share”	1 (one) share in the share capital of the Target Company, representing the entire issued share capital of the Target Company
“SFO”	the Securities and Futures Ordinance (Chapter 571) of the Laws of Hong Kong
“Share(s)”	the ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company
“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 Conversion Shares (upon exercise in full of the conversion rights attached to the Convertible Bonds) and the Consideration Shares
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the supplemental agreement to the Sale and Purchase Agreement dated 25 February 2021 entered into between the Company and Mr. Shum
“Target Company”	Luyuan Investment Holdings Limited (魯源投資控股有限公司), a company incorporated under the laws of the BVI with limited liability on 21 December 2017, which will indirectly own equity interests in all the Property Development Project Companies upon completion of the Reorganisation
“Target Group”	the Target Company and its wholly or partially-owned companies upon completion of the Reorganisation
“Trading Day”	a day on which trading of securities takes place on the Stock Exchange throughout its normal trading hours

DEFINITIONS

“Valuation Report”	the valuation report on the market value of the property interests of the Target Group as at 30 November 2020 prepared by JLL, the text of which is set out in Appendix IV to this circular
“Vendor”	Mr. Shum
“Weihai Xiangyuan”	Weihai Xiangyuan Real Estate Development Co., Ltd. (威海市祥源房地產開發有限公司), a company incorporated under the laws of the PRC on 26 June 2017 with limited liability
“%”	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\$1.18. 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 Directors:

Mr. Shum Tin Ching (*Chairman*)

Mr. Shen Xiaodong

Executive Directors:

Mr. Zhang Yi (*Vice Chairman*)

Mr. Huang Fuqing (*Vice Chairman*)

Ms. Cheuk Hiu Nam

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

26 February 2021

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE TARGET GROUP HOLDING
PROPERTY DEVELOPMENT PROJECTS
LOCATED IN SHANDONG PROVINCE
INVOLVING THE ISSUE OF CONSIDERATION SHARES AND
CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE**

INTRODUCTION

References are made to the announcement of the Company dated 13 January 2021 and the supplemental announcement of the Company dated 25 February 2021 in respect of, among other things, that on 13 January 2021, the Company entered into the Sale and Purchase Agreement (as subsequently amended and supplemented by the Supplemental Agreement)

LETTER FROM THE BOARD

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 the Initial Consideration of HK\$7,247,560,000 (equivalent to approximately RMB6,142,000,000) (subject to adjustment), which will be settled (i) as to HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) by way of issue of the Convertible Bonds; (ii) as to HK\$2,772,000,000 (equivalent to approximately RMB2,349,152,542) by way of issue and allotment of 840,000,000 Consideration Shares; and (iii) as to the remaining balance of HK\$1,054,920,000 (equivalent to approximately RMB894,000,000) by cash.

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 their advice and recommendation on the Sale and Purchase Agreement and the transactions contemplated thereunder to the Independent Shareholders;
- (iii) the letter from Maxa Capital with their advice and recommendation 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 (AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED BY THE SUPPLEMENTAL AGREEMENT)

Date

13 January 2021 (after trading hours)

Parties

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

LETTER FROM THE BOARD

Upon completion of the Reorganisation, the Target Company will indirectly own all the equity interests held by Mr. Shum and/or companies controlled by him in the Property Development Project Companies. Upon completion of the Reorganisation, the Target Group will comprise, among others, the Target Company as an investment holding company and all the Property Development Project Companies. 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 section.

Consideration

The Initial Consideration for the Acquisition is HK\$7,247,560,000 (equivalent to approximately RMB6,142,000,000) (subject to adjustment), which will be satisfied upon Completion in the following manner:

1. as to HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) by way of issue of the Convertible Bonds in the aggregate principal amount of HK\$3,420,640,000 entitling Mr. Shum or his nominee(s) to convert at the Conversion Price of HK\$3.30 per Conversion Share (subject to adjustment) into a maximum number of 1,036,557,575 Conversion Shares;
2. as to HK\$2,772,000,000 (equivalent to approximately RMB2,349,152,542) by way of issue and allotment of 840,000,000 Consideration Shares by the Company to Mr. Shum or his nominee(s) at the Issue Price of HK\$3.30 per Consideration Share; and
3. as to the remaining balance of HK\$1,054,920,000 (equivalent to approximately RMB894,000,000) by cash.

The Initial Consideration was determined after arm’s length negotiations between the Company and Mr. Shum with reference to, among other things, (i) the appreciated value of the property development projects as at 30 November 2020 in the amount of approximately HK\$3,459,760,000 (equivalent to approximately RMB2,932,000,000) based on the Valuation Report on the properties developments projects as at 30 November 2020, prepared by JLL, an independent property valuer, in the amount of HK\$19,546,700,000 (equivalent to approximately RMB16,565,000,000) as set out in Appendix IV to this circular and the ownership percentage of the Property Development Project Companies owned by the Target Group upon completion of the Reorganisation; (ii) the adjusted financial information of the Target Group after completion of the Reorganisation as at 30 September 2020; (iii) an approximately 4.86% discount on the Adjusted NAV (as defined below); and (iv) the amount of deferred PRC taxes on the appreciated value of the property development projects.

LETTER FROM THE BOARD

The Initial Consideration was agreed on based on the Adjusted NAV (as defined and calculated in the manner described below) as at 30 September 2020. The Initial Consideration shall be adjusted to the Final Consideration according to the adjustment mechanism described in the paragraph headed “*Consideration Adjustment Mechanism*” below. The Final Consideration shall be payable by the Company to Mr. Shum or his nominee(s) upon Completion.

Adjusted NAV and Initial Consideration

The following table demonstrates the calculations of the Adjusted NAV (as defined below) of the Target Group as at 30 September 2020 and the Initial Consideration:

	<i>HK\$ approximately</i>
Unaudited combined net asset value attributable to the owners of the Target Group as at 30 September 2020 (after taking into account the original investment costs of certain project companies of the Target Group and assuming the Reorganisation was completed on 30 September 2020) <i>(Note 1)</i>	5,023,260,000 (equivalent to approximately RMB4,257,000,000)
<i>Add:</i>	
Appreciated value of the property development projects as at 30 November 2020 based on the Properties Valuation and ownership percentage of the Property Development Project Companies by the Target Group <i>(Note 2)</i>	3,459,760,000 (equivalent to approximately RMB2,932,000,000)
<i>Less:</i>	
Deferred PRC taxes on appreciated value <i>(Note 3)</i>	864,940,000 (equivalent to approximately RMB733,000,000)
<i>Equal to:</i>	
Adjusted net asset value attributable to the owners of the Target Group (the “Adjusted NAV”) as at 30 September 2020	7,618,080,000 (equivalent to approximately RMB6,456,000,000)
<i>Less:</i>	
4.86% discount to the Adjusted NAV <i>(Note 4)</i>	370,520,000 (equivalent to approximately RMB314,000,000)
Initial Consideration	7,247,560,000 (equivalent to approximately RMB6,142,000,000)

LETTER FROM THE BOARD

Notes:

1. As at 30 September 2020, (i) the net asset value attributable to the owners of the Combined Group is HK\$2,699,723,000 (equivalent to approximately RMB2,287,901,000) as set out in Appendix IIA to this circular, (ii) the net deficit attributable to the owners of Lingshihuaifu was HK\$36,244,000 (equivalent to approximately RMB30,715,000) as set out in Appendix IIB to this circular, (iii) after taking into account the original investment costs of certain project companies of the Target Group, the unaudited combined net asset value attributable to the owners of the Target Group (assuming the Reorganisation was completed on 30 September 2020) was approximately RMB4,257,000,000 (equivalent to approximately HK\$5,023,260,000).
2. The appreciated value of the property development projects is the aggregated sum of the difference between (i) the book value of the property development projects as set out in Appendix IIA and IIB to this circular, plus the original investment costs of certain project companies, and (ii) the market value of the property development projects as at 30 November 2020, based on the respective ownership percentages of each of the property development projects.
3. Deferred PRC taxes are calculated based on the appreciated value of the property development projects multiplied by a 25% tax rate.
4. The 4.86% discount is determined after arm's length commercial negotiations among the Vendor and the Company. The Vendor as the controlling Shareholder is willing to support the Company by offering a discount of 4.86% to the Adjusted NAV.

Consideration Adjustment Mechanism

In the event that the Adjusted NAV of the Target Group at Completion calculated by reference to, inter alia, the audited combined accounts of the Target Group as at and for the year ended 31 December 2020 (the “**Adjusted NAV at Completion**”) is less than the Adjusted NAV, the Initial Consideration shall be adjusted downward by the difference between the amount of the Adjusted NAV and the amount of the Adjusted NAV at Completion after accounting for the 4.86% discount to arrive at the Final Consideration (i.e. the Final Consideration equals to 95.14% of the Adjusted NAV at Completion). If the Adjusted NAV at Completion is equal to or more than the Adjusted NAV, no adjustment will be made (i.e. the Final Consideration is equal to the Initial Consideration). In the event the Initial Consideration is adjusted downward in the aforementioned scenario, the cash portion of the Final Consideration will be reduced whereas the Convertible Bonds and Consideration Shares portions of the Final Consideration will remain unchanged.

LETTER FROM THE BOARD

Principal Terms of the Convertible Bonds

Convertible Bonds

Subject to certain conditions under the Sale and Purchase Agreement, the Company will issue the Convertible Bonds in an aggregate principal amount of HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) which, unless previously converted, will mature on the date falling 60 months from the Issue Date, unless extended at the request of the Company.

Denomination

The Convertible Bonds are issued in registered form and will be in the denominations of HK\$1.00.

Issue Price of the Convertible Bonds

100% of the aggregate principal amount of the Convertible Bonds.

Interest

The Convertible Bonds will bear no interest.

Maturity Date

The date falling 60 months from the Issue Date.

Transferability

The Convertible Bonds may be freely assigned or transferred to any third party who has confirmed to the relevant Holder in writing it is not a connected person of the Company within the meaning of the Listing Rules (save that the Convertible Bonds may be assigned or transferred to a connected person when the Company has given its written consent), subject to the compliance with: (i) the terms and conditions of the Convertible Bonds; (ii) the Listing Rules; (iii) the approval for listing in respect of the Conversion Shares (as defined below); and (iv) all applicable laws and regulations.

Ranking of the Convertible Bonds

The Convertible Bonds constitute the direct, subordinated, unconditional and unsecured general obligations of the Company and shall at all times rank *pari passu* and without any preference among themselves. The right to payment of the Holder shall, save for such exceptions as may be provided by applicable legislation, be subordinated to the claims of all other present and future senior and subordinated creditors of the Company.

Maturity

Unless previously converted, the then outstanding principal amount of the Convertible Bonds shall be fully converted into Conversion Shares at 100% of their principal amount on the Maturity Date. The Convertible Bonds shall not be redeemable by any monetary consideration. For the avoidance of doubt, there are no other redemption terms under the terms of the Convertible Bonds, i.e. any principal amount under the Convertible Bonds shall

LETTER FROM THE BOARD

only be payable by way of conversion by a Holder, although subject to the requirement that any such exercise of the conversion rights attached to the Convertible Bonds will not render the Company in breach of the minimum public float requirement as stipulated under the Listing Rules.

Conversion

At any time after the Issue Date and up to and inclusive of one Business Day prior to the Maturity Date, the Holder shall have the right, but not the obligation, to convert in whole or in part, the outstanding principal amount of the Convertible Bonds, into such number of fully paid Shares of the Company as determined in accordance with the following formula:

$$N = A/C$$

Where:

“N” is the number of Shares to be issued by the Company upon conversion.

“A” is the principal amount of the Convertible Bonds to be converted.

“C” is the Conversion Price.

The Holder shall effect conversions by delivering to the Company a completed notice in the form prescribed in the Convertible Bonds Instrument.

The Conversion Shares, when issued, will in all respects rank *pari passu* with the Shares already in issue on the day when the Conversion Shares are issued.

Conversion Price

The Conversion Price at which the Company shall issue the Conversion Shares to the Holder upon conversion of the Convertible Bonds will initially be HK\$3.30 per Share but will be subject to adjustment for dilutive events.

The terms of the Convertible Bonds, including the Conversion Price, have been arrived at after arm's length negotiations between the Company and Mr. Shum, with reference to, among other things, the recent trend of the Share price performance and the prevailing market price of the Shares.

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The maximum number of 1,036,557,575 Conversion Shares to be issued upon full conversion of the Convertible Bonds represents approximately:

- (i) 25.56% of the existing issued share capital of the Company; and
- (ii) 17.47% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares upon full conversion of the Convertible Bonds.

The Conversion Shares (when allotted and issued upon full conversion of the Convertible Bonds) will be issued under the Specific Mandate to be sought at the EGM.

Adjustments to Conversion Price

The Conversion Price will be subject to adjustment upon the occurrence of the following events:

- (i) *Capitalisation issue, sub-division, consolidation and reclassification of Shares*
 - (a) If and whenever there shall be an alteration to the number of Shares in issue by reason of any consolidation or sub-division or reclassification, the Conversion Price in force immediately prior thereto shall be adjusted by multiplying it by the following fraction:

$$\frac{A}{B}$$

where:

A = the nominal amount of one Share immediately after such alternation;

and

B = the nominal amount of one Share immediately before such alteration.

Such adjustment shall be effective on the date the alteration takes effect.

- (b) If and whenever the Company shall issue (other than Scrip Dividend as defined below) any Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund), the Conversion Price in force immediately prior to such issue shall be adjusted by multiplying it by the following fraction:

$$\frac{C}{D}$$

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where:

C = the aggregate nominal amount of the issued Shares immediately before such issue;

and

D = the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(ii) *Scrip Dividend*

If the Company shall issue any Shares (the “**Scrip Dividend**”) in lieu of the whole or any part of a specifically declared cash dividend (the “**Relevant Cash Dividend**”), and the Current Market Price of such Shares as at the last Trading Day preceding the issue of such Shares exceeds 105% of the Relevant Cash Dividend, then the Conversion Price in effect immediately before the issue of such Shares shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \quad \times \quad \frac{\text{N} + \text{B}}{\text{N} + \text{A}}$$

where:

NCP = the new Conversion Price after such adjustment;

OCP = the old Conversion Price before such adjustment;

N = the aggregate nominal amount of the issued Shares immediately preceding the issue of shares by way of Scrip Dividend;

A = the aggregate nominal amount of Shares issued by way of Scrip Dividend;

and

B = the aggregate nominal amount of Shares issued by way of Scrip Dividend multiplied by a fraction of which (i) the numerator is the aggregate amount of the Relevant Cash Dividend; and (ii) the denominator is the Current Market Price of all the Shares issued by way of Scrip Dividend in lieu of such Relevant Cash Dividend.

Such adjustment shall become effective on the date of issue of such Shares.

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(iii) *Capital Distribution*

If the Company shall pay or make to its shareholders any Capital Distribution other than by way of Scrip Dividend, then the Conversion Price shall be adjusted in accordance with the following formula:

$$\text{NCP} = \text{OCP} \quad \times \quad \frac{\text{CMP} - \text{fmv}}{\text{CMP}}$$

where:

NCP and OCP have the meanings ascribed thereto above;

CMP = the Current Market Price per Share on the last Trading Day preceding the date on which the relevant Dividend is first publicly announced;

and

fmv = the portion of the Fair Market Value attributable to one Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Shares entitled to receive the relevant Dividend of the Capital Distribution.

(iv) *Cash Dividend*

If and whenever the Company shall pay or declare any Cash Dividend to the shareholders (other than Cash Dividend paid or declared in accordance with the normal dividend policy of the Company), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Cash Dividend by the following fraction:

$$\frac{A - B}{A}$$

where:

A = the Current Market Price of one Share on the date for the determination of shareholders entitled to receive such Cash Dividend;

and

B = the amount of Cash Dividend attributable to one Share.

Such adjustment shall become effective on the date on which such Cash Dividend is actually made or if a record date is fixed therefor, immediately after such record date.

LETTER FROM THE BOARD

(v) *Offer to holders of Shares*

If and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares, at a price less than 95% of the Current Market Price of such new Shares on the date of the announcement of the terms of the offer or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the date of the announcement of such offer or grant by a fraction of which:

- (a) the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such Current Market Price; and
- (b) the denominator is the number of Shares in issue immediately before the date of such announcement plus the aggregate number of Shares offered for subscription or comprised in the options or warrants.

Such adjustment shall be effective (if appropriate retroactively) from the commencement of the day next following the record date for the offer or grant.

(vi) *No Adjustment*

Notwithstanding any of the foregoing, the adjustment provisions of the relevant condition in the Convertible Bonds Instrument shall not apply in any of the following circumstances:

- (a) issue and/or exercise of any share option in compliance with the Listing Rules or any share option scheme granted to and for the benefit of the employees of the Company which has been publicly disclosed by the Company;
- (b) an issue of Shares by the Company wholly for cash upon the exercise of any conversion, exchangeable or subscription rights attached to any securities (other than securities issued pursuant to any share option scheme) which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares; and
- (c) any issue of securities carrying rights to convert into or subscribe for Shares at a conversion price or subscription price not lower than the prevailing Conversion Price (as adjusted in accordance with the relevant condition in the Convertible Bonds Instrument) as at the date of such issue.

Any adjustment to the Conversion Price shall be made to the nearest cent so that any amount under half of a cent shall be rounded down and any amount of half of a cent or more shall be rounded up. In no event shall any adjustment (otherwise than upon the consolidation or reclassification of Shares into Shares of a larger nominal amount) involve an increase in the Conversion Price.

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If application of any of the provisions of the relevant condition in the Convertible Bonds Instrument would result in the Conversion Price being reduced so that on conversion Shares shall fall to be issued at a discount to their nominal amount, then the Conversion Price shall be adjusted to an amount equal to the nominal amount of one Share.

Consideration Shares

The 840,000,000 Consideration Shares represent approximately 20.71% of the issued share capital of the Company as at the Latest Practicable Date, approximately 17.16% 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) and approximately 14.16% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares upon full conversion of the Convertible Bonds.

The Conversion Price and the Issue Price

The Conversion Price of HK\$3.30 per Conversion Share and the Issue Price of HK\$3.30 per Consideration Share represents:

- (i) a premium of approximately 9.63% to the closing price per Share of HK\$3.01 as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 5.10% to the closing price per Share of HK\$3.14 as quoted on the Stock Exchange on 13 January 2021, being the date of the Sale and Purchase Agreement;
- (iii) a premium of approximately 6.45% to the average closing price per Share of HK\$3.10 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Sale and Purchase Agreement;
- (iv) a premium of approximately 6.90% to the average closing price per Share of HK\$3.09 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Sale and Purchase Agreement; and
- (v) a premium of approximately 1.59% to the consolidated net asset value per Share attributable to the Shareholders as at 30 June 2020 of approximately HK\$3.25 per Share calculated based on the consolidated net assets of the Group attributable to the Shareholders of approximately HK\$13,174,472,260 as at 30 June 2020 as extracted from the interim report of the Company for the six months ended 30 June 2020 and 4,055,734,623 Shares in issue as at the Latest Practicable Date.

The Conversion Price and Issue Price were determined on an arm's length basis between the Company and Mr. Shum with reference to the prevailing market price of the Shares as shown above.

The Directors (excluding the independent non-executive Directors, who shall provide their views after taking into account the advice of the Independent Financial Adviser) consider that the Issue Price and Conversion Price are fair and reasonable.

LETTER FROM THE BOARD

Conditions precedent

Completion 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 and the Convertible Bonds, having been approved by the Independent Shareholders 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 as well as the Conversion 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; and
- (v) the Company having been satisfied with the due diligence results of the Target Group in all respects.

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 2021 or such other date as the parties may agree, the Sale and Purchase Agreement will be terminated unless the parties otherwise agree. While conditions (iv) and (v) may be waived by the Company, to the best knowledge, belief and information of the Directors, and based on a legal opinion issued by the Company's PRC legal advisers regarding the property interests forming the subject of this Acquisition, there are no circumstances as currently foreseen that would require these conditions to be waived on or before 31 December 2021 or such other date as the parties may agree. Therefore, the substance of this Acquisition is expected to remain the same on the date of closing of this Acquisition.

Reorganisation

Background and reasons of the Reorganisation

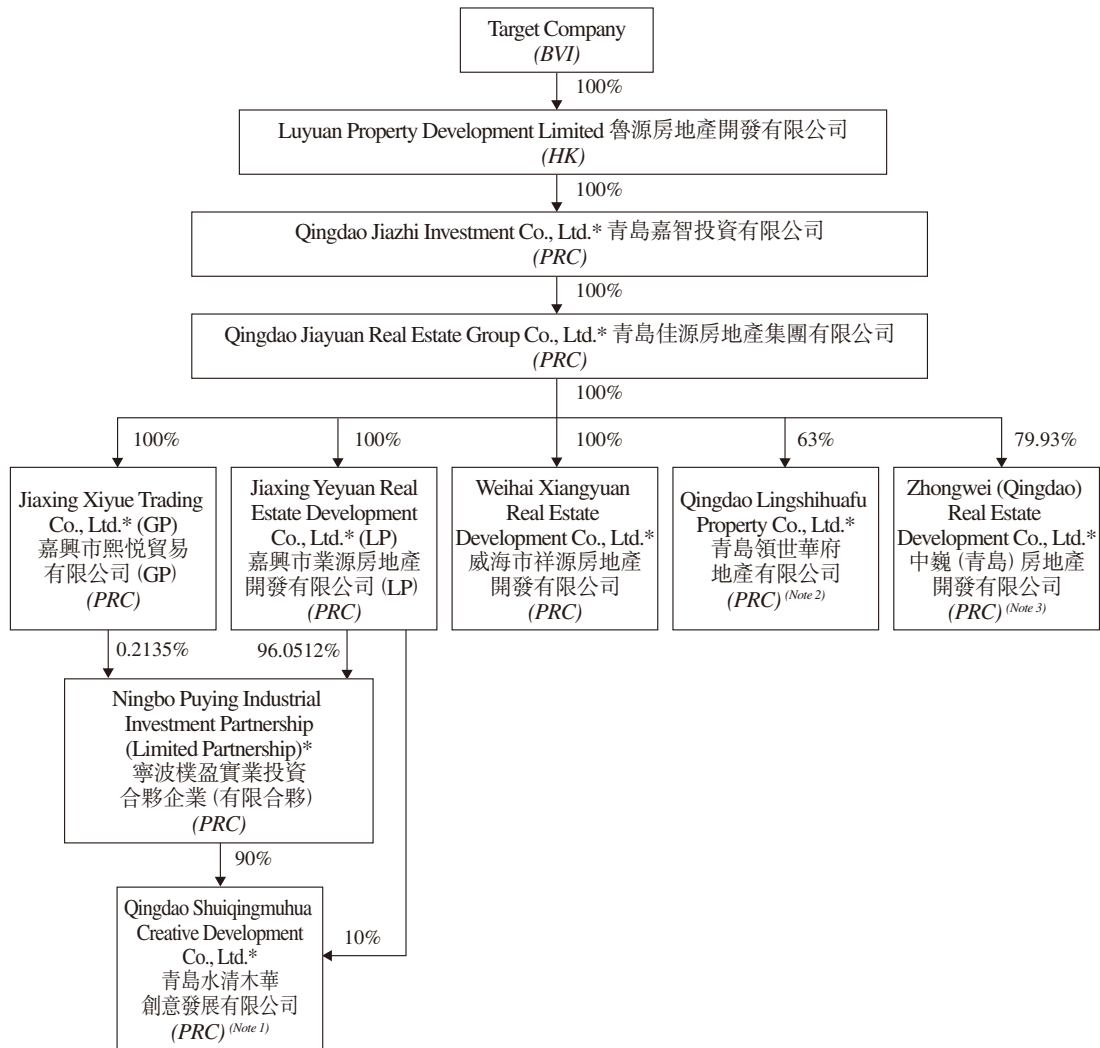
Prior to completion of the Reorganisation, all the equity interests of the Property Development Project Companies to be acquired pursuant to the Sale and Purchase Agreement is indirectly held by Mr. Shum under different subsidiaries of the Private Group. For the purpose of the Acquisition, various arrangements and restructure of the Property Development Project Companies through the Reorganisation is required to consolidate the Property Development Project Companies under the same holding company in the PRC, Qingdao Jiazhi, and isolate the same from the Private Group.

LETTER FROM THE BOARD

At the offshore level, the Target Company and Luyuan Property Development Limited were established by Mr. Shum to hold the equity interests of the Property Development Project Companies through Qingdao Jiazhi.

Upon completion of the Reorganisation, the Target Group will comprise, among others, the Target Company as an investment holding company and all the Property Development Project Companies.

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



* for identification purposes only

LETTER FROM THE BOARD

Notes:

1. According to the Ningbo Puying Industrial Investment Partnership (Limited Partnership)* (“**Ningbo Puying**”) partnership agreement entered into by Jiaxing Xiyue Trading Co., Ltd.* (“**Jiaxing Xiyue**”) and Jiaxing Yeyuan Real Estate Development Co., Ltd.* (“**Jiaxing Yeyuan**”), both are indirectly wholly-owned subsidiaries of the Combined Group upon completion of the Reorganisation, and Xinshangdu (Qingdao) Investment Management Co., Ltd.* (新上都(青島)投資管理有限公司) (“**Xinshangdu**”), a company incorporated in the PRC, whose principal business is investment management, and its ultimate beneficial owner is Mr. Wang Heqi, who is a third party independent of the Company and connected persons of the Company. Jiaxing Xiyue, Jiaxing Yeyuan and Xinshangdu will be entitled to 1%, 64% and 35% of the distributable profits of Ningbo Puying. The Combined Group is entitled to a total of 65% equity interest of Ningbo Puying, which represented 58.5% equity interest of Qingdao Shuiqingmuhua Creative Development Co., Ltd. (“**Qingdao Shuiqingmuhua**”). Joining the Ningbo Puying is conditional on the approval of Xinshangdu, an original limited partner. Since Xinshangdu is entitled to 35% equity interest of Ningbo Puying in the previous partnership agreement entered into by Xinshangdu and the previous limited partner, Xinshangdu intended to keep the same portion as carried on from the previous partnership agreement and Mr. Shum agreed to received 65% equity interest as Xinshangdu was a significant contributor for Ningbo Puying’s acquisition of the land use right of Qingdao Shuiqingmuhua and such contribution was reflected in the profit distribution of Ningbo Puying among the original limited partners. Regardless of the entitlement to only to 35% of the distributable profits, Mr. Shum is of the view that Qingdao Shuiqingmuhua is still a profitable project.

On 11 January 2021, the Combined Group acquired 10% equity interest in Qingdao Shuiqingmuhua from the non-controlling shareholder for a consideration of RMB18,000,000. As a result, the Combined Group is entitled to a total of 68.5% equity interest in Qingdao Shuiqingmuhua.

2. Lingshihuafu is indirectly owned as to (i) 63% by Mr. Shum; (ii) 30% by Qingdao Zhujiawa Industrial Co., Ltd.* (青島朱家窪實業股份有限公司), a company incorporated in the PRC, whose legal representative is Mr. Zhu Guangen, and its ultimate controller is the Community Public Affairs Committee of Zhujiawa, Jinjialing Street, Laoshan District, Qingdao* (青島市嶗山區金家嶺街道朱家窪社區公共事務委員會) and where its ultimate beneficial owner is the residents of Zhujiawa community; and (iii) 7% by Mr. Yu Xihua, who is a shareholder and the director of Lingshihuafu since May 2006. Mr. Yu Xihua and Qingdao Zhujiawa Industrial Co., Ltd.* and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.
3. Zhongwei (Qingdao) Real Estate Development Co., Ltd.* is indirectly owned as to 79.93% by Mr. Shum and directly owned as to 20.07% by Shenzhen Guoshun Minan Supply Chain Co., Ltd.* (深圳市國順民安供應鏈有限公司), a company incorporated in the PRC, whose ultimate controller is the State-owned Assets Supervision and Administration Commission of Licang District, Qingdao, a third party independent of the Company and connected persons of the Company.

Guarantees

Pursuant to the Reorganisation, the Target Group shall cancel all the corporate guarantees provided by the subsidiaries or joint venture(s) of the Target Group to any of the subsidiaries or joint venture(s) of the Private Group before Completion.

Completion

Completion shall take place on the tenth 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.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

Reference is made to the Prospectus. As stated in the Prospectus, in order to achieve the geographical segregation between the property development projects of Mr. Shum and the Private Group and the Group and to ensure clear delineation, Mingyuan Investment and Mr. Shum entered into the Deed of Non-Competition with and in favour of the Company, pursuant to which, the Private Group has agreed to conduct its property development business only in the Non-Target Cities (as defined in the Prospectus) while the Group shall conduct its property development business in the Target Cities (as defined in the Prospectus) exclusively.

Qingdao of Shandong Province was initially a non-Target City (as defined in the Prospectus) where the Private Group conducts its property development business via the Target Group. Weihai of Shandong Province was initially an Unoccupied City (as defined in the Prospectus), i.e. neither a non-Target City nor a Target City. Following the compliance by the controlling shareholders of the Company with the relevant right of first refusal mechanism as applicable between them and the Company under the Deed of Non-Competition, Weihai subsequently became a non-Target City. Under the Deed of Non-Competition, the Company has been granted a right by its controlling shareholders to acquire on one or more occasions any interest in respect of the property development projects (in whole or in part) in a non-Target City (as defined in the Prospectus) held by them or any of their respective associates at any time. The price at which this acquisition option can be exercised by the Company shall be negotiated and agreed at arm's length between the Company and its controlling shareholders. By way of the acquisition of all property development projects owned/controlled by Mr. Shum and his associates in Qingdao and Weihai contemplated by the Acquisition, each of these cities will be redesignated as a Target City (as defined in the Prospectus), such that the Group will be entitled to commence other property development projects in these cities where suitable business opportunities arise.

Save as Mr. Shum, being an overlapping shareholder and an overlapping director of the Group and the Private Group, respectively, the shareholder level, the board level and management level of each of the Group and the Private Group are independent from each other. The Private Group commenced its property development business in Qingdao and Weihai since December 2018 and October 2017, respectively, and has developed in-depth knowledge in the property sector of these cities, whereas the Group did not have any property development business in these cities after the delineation of business between the Group and the Private Group. Upon Completion, the controlling shareholders of the Company will not have any interest in other property development projects in these cities, which will be subject to the ambit of the non-competition undertakings given by them under the Deed of Non-Competition.

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The Company is of the view that the Private Group will not be regarded as conducting its property development business in Qingdao and Weihai (both a Target City (as defined in the Prospectus) after Completion) as the Qingdao Projects (as defined below) and the Weihai Project (as defined below) will be under the control of the Group and the Target Company will become a wholly-owned subsidiary of the Group. As such, the Company considers that, under this Acquisition, its controlling shareholders will remain in compliance with the non-competition undertakings given by them under the Deed of Non-Competition as disclosed in the Prospectus after Completion.

In view of the aforesaid, 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 Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In 2020, sales growth of the Group was stable, primarily attributable to the regionally coordinated development strategy of China and the ability to precisely capture the home purchase demand in China's second-tier and third-tier cities.

According to 2019 Statistical Report on the National Economic and Social Development of Shandong Province* (二零一九年山東省國民經濟和社會發展統計公報) from the Shandong Provincial Bureau of Statistics, the gross domestic product of Shandong Province exceeded RMB7,106.8 billion in 2019, representing an increase of approximately 5.5% from the previous year. The full-year property development investment amounted to RMB861.5 billion, representing an increase of 14.1% from the previous year. For commodity housings, total construction area amounted to 757.7 million sq.m., representing an increase of 9.7% from the previous year and those for residential purpose amounted to 559.4 million sq.m., representing an increase of 10.1% from the previous year.

As the property development projects of the Target Group are largely located in Qingdao of Shandong Province, which is one of China's new first-tier cities, the Group expects that the property market of Shandong Province will continue to grow steadily in future, which will be a boost to the Group's sales expectation. On the other hand, the Group may swiftly expand the geographical coverage of its business by adding more provinces to its regional layout and further expand its land reserve and achieve economies of scale and in turn uplift the Group's competitiveness.

Further, the Group considers that the Acquisition represents the performance of the commitment of Mr. Shum to continually inject non-listed businesses into the Company. Completion of such allotment and issue of the Consideration Shares and the Conversion Shares will further raise the shareholding percentage of Mr. Shum. Meanwhile, the increase in the Group's estimated net assets will continue to optimise the structure of assets and liabilities of the Group and enable the Group to further establish a healthier financial position.

LETTER FROM THE BOARD

The Group believes that establishing presence in Shandong Province will lay solid foundations for the future development of the Company and play a positive role in further boosting the influence of the “Jiayuan” brand across the PRC. It will help in expanding the strategic layout of the Group in key regions nationwide. Given that the Acquisition (i) is aligned with the Group’s strategic goal of “expansion and strengthening”; (ii) seizing opportunities for project merger and acquisition in Shandong Province, it will fully enhance its core competitiveness in each segment of the property value chain; and (iii) could enhance the assets portfolio of the Company, 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 Acquisition is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

EFFECT OF THE CONSIDERATION SHARES ON THE SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion and the allotment and issue of the Consideration Shares; and (iii) immediately after full conversion of the Convertible Bonds:

Shareholders	As at the Latest Practicable Date		Immediately after Completion and the allotment and issue of the Consideration Shares, but before the exercise of the conversion rights attached to the Convertible Bonds ^(Note 2)		Immediately after Completion and the allotment and issue of (i) the Consideration Shares and (ii) the Conversion Shares upon the exercise in full of the conversion rights attached to the Convertible Bonds ^{(Note 2) & (Note 5)}	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate % ^(Note 4)
Mr. Shum and his associate(s) ^(Note 3)	2,828,310,136 ^(Note 1)	69.74	3,668,310,136	74.93	4,704,867,711	79.31
Public Shareholders	1,227,424,487	30.26	1,227,424,487	25.07	1,227,424,487	20.69
Total	4,055,734,623	100.00	4,895,734,623	100.00	5,932,292,198	100.00

Notes:

- 2,756,308,418 of these Shares are held by Mingyuan Investment, which is wholly-owned by Mr. Shum.
- The figures above assume that other than the Consideration Shares and the Conversion 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 and the Conversion Shares.

LETTER FROM THE BOARD

3. On 13 January 2021, the Company entered into the Sale and Purchase Agreement (as subsequently amended and supplemented by the Supplemental 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, at the Initial Consideration of HK\$7,247,560,000 (equivalent to approximately RMB6,142,000,000) (subject to adjustment), which will be settled (i) as to HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) by way of issue of the Convertible Bonds; (ii) as to HK\$2,772,000,000 (equivalent to approximately RMB2,349,152,542) by way of issue and allotment of 840,000,000 Consideration Shares; and (iii) as to the remaining balance of HK\$1,054,920,000 (equivalent to approximately RMB894,000,000) by cash.
4. The percentage figures included in this table are subject to rounding adjustment.
5. The shareholding structure is prepared for illustrative purpose only. There is no right for any Holder(s) to convert any principal amount of the Convertible Bonds held by the Holder(s) and the Company shall not issue any Conversion Shares thereof if, upon such conversion and issue of the Conversion Shares, the Company will be in breach of the minimum public float requirement as stipulated under the Listing Rules.

The Acquisition will not result in change in control of the Company.

INFORMATION OF THE TARGET GROUP AND ITS BUSINESS

The following table sets out the combined financial information of the Combined Group for the two years ended 31 December 2018 and 2019 and for the nine months ended 30 September 2020, respectively, based on the Accountant's Report of the Combined Group as set out in Appendix IIA to this circular:

	Year ended 31 December		Nine months ended
	2018	2019	30 September
	RMB	RMB	RMB
Revenue	–	–	795,317,000
Net (loss)/profit before taxation and extraordinary items	(26,749,000) (equivalent to approximately HK\$(31,564,000))	(6,006,000) (equivalent to approximately HK\$(7,087,000))	253,772,000 (equivalent to approximately HK\$299,451,000)
Net (loss)/profit after taxation and extraordinary items	(20,105,000) (equivalent to approximately HK\$(23,724,000))	(5,112,000) (equivalent to approximately HK\$(6,032,000))	135,475,000 (equivalent to approximately HK\$159,861,000)

LETTER FROM THE BOARD

The following table sets out the financial information of Lingshihuafu, for the two years ended 31 December 2018 and 2019 and for the nine months ended 30 September 2020, respectively, based on the Accountant's Report of Lingshihuafu as set out in Appendix IIB to this circular:

	Year ended 31 December		Nine months ended
	2018	2019	30 September
	RMB	RMB	RMB
Revenue	–	–	–
Net loss before taxation and extraordinary items	(3,970,000) (equivalent to approximately HK\$(4,685,000))	(15,028,000) (equivalent to approximately HK\$(17,733,000))	(18,585,000) (equivalent to approximately HK\$(21,930,000))
Net loss after taxation and extraordinary items	(3,043,000) (equivalent to approximately HK\$(3,591,000))	(11,318,000) (equivalent to approximately HK\$(13,355,000))	(13,960,000) (equivalent to approximately HK\$(16,473,000))

As at 30 September 2020, (i) the net asset value attributable to the owners of the Combined Group was approximately HK\$2,699,723,000 (equivalent to approximately RMB2,287,901,000) as set out in Appendix IIA to this circular, (ii) the net deficit attributable to the owners of Lingshihuafu was approximately HK\$36,244,000 (equivalent to approximately RMB30,715,000) as set out in Appendix IIB to this circular, (iii) after taking in account the original investment costs of certain project companies of the Target Group, the unaudited combined net asset value attributable to the owners of the Target Group (after taking into account the original investment costs of certain project companies of the Target Group and assuming the Reorganisation was completed on 30 September 2020) was approximately RMB4,257,000,000 (equivalent to approximately HK\$5,023,260,000), and (iv) the total asset of the Combined Group was approximately HK\$5,776,360,000 (equivalent to approximately RMB4,895,220,000) and the total asset of the Lingshihuafu was approximately HK\$10,421,909,000 (equivalent to approximately RMB8,832,126,000).

The original investment costs of certain project companies of the Target Group were in the aggregate amount of approximately RMB2,249,000,000 (equivalent to approximately HK\$2,653,820,000).

The Target Group included the Target Company and its wholly-owned or partially-owned companies upon the Reorganisation. Separate accountant's reports have been prepared for (i) the Combined Group, which includes only those entities in the Target Group under common control by Mr. Shum immediately before and after completion of the Reorganisation; and (ii) Lingshihuafu, being a joint venture acquired by the Target Company during Reorganisation, which is not included in the Combined Group as it is not under common control by Mr. Shum immediately before and after completion of the Reorganisation.

LETTER FROM THE BOARD

Most of the property development projects of the Combined Group were still under development and were not delivered during the financial years of 2018 and 2019. Thus, no profit has been recorded. The Combined Group has recorded profits for the nine months ended 30 September 2020 since one of the property development projects of the Combined Group in Weihai was completed and delivered in January 2020.

As at the Latest Practicable Date, all the property development projects of Lingshihuafu were still under development. Due to the nature of property development project life cycle, it is not uncommon for property development assets to incur losses given the significant capital expenditure incurred in the early stage of development. Even though Lingshihuafu is loss-making, owing to the premier location of Qingdao and the size of the development, the Group believes Lingshihuafu has great potential and will be a valuable asset.

The Target Group and its business

The Target Company is a company newly incorporated under the laws of the BVI with limited liability and wholly-owned by Mr. Shum.

Upon completion of the Reorganisation, the Target Company will own all the equity interests held by Mr. Shum and/or companies controlled by him in the Property Development Project Companies.

After completion of the Reorganisation, the Target Group will hold four property development projects located in Qingdao of Shandong Province (the “**Qingdao Projects**”) and one property development project located in Weihai of Shandong Province (the “**Weihai Project**”). The Qingdao Projects mainly consist of large-scale residential complex projects, as well as wholesale and retail, information technology research and commercial offices developments. The Weihai Project is a residential complex project with shopping arcades and other supporting facilities. Details of the Qingdao Projects and the Weihai Project are summarised in the below table:

Project name	Holding company	Location	Land area (Note 1) (sq.m.)	Development area (Note 1) (sq.m.)	Project type	Development status (Note 2)
Jiayuan Twin City	Zhongwei (Qingdao) Real Estate Development Co., Ltd.*	Qingdao	168,828	510,700	Residential, retail & office	Development commenced in July 2020 and was presold from September 2020. Construction is expected to be completed in 2022 and delivered in September 2023.
Zhongchang Valley	Qingdao Shuiqingmuhua Creative Development Co., Ltd.*	Qingdao	118,236	237,671	An office park including business offices and industrial offices	Development commenced in May 2020 and is projected to be presold in March 2021. Construction is expected to be completed by March 2023 and delivered in May 2023.

LETTER FROM THE BOARD

Project name	Holding company	Location	Land area (Note 1) (sq.m.)	Development area (Note 1) (sq.m.)	Project type	Development status (Note 2)
Jiayuan Haiyuefu	Qingdao Shuiqingmuhua Creative Development Co., Ltd.*	Qingdao	56,132	107,166	Residential & retail	Development commenced in September 2020 and was presold from November 2020. Construction is expected to be completed by March 2022 and delivered in May 2022.
Jiayuan Huafu – Phase 1	Qingdao Lingshihuafu Property Co., Ltd.*	Qingdao	36,815	190,265	Residential, retail & office	Development commenced in December 2018 and was presold from June 2019. Construction is expected to be completed by September 2021 and delivered in May 2022.
Jiayuan Huafu – Phase 2	Qingdao Lingshihuafu Property Co., Ltd.*	Qingdao	82,722	524,694	Residential & commercial	Projected to commence development in March 2021 and to be presold in June 2021. Construction is expected to be completed by August 2024 and delivered in October 2024.
Jiayuan Huafu – Phase 3	Qingdao Lingshihuafu Property Co., Ltd.*	Qingdao	9,424	18,847	Residential & commercial	Projected to commence development in October 2022 and to be presold in March 2023. Construction is expected to be completed by August 2024 and delivered in October 2024.
Jiayuan Haitangfu	Weihai Xiangyuan Real Estate Development Co., Ltd.*	Weihai	16,300	35,511	Residential	Development commenced in December 2020 and is projected to be presold in March 2021. Construction is expected to be completed in October 2022 and delivered in December 2022.

Notes:

1. Depicted areas of the development projects are approximate figures.
2. Disclosed expected dates of completion for construction, pre-sale and delivery of the Qingdao Projects and the Weihai Project are estimations and subject to change.

LETTER FROM THE BOARD

Lingshihua fu

Lingshihua fu was a 63%-owned joint venture of the Target Company as at 30 September 2020. Upon Completion, Lingshihua fu will become a joint venture of the Company and be accounted for under the equity method of accounting.

Immediately before the Reorganisation, Zhejiang Jiayuan Shencheng Real Estate Property Group Co., Ltd. (“**Shencheng Group**”), a company ultimately controlled by Mr. Shum, Qingdao Zhujiawa Industrial Co., Ltd.* and Mr. Yu Xihua held 63%, 30% and 7% equity interest in Lingshihua fu, respectively. In accordance with the articles of association and cooperation agreements of Lingshihua fu, Shencheng Group and Mr. Yu Xihua have joint control over Lingshihua fu; and the management decisions of Lingshihua fu require more than 2/3 consent of Shencheng Group, Qingdao Zhujiawa Industrial Co., Ltd.* and Mr. Yu Xihua. The investment in Lingshihua fu is, therefore, treated as investment in joint venture and the equity method of accounting is applied.

Upon completion of the Reorganisation, the Target Company will hold 63% equity interest of Lingshihua fu, which will become a joint venture of the Target Company.

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 (i) development and sale of residential and commercial properties; (ii) 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; (iii) leasing of commercial properties owned or developed by the Group; and (iv) property management services in the PRC.

Information of the Vendor

Mr. Shum, being the chairman, a non-executive Director and, together with Mingyuan Investment, the controlling shareholders of the Company, and the ultimate controlling shareholder of the Company, is interested in approximately 69.74% of the issued share capital of the Company.

THE SPECIFIC MANDATE

The Consideration Shares and the Conversion Shares upon exercise in full of the conversion rights attached to the Convertible Bonds will be allotted and issued pursuant to the Specific Mandate proposed to be sought from the Independent Shareholders at the EGM.

LETTER FROM THE BOARD

APPLICATION FOR LISTING

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares. The Consideration Shares and the Conversion Shares, when allotted and issued, will rank *pari passu* in all respects with all the existing Shares in issue. All necessary arrangements will be made for the Consideration Shares and the Conversion Shares to be admitted into CCASS.

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, the financial results of the Target Group will be consolidated into the consolidated financial statements of the Group. The Group will be able to enjoy the earnings attributable to the Group of the Target Group. The Group's earnings are expected to increase in the future after the Completion, after taking into account the properties to be developed by the Target Group to be completed and delivered.

For further details of the Target Company, please refer to Appendix III to this circular.

Assets and liabilities

Based on the interim report of the Group for the six months ended 30 June 2020, as at 30 June 2020, the Group had total assets, total liabilities and net assets of approximately RMB66,146 million (equivalent to approximately HK\$78,052 million), RMB52,673 million (equivalent to approximately HK\$62,154 million) and RMB13,473 million (equivalent to approximately HK\$15,898 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 2020, the total assets, total liabilities and net assets of the Enlarged Group would have increased to approximately RMB73,996 million (equivalent to approximately HK\$87,315 million), RMB54,591 million (equivalent to approximately HK\$64,417 million) and RMB19,405 million (equivalent to approximately HK\$22,898 million), respectively.

LISTING RULES IMPLICATIONS

Major Transaction

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the 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 chairman and a non-executive Director and, together with Mingyuan Investment, the controlling shareholders of the Company and the ultimate controlling shareholder of the Company, is interested in approximately 69.74% of the issued share capital of the Company. Hence, Mr. Shum is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Mr. Shum has abstained from voting on the relevant board resolutions in respect of approving the Acquisition. Save as disclosed above, none of the other Directors has a material interest in the Sale and Purchase Agreement and the transactions contemplated thereunder and therefore no other Director was required to abstain from voting on the relevant board resolutions in respects approving the Acquisition.

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 Room 1403, 9 Queen's Road Central, Hong Kong on Friday, 16 April 2021 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. An ordinary resolution will be proposed to the Independent Shareholders at the EGM for consideration and, if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

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 54, 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 10:00 a.m. on Wednesday, 14 April 2021). 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.

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. As at the Latest Practicable Date, Mr. Shum and its associates, in aggregate holding 2,828,310,136 Shares, representing approximately 69.74% 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 and therefore no other Shareholder is required to abstain from voting at the EGM in respect of the resolution approving the aforesaid matters.

LETTER FROM THE BOARD

ENTITLEMENT TO ATTEND AND VOTE AT THE EGM

Shareholders 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, 12 April 2021. 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 12 April 2021.

PRECAUTIONARY MEASURES AT THE EGM

To ensure the health and safety of the attendees at the EGM, the Company intends to implement precautionary measures at the EGM including: (a) compulsory temperature checks at the entrance of the venue of the meeting; (b) attendees are required to bring their own surgical masks and those who had high temperature or not wearing surgical masks might be denied access to the venue of the meeting; (c) no corporate gift, refreshments or drinks will be provided at the meeting; and (d) depending on circumstances, separate rooms connected by instant electronic conference facilities may be arranged at the venue of the meeting to limit the number of attendees at each room.

Shareholders, particularly those who are unwell or subject to quarantine requirements or travel restrictions, are reminded that instead of attending the EGM in person, they may appoint any person or the chairman of the EGM as proxy to vote on the resolutions at the EGM by lodging the form of proxy or appropriate corporate appointment forms. Subject to the development of the COVID-19 epidemic, the Company may implement further precautionary measures as may be appropriate or desirable for the health and safety of attendees of the EGM.

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 their advice and 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 Maxa Capital set out on pages IFA-1 to IFA-51 in this circular which contains their advice and recommendation 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 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
Shum Tin Ching
Chairman

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)

26 February 2021

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE TARGET GROUP HOLDING
PROPERTY DEVELOPMENT PROJECTS
LOCATED IN SHANDONG PROVINCE
INVOLVING THE ISSUE OF CONSIDERATION SHARES AND
CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE**

We refer to the circular dated 26 February 2021 (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. Maxa Capital 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.

We wish to draw your attention to the letter from the Board, as set out on pages 9 to 35 of the Circular and the text of a letter of advice from Maxa Capital, as set out on pages IFA-1 to IFA-51 of the Circular, both of which provide details of the Sale and Purchase Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered (i) the Sale and Purchase Agreement (as subsequently amended and supplemented by the Supplemental 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 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.

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 MAXA CAPITAL

The following is the full text of the letter from Maxa Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders setting out its advice in respect of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



Unit 1908, Harbour Center
25 Harbour Road
Wan Chai
Hong Kong

26 February 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF THE TARGET GROUP HOLDING
PROPERTY DEVELOPMENT PROJECTS
LOCATED IN SHANDONG PROVINCE
INVOLVING THE ISSUE OF CONSIDERATION SHARES AND
CONVERTIBLE BONDS
UNDER SPECIFIC MANDATE**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 26 February 2021 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 13 January 2021 and the supplemental announcement of the Company dated 25 February 2021 (the “**Announcements**”). As set out in the Announcements, on 13 January 2021, the Company entered into the Sale and Purchase Agreement (as subsequently amended and supplemented by the Supplemental 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 the Initial Consideration of HK\$7,247,560,000 (equivalent to approximately RMB6,142,000,000) (subject to adjustment), which will be settled by (i) as to HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) by way of issue of the Convertible Bonds; (ii) as to HK\$2,772,000,000 (equivalent to approximately RMB2,349,152,542) by way of issue and

LETTER FROM MAXA CAPITAL

allotment of 840,000,000 Consideration Shares; and (iii) as to the remaining balance of HK\$1,054,920,000 (equivalent to approximately RMB894,000,000) by cash. Both of the Conversion Price and the Issue Price are HK\$3.30.

LISTING RULES IMPLICATION

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the 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.

As at the Latest Practicable Date, Mr. Shum, being the chairman, a non-executive Director and, together with Mingyuan Investment, the controlling shareholders of the Company, and the ultimate controlling shareholder of the Company, is interested in approximately 69.74% of the issued share capital of the Company. Hence, Mr. Shum is a connected person of the Company, and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The EGM will be convened and held for the purpose of considering and approving the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of the Specific Mandate). In accordance with Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. Mr. Shum and his associates will abstain from voting on the proposed resolution to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the grant of Specific Mandate) at the EGM.

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 advise the Independent Shareholders in respect of whether the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the relevant resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. We, Maxa Capital Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company and any of their respective associates that could reasonably be regarded as relevant to our independence and accordingly, were qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Sale and Purchase Agreement and the transaction contemplated thereunder. Save for our appointment as the Independent Financial Adviser, there was no other engagement between the Company and us in the last two years. Apart from the normal professional fee payable to us

LETTER FROM MAXA CAPITAL

in connection with this appointment, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Group (collectively, the “**Management**”). We have reviewed, inter alia, the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date and the Shareholders will be notified of any material changes to such information and representations before the EGM. We have also assumed that all statements of belief, opinion, intention and expectation made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the representation and opinions expressed by the Company, its advisers and/or the Directors and the Management. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group and the Target Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons.

1. Background 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 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; (iii) the leasing of commercial properties owned or developed by the Group; and (iv) the property management services in the PRC.

As disclosed in the 2020 interim report of the Group for the six months ended 30 June 2020 (the “**2020 Interim Report**”), as at 30 June 2020, the Group had land bank of approximately 17.2 million sq.m., of which Jiangsu Province and Anhui Province accounted for approximately 36% and 23%, respectively. The Group’s property portfolio comprised 81 properties in various major cities in the PRC, consisting of 35 residential complexes covering Yangtze River Delta, city cluster in the Guangdong-Hong Kong-Macao Greater Bay Area, cities along the “Belt and Road” initiative and other key provincial capital cities. It is further disclosed in the 2020 Interim Report that the Group will continue to replenish its premium land bank by adopting practical strategies to optimize the geographical layout of its projects and devise investment portfolios to suit the different urbanisation stages of the PRC with a view to capturing the different demands for the purchase of property in various local markets.

LETTER FROM MAXA CAPITAL

1.2 Financial information of the Group

Below is a summary of the Group's audited financial information for the years ended 31 December 2018 and 2019, respectively and unaudited financial information for the six months ended 30 June 2019 and 2020, respectively, as extracted from the annual report of the Group for the year ended 31 December 2019 (the "Annual Report 2019") and 2020 Interim Report, respectively:

	For the year ended		For the six months ended	
	31 December		30 June	
	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited and		(unaudited	
	restated)	(audited)	and restated)	(unaudited)
	(Note 1)		(Note 2)	
Revenue	13,616,003	16,070,171	6,730,468	8,559,230
– Sales of properties	13,127,092	15,373,501	6,490,208	8,183,123
– Property management services	318,246	485,778	190,065	264,820
– Property rental	76,977	210,892	50,195	111,287
Gross profit	4,503,868	5,242,001	2,525,812	3,202,921
Gross profit margin	33.1%	32.6%	37.5%	37.4%
Profit for the year/period	2,352,184	2,460,483	1,417,618	1,589,444

Notes:

- According to the 2019 Annual Report, on 21 January 2019, the Group completed the acquisition of the entire equity interest in Chuangyuan Holdings Limited (together with its subsidiaries, the "Chuangyuan Group") ("Chuangyuan Acquisition") which is engaged in the property management business in the PRC. On 8 August 2019, the Company completed the acquisition of the entire issued share capital of Huiyuan Investment Holdings Limited (together with its subsidiaries, the "Huiyuan Group") (the "Huiyuan Acquisition"), which is engaged in property development and property investment business in the PRC. The Company has applied merger accounting to the Chuangyuan Acquisition and Huiyuan Acquisition, being business combinations involving entities under common control, under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The Group, Chuangyuan Group and Huiyuan Group are regarded as continuing entities. As a result, the 2018 comparative amounts in the consolidated financial statements of the Group are adjusted to present as if the acquired businesses had been combined at the beginning of 2018.
- According to the 2020 Interim Report, the Chuangyuan Acquisition has been accounted for in preparing the interim financial information for the six months ended 30 June 2019. As a result of the completion of Huiyuan Acquisition on 8 August 2019, the comparative information for the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months ended 30 June 2019 have been restated to include the operating results of the Huiyuan Group as if the Huiyuan Acquisition had been completed since the date the respective business came under the common control of the Company.

LETTER FROM MAXA CAPITAL

For the year ended 31 December 2019 (the “FY2019”), the Group’s revenue amounted to approximately RMB16,070.2 million, representing an increase of approximately 18.0% from approximately RMB13,616.0 million for the year ended 31 December 2018 (the “FY2018”). According to the 2019 Annual Report, during the two years ended 31 December 2019, the Group derived its revenue mainly from (i) property development; (ii) property investment; and (iii) property management services. Revenue from property development is the major component of the Group’s revenue, which accounted for approximately 95.7% of the Group’s revenue for FY2019. The increase in revenue derived from property development increased by approximately 17.1% from approximately RMB13,127.1 million for FY2018 to approximately RMB15,373.5 million for FY2019 was mainly due to the delivery of properties pre-sold under Hefei Paris Metropolis project in Anhui, Jiayuan Yurun Guifu project in Yangzhou and T-plus project in Hong Kong upon their completion in 2019. The revenue generated from property management increased by approximately 52.6% from approximately RMB318.2 million for FY2018 to approximately RMB485.8 million for FY2019. The increase in revenue from property management business was in line with the Group’s delivery of completed properties in 2019.

The gross profit of the Group increased by approximately 16.4% to approximately RMB5,242.0 million for FY2019 from approximately RMB4,503.9 million for FY2018, while the Group’s gross profit margin maintained at similar level of approximately 32.6% in FY2019 as compared with FY2018. The profit for FY2019 increased by approximately 4.6% from approximately RMB2,352.2 million for FY2018 to approximately RMB2,460.5 million. For illustrative purpose, the Group’s profit for FY2019 and FY2018 after adjusting for the fair value change on investment properties and related deferred tax effects, would be approximately RMB2,132.6 million and RMB1,687.1 million, respectively, representing an increase of approximately 26.4%. Such increase was in line with the increase in revenue contributed from the Group’s property development business in FY2019 as mentioned above.

For the six months ended 30 June 2020, the revenue of the Group amounted to approximately RMB8,559.2 million, representing an increase of approximately 27.2% from approximately RMB6,730.5 million in the corresponding period in 2019. According to the 2020 Interim Report, the increase in revenue was mainly due to delivery of properties pre-sold in Yangtze River Delta upon their completion in the first half of 2020.

The Group’s gross profit increased by approximately 26.8% to approximately RMB3,202.9 million for the six months ended 30 June 2020 from approximately RMB2,525.8 million in the corresponding period in 2019. The Group’s gross profit margin for the six months ended 30 June 2020 was maintained at similar level of approximately 37.4% as compared with the corresponding period in 2019. The profit for the six months ended 30 June 2020 was approximately RMB1,589.4 million, representing an increase of approximately 12.1% as compared to the corresponding period in 2019. For illustrative purpose, the Group’s profit for the six months ended 30 June 2020 and 2019, after adjusting for the fair value change on investment properties

LETTER FROM MAXA CAPITAL

and related deferred tax effects, would be approximately RMB1,684.4 million and RMB1,289.5 million, respectively, representing an increase of approximately 30.6%. Such increase was in line with the increase in revenue contributed from the Group's property development business in the first half of 2020 as mentioned above.

	As at 31 December		As at 30 June
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
	(audited and restated)	(audited)	(unaudited)
Inventories of properties	32,080,889	34,112,077	36,107,572
Trade and other receivables	10,131,059	7,177,335	7,398,634
Cash and cash equivalents	4,599,433	6,030,412	7,889,020
Restricted/pledged bank deposits	2,103,123	2,123,101	1,237,792
Total assets	60,667,668	61,735,580	66,145,912
Bank and other borrowings	14,800,921	12,130,179	12,363,340
Senior notes	7,212,509	5,274,776	7,207,132
Pre-sale deposits received	17,911,861	20,440,977	19,176,534
Total liabilities	50,130,988	49,898,422	52,673,343
Total equity	10,536,680	11,837,158	13,472,569
Gearing ratio (Note 1)	145.3%	78.2%	77.5%

Note:

- Gearing ratio is calculated by net debt/total equity. Net debt is calculated by bank and other borrowings and senior notes, net of the cash and cash equivalents and restricted/pledged bank deposits.

As at 31 December 2018, the Group had total assets of approximately RMB60,667.7 million which comprised of non-current assets of approximately RMB10,531.8 million, of which the investment properties accounted for approximately 71.9% of the total non-current assets, and current assets of approximately RMB50,135.9 million. The Group's current assets mainly comprised of inventories of properties of approximately RMB32,080.9 million, trade and other receivables of approximately RMB10,131.1 million and cash and cash equivalents of approximately RMB4,599.4 million. The Group had total liabilities of approximately RMB50,131.0 million as at 31 December 2018, which comprised of non-current liabilities of approximately RMB12,057.3 million and current liabilities of approximately RMB38,073.6 million. The Group's non-current liabilities mainly comprised of bank and other borrowings of approximately RMB7,787.9 million and senior notes of approximately RMB2,735.1 million. The Group's current liabilities mainly comprised of pre-sale deposits received of approximately RMB17,264.1 million and bank and other borrowings of approximately RMB7,013.0 million.

As at 31 December 2019, the Group had total assets of approximately RMB61,735.6 million which comprised of non-current assets of approximately

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RMB11,560.2 million and current assets of approximately RMB50,175.4 million. The increase in the Group's total assets by approximately 1.8% or RMB1,067.9 million as compared to 31 December 2018 was mainly attributable to the increase in inventories of properties and cash and cash equivalents, partly offset by the decrease in trade and other receivables. The Group had total liabilities of approximately RMB49,898.4 million as at 31 December 2019, which comprised of non-current liabilities of approximately RMB13,948.7 million and current liabilities of approximately RMB35,949.7 million. The decrease in the Group's total liabilities by approximately 0.5% or RMB232.6 million as compared to 31 December 2018 was mainly attributable to increase in pre-sale deposits received and current income tax liabilities, partly offset by the decrease in bank and other borrowings and senior notes.

As at 30 June 2020, the Group had total assets of approximately RMB66,145.9 million which comprised of non-current assets of approximately RMB12,885.2 million and current assets of approximately RMB53,260.7 million. The increase in the Group's total assets by approximately 7.1% or RMB4,410.3 million as compared to 31 December 2019 was mainly attributable to the increase in investments accounted for using the equity method, inventories of properties and cash and cash equivalents. The Group had total liabilities of approximately RMB52,673.3 million as at 30 June 2020, which comprised of non-current liabilities of approximately RMB13,043.7 million and current liabilities of approximately RMB39,629.9 million. The increase in the Group's total liabilities by approximately 5.6% or RMB2,774.9 million as compared to 31 December 2019 was mainly attributable to increase in senior notes issued.

The gearing ratio of the Group decreased from approximately 145.3% as at 31 December 2018 to approximately 78.2% as at 31 December 2019, which was mainly attributable to the Group's effort in speeding up cash recovery from property sales, actively strengthening its control over the degree of leverage and fortifying capital management ability in 2019. The gearing ratio of the Group as at 30 June 2020 was approximately 77.5%, which remained fairly stable as compared to 31 December 2019.

2. Background information on the Target Group and the Vendor

2.1 *Principal business of the Target Group*

The Target Company is a company newly incorporated under the laws of the BVI with limited liability and wholly-owned by Mr. Shum. The Target Group will own equity interests in all the property development project companies in Shandong Province, the PRC, wholly-owned or partially-owned by Mr. Shum and/or companies controlled by him after completion of the Reorganisation.

After completion of the Reorganisation, the Target Group will hold four property development projects located in Qingdao of Shandong Province (the “**Qingdao Projects**”) and one property development project located in Weihai of Shandong Province (the “**Weihai Project**”). The Qingdao Projects mainly consist of large-scale residential complex projects, as well as wholesale and retail, information technology

research and commercial offices developments. The Weihai Project is a residential complex project with shopping arcades and other supporting facilities.

2.2 Information of the Vendor

Mr. Shum, being the chairman, a non-executive Director and, together with Mingyuan Investment, the controlling shareholders of the Company, and the ultimate controlling shareholder of the Company, is interested in approximately 69.74% of the issued share capital of the Company.

2.3 Information of the Target Group's property development projects

Upon completion of the Reorganisation, the Target Group holds the following property development projects:

(i) *Project Jiayuan Huafu (佳源華府)*

Jiayuan Huafu is located at the junction of Songling Road and Xianxialing Road, Laoshan District in Qingdao City. The locality is well served by public transportation and supporting facilities. The property occupies 3 parcels of land with a total site area of approximately 128,960.45 sq.m. and will be developed into a residential and commercial complex in three phases. Phase I is currently under construction and scheduled to be completed by September 2021 and delivered in May 2022, and the construction works of Phases II and III had not been commenced.

Phases I and II of the property has a total planned gross floor area ("GFA") of approximately 714,959.39 sq.m. The plot ratio accountable GFA of Phase III of the property is 18,846.8 sq.m.. The land use rights of the property have been granted for terms expiring on 6 June 2088 for residential use and 6 June 2058 for commercial use.

(ii) *Project Jiayuan Haiyuefu (佳源海玥府)*

Jiayuan Haiyuefu is located at the southern side of Haiwang Road and the eastern side of Huangdunshan Road, Huangdao District in Qingdao City. There are some residential developments nearby and the public transportation network and amenities are under further improvement.

The property occupies 2 parcels of land with a total site area of approximately 56,132 sq.m., and will be developed into a residential and commercial complex. It is currently under construction and scheduled to be completed by March 2022 and delivered in May 2022. The property has a planned GFA of approximately 107,165.50 sq.m. The land use rights of the property have been granted for terms expiring on 14 May 2089 for residential use and 14 May 2059 for commercial use.

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(iii) *Project Zhongchang Valley (青島中昌數創智慧谷)*

Zhongchang Valley is located at the western side of Baiguoshuhe Road and the southern side of Qianwangang Road Huangdao District Qingdao City. There are some residential developments nearby and the locality is well served by public transportation and supporting facilities.

The property occupies 2 parcels of land with a total site area of approximately 118,236 sq.m., and will be developed into an office park including business offices and industrial offices. It is currently under construction and scheduled to be completed by March 2023 and delivered in May 2023. The property has a planned GFA of approximately 237,670.75 sq.m. The land use rights of the property have been granted for terms expiring on 14 May 2059 for commercial and financial use and 14 May 2069 for science and research use.

(iv) *Project Jiayuan Twin City (佳源雙子星城)*

Jiayuan Twin City is located at the northern side of Nanling San Road and the Western side of Chongqing Zhong Road Licang District of Qingdao City. There are some residential developments nearby and the public transportation network and amenities are under further improvement.

The property occupies 5 parcels of land with a total site area of approximately 168,827.60 sq.m. and will be developed into a residential, commercial and office complex in two phases. Phase I is currently under construction and scheduled to be completed in May 2023, and the construction works of Phase II had not been commenced. The land use rights of the property have been granted for terms expiring on 30 May 2090 for residential use and 30 May 2060 for commercial and financial use.

(v) *Project Jiayuan Haitangfu (佳源海棠府)*

Jiayuan Haitangfu is located the western side of Qingdao Road and the northern side of Zhuhai Road Huancui District, Weihai City. It is at the Economic and Technological Development Zone of Weihai City and the locality is well served by public transportation and supporting facilities.

The property comprises a parcel of land with a site area of approximately 16,300 sq.m. The property was bare land and started construction in December 2020 with planned GFA of approximately 35,511.10 sq.m. The land use rights of the property have been granted for terms expiring on 17 September 2090 for residential use, 17 September 2060 for commercial use and 17 September 2070 for public facilities use.

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2.4 Financial information of the Target Group

(i) Financial information of the Combined Group

Set out below is the financial information of the Combined Group for the three years ended 31 December 2019 and for the nine months ended 30 September 2019 and 2020, respectively, based on the Accountants' Report of the Combined Group as set out in Appendix IIA to the Circular.

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Revenue	–	–	–	–	795,317
Cost of sales	–	–	–	–	(502,678)
Gross profit	–	–	–	–	292,639
Other income	4	422	283	219	237
Other losses, net	(1)	(49)	(21)	(91)	(2,867)
Net impairment (Losses)/reversal on financial assets	–	(3,040)	2,078	2,123	(16,405)
Selling and marketing costs	(415)	(3,437)	(1,409)	(856)	(3,679)
Administrative expenses	(566)	(12,899)	(4,931)	(1,893)	(15,437)
Finance costs	–	(7,746)	(2,006)	(1,616)	(716)
(Loss)/profit before taxation	(978)	(26,749)	(6,006)	(2,114)	253,772
Income tax credit/(expenses)	226	6,644	894	466	(118,297)
(Loss)/profit and total comprehensive income/(loss) for the year/period	<u>(752)</u>	<u>(20,105)</u>	<u>(5,112)</u>	<u>(1,648)</u>	<u>135,475</u>

The Combined Group recorded nil revenue during the three years ended 31 December 2017, 2018 and 2019 as the Combined Group had not delivered any properties. The Combined Group recorded revenue of approximately RMB795.3 million for the nine months ended 30 September 2020, which was mainly derived from the property development project under Weihai Xiangyuan. Weihai Xiangyuan has two property development projects, (i) 佳源名城 (Project Jiayuan

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Mingcheng) included five residential buildings and three commercial buildings; and (ii) 佳源海棠府 (Project Jiayuan Haitangfu), which included eight residential buildings. Project Jiayuan Mingcheng commenced pre-sale in April 2018. All buildings under Project Jiayuan Mingcheng were completed and delivered by January 2020 and contributed to the revenue of the nine months ended 30 September 2020. Project Jiayuan Haitangfu will commence pre-sale in March 2021 and is scheduled to be completed by October 2022 and delivered in December 2022.

The Combined Group recorded losses of approximately RMB0.8 million, RMB20.1 million, RMB5.1 million, respectively for the three years ended 31 December 2017, 2018 and 2019. The net loss was mainly attributable the costs incurred for its business operation. The Combined Group recorded profit of approximately RMB135.5 million for the nine months ended 30 September 2020 which was mainly attributable to the profits recognised from the delivery of Project Jiayuan Haitangfu to the customers by Weihai Xiangyuan.

	Year ended 31 December			Nine months ended
	2017	2018	2019	30 September
	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)	(Audited)
Non-current assets				
Property and equipment	84	270	216	1,740
Deferred tax assets	226	6,870	8,042	24,827
	<u>310</u>	<u>7,140</u>	<u>8,258</u>	<u>26,567</u>
Current assets				
Inventories of properties	195,769	322,545	419,858	2,150,476
Prepayments and other receivables	379	465,257	728,754	2,710,010
Prepaid income tax	–	32,332	34,842	–
Contract acquisition costs	–	689	941	–
Right to acquire the land use rights	–	–	143,220	–
Restricted bank deposits	–	90,084	18,386	2,566
Cash and cash equivalents	1,864	301	6,243	5,601
	<u>198,012</u>	<u>911,208</u>	<u>1,352,244</u>	<u>4,868,653</u>

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	Year ended 31 December			Nine months ended
	2017	2018	2019	30 September
	RMB'000	RMB'000	RMB'000	2020
	(Audited)	(Audited)	(Audited)	(Audited)
Current liabilities				
Trade and other payables	179,074	50,875	93,781	900,175
Pre-sale deposits received	–	737,775	852,469	18,783
Current income tax liabilities	–	–	–	97,086
Bank and other borrowings	–	130,555	25,812	1,314
	<u>179,074</u>	<u>919,205</u>	<u>972,062</u>	<u>1,017,358</u>
Net current assets/(liabilities)	18,938	(7,997)	380,182	3,851,295
Total assets less current liabilities	19,248	(30,857)	388,440	3,877,862
Non-current liabilities				
Bank and other borrowings	–	–	249,000	900,000
	<u>–</u>	<u>–</u>	<u>249,000</u>	<u>900,000</u>
EQUITY				
Equity attributable to owners of Luyuan				
Combined capital	20,000	20,000	20,000	2,176,452
(Accumulated losses)/retained earnings	(752)	(20,857)	(25,969)	111,449
	<u>19,248</u>	<u>(857)</u>	<u>(5,969)</u>	<u>2,287,901</u>
Non-controlling interests	–	–	145,409	689,961
Total equity	<u>19,248</u>	<u>(857)</u>	<u>139,440</u>	<u>2,977,862</u>

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The Combined Group's current assets increased from approximately RMB198.0 million as at 31 December 2017 to approximately RMB4,868.7 million as at 30 September 2020, which was mainly attributable to the increase in inventories of properties from approximately RMB195.8 million to approximately RMB2,150.5 million and increase in prepayments and other receivables from approximately RMB0.4 million to approximately RMB2,710.0 million. The increase in inventories of properties was mainly due to the acquisition of land use rights during the nine months ended 30 September 2020. The increase in prepayments and other receivables was mainly due to advances made to related parties during the nine months ended 30 September 2020.

The Combined Group's current liabilities increased from approximately RMB179.1 million as at 31 December 2017 to approximately RMB1,017.4 million as at 30 September 2020. The increase in the Combined Group's current liabilities was mainly attributable to the increase in advances from related parties. The non-current liabilities of the Combined Group as at 30 September 2020 mainly comprised of bank and other borrowings. Apart from the bank and other borrowings of approximately RMB901.3 million, the Combined Group did not have any interest-bearing loan as at 30 September 2020.

The significant increase in the Combined Group's total equity from approximately RMB19.2 million as at 31 December 2017 to approximately RMB2,977.9 million as at 30 September 2020 was mainly due to the capital injection made by Mr. Shum, the Combined Group's ultimate shareholder.

(ii) *Financial information of Lingshihuaifu*

As disclosed in the Letter from the Board, Lingshihuaifu was a joint venture of the Target Company as at 30 September 2020 with a 63% equity interest. Upon the Completion, Lingshihuaifu will become a joint venture of the Company and be accounted for under equity method of accounting.

Immediately before the Reorganisation, Zhejiang Jiayuan Shencheng Real Estate Property Group Co., Ltd. ("**Shencheng Group**"), a company ultimately controlled by Mr. Shum, Qingdao Zhujiawa Industrial Co., Ltd. and Mr. Yu Xihua held 63%, 30% and 7% equity interest in Lingshihuaifu, respectively. In accordance with the articles of association and cooperation agreements of Lingshihuaifu, Shencheng Group and Mr. Yu Xihua have joint control over Lingshihuaifu; and the decision about the relevant activities of Lingshihuaifu requires more than 2/3 consent of Shencheng Group, Qingdao Zhujiawa Industrial Co., Ltd. and Mr. Yu Xihua. The investment in Lingshihuaifu is, therefore, treated as investment in joint venture and the equity method is applied.

Upon the Reorganisation, the Target Company will hold 63% equity interest of Lingshihuaifu, which will become a joint venture of the Target Company.

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Set out below is the financial information of Lingshihuafu for the three years ended 31 December 2017, 2018 and 2019 and for the nine months ended 30 September 2019 and 2020, respectively, based on the Accountants' Report of Lingshihuafu as set out in Appendix IIB to the Circular.

	Year ended 31 December			Nine months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)	(Unaudited)	(Audited)
Revenue	—	—	—	—	—
Cost of sales	—	—	—	—	—
Gross profit	—	—	—	—	—
Other income	183,355	252,553	624	322	703
Other losses, net	(17)	(14)	(50)	(40)	(60)
Net impairment (losses)/reversal on financial assets	(63)	(1,194)	5,030	6,652	(11,478)
Selling and marketing costs	(274)	(5,333)	(10,354)	(7,747)	(3,250)
Administrative expenses	(1,571)	(4,978)	(8,625)	(4,478)	(3,259)
Finance costs	(216,544)	(245,004)	(1,653)	(1,236)	(1,241)
Loss before taxation	(35,114)	(3,970)	(15,028)	(6,527)	(18,585)
Income tax credit	8,621	927	3,710	1,588	4,625
Loss and total comprehensive loss for the year/period	<u>(26,493)</u>	<u>(3,043)</u>	<u>(11,318)</u>	<u>(4,939)</u>	<u>(13,960)</u>

Project Jiayuan Huafu was still under construction stage and recorded nil revenue for the years ended 31 December 2017, 2018 and 2019 and for the nine months ended 30 September 2020. Phase I of Project Jiayuan Huafu commenced pre-sale in June 2019 and is scheduled be completed by September 2021 and delivered in May 2022. Phase II and Phase III of Project Jiayuan Huafu are scheduled to commence pre-sale in June 2021 and March 2023 respectively.

As the property project is still under development and did not record any revenue, Lingshihuafu recorded net losses of approximately RMB26.5 million, RMB3.0 million, RMB11.3 million and RMB14.0 million, respectively for the three years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020.

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	Year ended 31 December			Nine months ended
	2017	2018	2019	30 September 2020
	RMB'000	RMB'000	RMB'000	RMB'000
	(Audited)	(Audited)	(Audited)	(Audited)
Non-current assets				
Property and equipment	1,252	1,090	712	432
Deferred tax assets	8,621	15,233	18,943	23,568
Prepayments and other receivables	–	37,901	20,086	11,214
	<u>9,873</u>	<u>54,224</u>	<u>39,741</u>	<u>35,214</u>
Current assets				
Inventories of properties	239,923	2,032,322	4,639,699	5,464,388
Prepayments and other receivables	2,536,717	2,013,933	2,497,463	3,036,577
Contract acquisition costs	–	–	2,900	7,844
Prepaid income tax	–	–	36,058	83,714
Restricted bank deposits	–	–	103,710	158,278
Cash and cash equivalents	100,253	1,035	23,101	46,111
	<u>2,876,893</u>	<u>4,047,290</u>	<u>7,302,931</u>	<u>8,796,912</u>
Current liabilities				
Trade and other payables	2,890,144	2,077,096	1,045,879	1,072,054
Pre-sale deposits received	–	–	1,015,493	2,384,471
Bank and other borrowings	–	–	1,120,664	2,719,615
	<u>2,890,144</u>	<u>2,077,096</u>	<u>3,182,036</u>	<u>6,176,140</u>
Net current (liabilities)/assets	<u>(3,378)</u>	<u>2,024,418</u>	<u>4,160,636</u>	<u>2,655,986</u>
Total assets less current liabilities	<u>(13,251)</u>	<u>1,970,194</u>	<u>4,120,895</u>	<u>2,620,772</u>
Non-current liabilities				
Bank and other borrowings	–	2,047,894	4,195,430	2,704,740
	<u>–</u>	<u>2,047,894</u>	<u>4,195,430</u>	<u>2,704,740</u>
EQUITY				
Paid-in capital	27,000	27,000	27,000	27,000
Accumulated losses	<u>(30,378)</u>	<u>(50,476)</u>	<u>(61,794)</u>	<u>(75,754)</u>
Total equity	<u><u>(3,378)</u></u>	<u><u>(23,476)</u></u>	<u><u>(34,794)</u></u>	<u><u>(48,754)</u></u>

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Lingshihuaifu's current assets increased from approximately RMB2,876.9 million as at 31 December 2017 to approximately RMB8,796.9 million as at 30 September 2020, which was mainly attributable to the increase in inventories of properties by approximately RMB5,224.5 million to approximately RMB5,464.4 million and increase in prepayments and other receivables by approximately RMB499.9 million to approximately RMB3,036.6 million. The increase in inventories of properties was mainly due to the development of Project Jiayuan Huaifu located at Laoshan District in Qingdao City. The prepayments and other receivables of approximately RMB3,036.6 million as at 30 September 2020 mainly comprised of advances to related parties, deposits paid for construction services and deposits placed with financial companies.

Lingshihuaifu's current liabilities increased from approximately RMB2,890.1 million as at 31 December 2017 to approximately RMB6,176.1 million as at 30 September 2020. The increase in Lingshihuaifu's current liabilities was mainly attributable to the increase in pre-sale deposits received and bank and other borrowings, partly offset by the decrease in trade and other payables. The non-current liabilities of Lingshihuaifu as at 30 September 2020 mainly comprised of bank and other borrowings.

3. Reasons for and benefits of the Acquisition

3.1 Reasons for the Acquisition

As disclosed in the Letter from the Board, as the property development projects of the Target Group are largely located in Qingdao of Shandong Province, which is one of China's new first-tier cities, the Group expects that the property market of Shandong Province will continue to grow steadily in future, which will be a boost to the Group's sales expectation. On the other hand, the Group may swiftly expand the geographical coverage of its business by adding more provinces to its regional layout and further expand its land reserve and achieve economies of scale and in turn uplift the Group's competitiveness.

We have reviewed the Prospectus and note that in order to achieve the geographical segregation between the property development projects of the Group and the Private Group which ultimately owned by Mr. Shum and to ensure clear delineation of property businesses of the Group and the Private Group and minimise any potential competition arising therefrom, Mingyuan Investment and Mr. Shum entered into the Deed of Non-Competition with and in favour of the Company, pursuant to which, the Private Group agreed to conduct its property development business only in the non-Target Cities (as defined in the Prospectus) while the Group shall conduct its property development business in the Target Cities (as defined in the Prospectus) exclusively. Pursuant to the Deed of Non-Competition, the Company was granted an option to acquire in one or more occasions any interest in respect of the property development project(s) (in whole or in part) in a non-Target City (as defined in the Prospectus) held by Mingyuan Investment and Mr. Shum or any of their respective associates at any time.

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Reference is made to the Prospectus, we note that Qingdao City is one of the non-Target Cities (as defined in the Prospectus) and Weihai City falls within the ambit of Unoccupied City (as defined in the Prospectus). Given that the Private Group already conducts its property development business in Weihai City via the Target Group, Weihai City has subsequently become a non-Target City (as defined in the Prospectus) and therefore the Company is entitled to exercise the option under the Deed of Non-Competition to acquire the property development projects in Weihai City. Upon Completion, both Qingdao City and Weihai City will become Target Cities (as defined in the Prospectus) and the Private Group will cease to have any interests in property development projects in Qingdao City and Weihai City. In view of the above, we concur with the Directors' view that, under this Acquisition, its controlling shareholders will remain in compliance with the non-competition undertakings given by them under the Deed of Non-Competition as disclosed in the Prospectus after Completion and the Acquisition represents the performance of the commitment of Mr. Shum to continually inject non-listed businesses into the Company.

The Acquisition would enable the Group to establish presence in Shandong Province and lay solid for the future development of the Company and play a positive role in further boosting the influence of the "Jiayuan" brand across the PRC. It will help in expanding the strategic layout of the Group in key regions nationwide.

As illustrated in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to the Circular, assuming the Acquisition had taken place on 30 June 2020, the Group's net asset value as at 30 June 2020 would increase by approximately RMB5,932.7 million to RMB19,405.3 million and its gearing ratio would also decrease from approximately 77.5% to 63.1%. The Directors consider that Completion of the allotment and issue of the Consideration Shares and the Conversion Shares will further raise the shareholding percentage of Mr. Shum. Meanwhile, the increase in the Group's estimated net assets will continue to optimize the structure of assets and liabilities of the Group and enable the Group to further establish a healthier financial position.

3.2 Overview of the property market of Shandong Province

Considering the Target Group principally engages in its business in Qingdao City and Weihai City, we have obtained and reviewed the market data in connection with the Qingdao City and Weihai City's property market and overall economic growth over the recent years.

Qingdao City

Qingdao City is a sub-provincial city of Shandong Province, which is an important coastal city and an international port approved by the State Council of the People's Republic of China (the "**State Council**"). It is also the economic center of Shandong Province, a coastal holiday tourism city, an important national advanced marine industry development zone and international shipping hub of the northeast Asia. It is also the major city of the Belt and Road New Asia-Europe Continental Bridge Economic Corridor (一帶一路新亞歐大陸橋經濟走廊) and the strategic fulcrum of maritime cooperation. With a total area of 11,293 square kilometers, Qingdao City has jurisdiction over seven districts and administers three county-level cities.

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The table below sets forth selected economic indicators of Qingdao City for the years indicated:

	2014	2015	2016	2017	2018	2019	CAGR
Nominal GDP (RMB billion)	812.1	865.9	928.3	1,013.7	1,094.9	1,174.1	7.7%
Real GDP growth rate (%)	7.8	7.9	7.7	7.4	7.3	6.5	N/A
Fixed asset investment (RMB billion)	576.6	655.6	745.5	777.7	–	–	–
Population (million)	9.0	9.1	9.2	9.3	9.4	9.5	1.0%
Urban Population (million)	6.2	6.4	6.6	6.7	6.9	7.0	2.6%
Urbanisation rate (%)	68.4	70.0	71.5	72.6	73.7	74.1	N/A
Per capita disposable income of urban residents (RMB)	38,294	40,370	43,598	47,176	50,817	54,484	7.8%

Source: Qingdao Bureau of Statistics, National Bureau of Statistics

The table below sets forth selected indicators of the property market in Qingdao City for the years indicated:

	2014	2015	2016	2017	2018	2019	CAGR
Property investment (RMB billion)	111.8	112.2	136.9	133.1	148.5	180.4	10.0%
Residential properties investment (RMB billion)	73.1	75.7	95.6	92.6	103.5	123.9	11.1%
Sales of commodity properties (RMB billion)	97.1	126.3	179.0	199.9	228.2	224.7	18.3%
Sales of commodity residential properties (RMB billion)	80.3	104.5	157.6	164.2	195.3	201.8	20.2%
GFA of commodity properties sold (million sq.m.)	11.6	14.2	19.4	19.0	18.1	16.5	7.3%
GFA of commodity residential properties sold (million sq.m.)	10.2	12.4	17.5	16.3	15.8	14.8	7.6%
Average Selling Price (“ASP”) of commodity properties (RMB/sq.m.)	8,341.1	8,899.6	9,231.3	10,516.6	12,624.2	13,601.7	10.3%
ASP of commodity residential properties (RMB/sq.m.)	7,857.3	8,436.5	8,997.2	10,050.7	12,375.8	13,670.2	11.7%

Source: Qingdao Bureau of Statistics, National Bureau of Statistics

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Qingdao City's property development has increased between 2014 and 2019. As illustrated by the table above, Qingdao City's residential properties investment and sales of commodity residential properties increased from approximately RMB73.1 billion and RMB80.3 billion in 2014 to approximately RMB123.9 billion and RMB201.8 billion in 2019 respectively, representing a CAGR of approximately 11.1% and 20.2% respectively. The GFA of commodity residential properties sold and ASP of commodity residential properties increased from approximately 10.2 million sq.m. and RMB7,857.3 per sq.m. in 2014 respectively to approximately 14.8 million sq.m. and RMB13,670.2 per sq.m. in 2019 respectively, representing a CAGR of approximately 7.6% and 11.7% respectively. Qingdao City's sales of commodity properties, GFA of commodity properties sold and GFA of commodity residential properties sold had decreased in 2019 as compared to 2018 which were mainly due to the continuous macro-control policies promulgated by the PRC government over the property market. Given that Shandong Province's resident population exceeds 100 million and Qingdao City has the highest GDP in the province, we believe that Qingdao City will have strong attraction to the Shandong Province population and growth potential in the property market, ranking 17th in terms of property development investment attractiveness among cities above the prefecture level in China in 2020.

Weihai City

Weihai City is a prefecture-level city of Shandong Province, which is a regional central city in Shandong peninsula, an important marine industrial base and a coastal tourist city approved by the State Council. It is a pilot demonstration city of China-South Korea Free Trade Zone (中韓自由貿易區). It is also one of the first batch of national comprehensive pilot areas for new-type urbanisation. With a total area of 291 square kilometers, Weihai City has jurisdiction over two districts and administers two county-level cities.

The table below sets forth selected economic indicators of Weihai City for the years indicated:

	2014	2015	2016	2017	2018	2019	CAGR
Nominal GDP (RMB billion)	224.4	240.8	260.7	279.5	289.9	296.4	5.72%
Real GDP growth rate (%)	9.4	8.4	7.9	8.0	6.6	3.6	N/A
Fixed asset investment (RMB billion)	22.3	25.4	28.8	29.4	34.5	38.3	11.42%
Population (million)	2.81	2.81	2.82	2.83	2.83	2.84	0.21%
Urban Population (million)	1.72	1.77	1.83	1.88	1.92	1.95	2.54%
Urbanisation rate (%)	61.3	63.2	65.0	66.5	67.8	68.7	N/A
Per capita disposable income of urban residents (RMB)	34,254	36,336	39,363	42,703	45,896	49,044	7.44%

Source: Weihai Bureau of Statistics, National Bureau of Statistics

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The table below sets forth selected indicators of the property market in Weihai City for the years indicated:

	2014	2015	2016	2017	2018	2019	CAGR
Property investment (RMB billion)	35.7	31.3	21.5	27.5	34.5	38.3	1.42%
Residential properties investment (RMB billion)	29.3	25.7	17.5	21.6	27.5	30.7	0.94%
Sales of commodity properties (RMB billion)	40.1	42.2	46.4	54.7	67.0	48.4	3.83%
Sales of commodity residential properties (RMB billion)	33.5	34.0	39.4	47.2	59.0	44.8	5.99%
GFA of commodity properties sold (million sq.m.)	8.5	8.7	9.1	10.0	10.4	6.3	-5.81%
GFA of commodity residential properties sold (million sq.m.)	7.5	7.5	8.3	8.9	9.3	5.7	-5.34%
ASP of commodity properties (RMB/sq.m.)	4,731.5	4,866.0	5,090.0	5,432.8	6,423.4	7,701.5	10.23%
ASP of commodity residential properties (RMB/sq.m.)	4,483.7	4,504.2	4,759.0	5,293.9	6,355.0	7,851.4	11.86%

Source: Weihai Bureau of Statistics, National Bureau of Statistics

As illustrated by the table above, Weihai City's residential properties investment and sales of commodity residential properties increased from approximately RMB29.3 billion and RMB33.5 billion in 2014 to approximately RMB30.7 billion and RMB44.8 billion in 2019 respectively, representing a CAGR of approximately 0.94% and 5.99% respectively. The GFA of commodity residential properties sold decreased from approximately 7.5 million sq.m. in 2014 to approximately 5.7 million sq.m. in 2019, representing a CAGR of -5.34%, while the ASP of commodity residential properties increased from approximately RMB4,483.7 per sq.m. in 2014 to approximately RMB7,851.4 per sq.m. in 2019, representing a CAGR of approximately 11.86%. Weihai City's sales of commodity properties, sales of commodity residential properties, GFA of commodity properties sold and GFA of commodity residential properties sold had decreased in 2019 as compared to 2018 which were mainly due to the continuous macro-control policies promulgated by the PRC government over the property market. Given that Shandong Province's resident population exceeds 100 million and Weihai City has the third highest GDP in the province, we believe that Weihai

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City will have strong attraction to the Shandong Province population and growth potential in the property market, ranking 83th in terms of property development investment attractiveness among cities above the prefecture level in China in 2020.

While we note that there is a slowdown in the sales growth of commodity properties as evidenced by the negative CAGR of the GFA of commodity properties sold and GFA of commodity residential properties sold in Weihai City between 2014 to 2019, it is worth noting that the economic indicators of Weihai City demonstrated steadily growth for the same period. In particular, Weihai City's nominal GDP and per capita disposable income of urban residents increased from approximately RMB224.4 billion and RMB34,254 in 2014 to approximately RMB296.4 billion and RMB49,044 in 2019 respectively, representing a CAGR of approximately 5.72% and 7.44% respectively. Also, Weihai City's urbanisation rate increased from 61.3% in 2014 to 68.7% in 2019. The continuous increase in economic growth and purchasing power of urban residents in Weihai City will drive the consumption upgrade, which in turn promotes the demand for property markets. Also, we believe that the accelerating urbanisation rate would also be a key driver for the stable growth of the property market in Weihai City.

Outlook of the PRC property market

The outbreak of Novel Coronavirus (COVID-19) in December 2019 has significantly affected the property market activities and sentiments in the short run. All segments of the PRC property market have been influenced more or less. In response to the effect of the COVID-19 outbreak, various PRC local governments have been introducing supportive measures to stabilize the property market since February 2020, such as allowance of delay in the commencement and completion time of property projects, relaxation of pre-sale conditions and supervision on pre-sale funds, postponing the payment of land lease, enhancing credit support to developers, relaxation of credit limits and down payment requirements, policy to relax the restrictions on new migrants, etc. The COVID-19 outbreak has been effectively under controlled in the PRC in the second half of 2020. Almost all of the construction companies and real estate development companies had resumed worked. The demand previously suppressed by the COVID-19 outbreak has been released and the real estate transactions in most cities had been gradually recovered.

After nearly two years of adjustment cycle since second half of 2018, the PRC property market is believed to enter relatively stable new cycle in the future. The market demand for properties is anticipated to be stabilized, supported by the development of metropolitan clusters, on-going urbanisation process and, rigid and upgrading demand. Therefore, the fundamentals of the PRC property market will remain stable and resilient in the medium and long term.

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Based on the aforesaid, we concur with the Directors that the Acquisition is aligned with the Group's strategic goal of "expansion and strengthening" and therefore, we consider the entering into of the Sale and Purchase Agreement is fair and reasonable as a strategic step to promote the expansion of strategic layout of the Group in Shandong Province in the PRC and in the interests of the Company and its Shareholders as a whole.

4. Principal terms of the Sale and Purchase Agreement (as subsequently amended and supplemented by the Supplemental Agreement)

The principal terms of the Sale and Purchase Agreement are set out below:

Date

13 January 2021

Parties

- (i) The Company, as the purchaser; and
- (ii) Mr. Shum, as the 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.

The Target Company will own, through its direct and/or indirect subsidiaries, equity interests in all the property development project companies in Shandong Province, the PRC, wholly-owned or partially-owned by Mr. Shum and/or companies controlled by him after the Reorganisation. Upon completion of the Reorganisation, the Target Group will comprise, among others, the Target Company as the investment holding company and all the property development project companies in Shandong Province, the PRC. Further information of the Reorganisation is set out in the paragraphs headed "Reorganisation" and "Information of the Target Group and its business", respectively, in the Letter from the Board.

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Consideration

The Initial Consideration for the Acquisition is HK\$7,247,560,000 (equivalent to approximately RMB6,142,000,000) (subject to adjustment), which will be satisfied upon Completion in the following manner:

1. as to HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) by way of issue of the Convertible Bonds in the aggregate principal amount of HK\$3,420,640,000 entitling Mr. Shum or his nominee(s) to convert at the Conversion Price of HK\$3.30 per Conversion Share (subject to adjustment) into a maximum number of 1,036,557,575 Conversion Shares;
2. as to HK\$2,772,000,000 (equivalent to approximately RMB2,349,152,542) by way of issue and allotment of 840,000,000 Consideration Shares by the Company to Mr. Shum or his nominee(s) at the Issue Price of HK\$3.30 per Consideration Share; and
3. as to the remaining balance of HK\$1,054,920,000 (equivalent to approximately RMB894,000,000) by cash.

The Initial Consideration was agreed on based on the Adjusted NAV (as defined and calculated in the manner described in the paragraphs headed “Adjusted NAV and Initial Consideration” in the Letter from the Board) as at 30 September 2020. The Initial Consideration shall be adjusted to the Final Consideration according to the adjustment mechanism described in the paragraph headed “Consideration Adjustment Mechanism” in the Letter from the Board and the paragraph below. The Final Consideration shall be payable by the Company to Mr. Shum or his nominee(s) upon Completion.

Consideration adjustment mechanism

In the event that the Adjusted NAV of the Target Group at Completion calculated by reference to, inter alia, the audited combined accounts of the Target Group as at and for the year ended 31 December 2020 (the “**Adjusted NAV at Completion**”) is less than the Adjusted NAV, the Initial Consideration shall be adjusted downward by the difference between the amount of the Adjusted NAV and the amount of the Adjusted NAV at Completion after accounting for the 4.86% discount to arrive at the Final Consideration (i.e. the Final Consideration equals to 95.14% of the Adjusted NAV at Completion). If the Adjusted NAV at Completion is equal to or more than the Adjusted NAV, no adjustment will be made (i.e. the Final Consideration is equal to the Initial Consideration). In the event the Initial Consideration is adjusted downward in the aforementioned scenario, the cash portion of the Final Consideration will be reduced whereas the Convertible Bonds and Consideration Shares portions of the Final Consideration will remain unchanged.

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Convertible Bonds

Subject to certain conditions to Completion, the Company will issue the Convertible Bonds in an aggregate principal amount of HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) which, unless previously converted, will mature on the date falling 60 months from the Issue Date, unless extended at the request of the Company.

Consideration Shares

The 840,000,000 Consideration Shares represent approximately 20.71% of the issued share capital of the Company as at the Latest Practicable Date, approximately 17.16% 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) and approximately 14.16% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares upon full conversion of the Convertible Bonds.

The Conversion Price and the Issue Price

The Conversion Price of HK\$3.30 per Conversion Share and the Issue Price of HK\$3.30 per Consideration Share were determined on an arm's length basis between the Company and Mr. Shum with reference to the prevailing market price of the Shares.

Conditions precedent

Completion 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 and the Convertible Bonds, having been approved by the Independent Shareholders 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 Share as well as the Conversion 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; and

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- (v) the Company having been satisfied with the due diligence results of the Target Group in all respects.

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 2021 or such other date as the parties may agree, the Sale and Purchase Agreement will be terminated unless the parties otherwise agree. While conditions (iv) and (v) may be waived by the Company, to the best knowledge, belief and information of the Directors, and based on a legal opinion issued by the Company's PRC legal advisers regarding the property interests forming the subject of this Acquisition, there are no circumstances as currently foreseen that would require these conditions to be waived on or before 31 December 2021 or such other date as the parties may agree. Therefore, the substance of this Acquisition is expected to remain the same on the date of closing of this Acquisition.

Reorganisation

Upon completion of the Reorganisation, the Target Group will comprise, among others, the Target Company as the investment holding company and all the property development project companies in Shandong Province, the PRC.

Pursuant to the Reorganisation, the Target Group shall cancel all the corporate guarantees provided by the subsidiaries or joint venture(s) of the Target Group to any of the subsidiaries or joint venture(s) of the Private Group before Completion.

Please refer to the paragraphs headed "Reorganisation" in the Letter from the Board for more details regarding the Reorganisation and a chart showing the corporate and shareholding structure of the Target Group immediately after the completion of the Reorganisation.

Completion

Completion shall take place on the tenth 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. Basis of the Consideration

As disclosed in the Letter from the Board, the Initial Consideration was determined after arm's length negotiations between the Company and Mr. Shum with reference to, among other things, (i) the appreciated value of the property development projects as at 30 November 2020 in the amount of approximately HK\$3,459,760,000 (equivalent to approximately RMB2,932,000,000) based on the Valuation Report on the property development projects as at 30 November 2020, prepared by JLL, an independent property valuer, in the amount of HK\$19,546,700,000 (equivalent to approximately RMB16,565,000,000) as set out in

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Appendix IV to the Circular and the ownership percentage of the property development project companies owned by the Target Group; (ii) the adjusted financial information of the Target Group after the Reorganisation as at 30 September 2020; (iii) an approximately 4.86% discount on the Adjusted NAV (as defined below); and (iv) the amount of deferred PRC taxes on the appreciated value of the property development projects.

The following table demonstrates the calculations of the Adjusted NAV (as defined below) of the Target Group as at 30 September 2020 and the Initial Consideration:

	<i>HK\$</i> <i>approximately</i>
Unaudited combined net asset value attributable to the owners of the Target Group as at 30 September 2020 (after taking into account the original investment costs of certain project companies of the Target Group and assuming the Reorganisation completed on 30 September 2020) (<i>Note 1</i>)	5,023,260,000 (equivalent to approximately RMB4,257,000,000)
<i>Add:</i>	
Appreciated value of the property development projects as at 30 November 2020 based on the Properties Valuation and ownership percentage of the property development project companies by the Target Group (<i>Note 2</i>)	3,459,760,000 (equivalent to approximately RMB2,932,000,000)
<i>Less:</i>	
Deferred PRC taxes on appreciated value (<i>Note 3</i>)	864,940,000 (equivalent to approximately RMB733,000,000)
<i>Equal to:</i>	
Adjusted net asset value attributable to the owners of the Target Group (the “ Adjusted NAV ”) as at 30 September 2020	7,618,080,000 (equivalent to approximately RMB6,456,000,000)
<i>Less:</i>	
4.86% discount to the Adjusted NAV (<i>Note 4</i>)	370,520,000 (equivalent to approximately RMB314,000,000)
Initial Consideration	7,247,560,000 (equivalent to approximately RMB6,142,000,000)

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Notes:

1. As at 30 September 2020, (i) the net asset value attributable to the owners of the Combined Group is HK\$2,699,723,000 (equivalent to approximately RMB2,287,901,000) as set out in the Appendix IIA to the Circular, (ii) the net deficit attributable to the owners of Lingshihuaafu was HK\$36,244,000 (equivalent to approximately RMB30,715,000) as set out in Appendix IIB to the Circular; (iii) after taking into account the original investment costs of certain project companies of the Target Group, the unaudited combined net asset value attributable to the owners of the Target Group assuming the Reorganisation completed as at 30 September 2020; was approximately RMB4,257,000,000 (equivalent to approximately HK\$5,023,260,000).
2. The appreciated value of the property development projects is the aggregated sum of the difference between (i) the book value of the property development projects as set out in Appendix IIA and IIB to the Circular, plus the original investment costs of certain project companies, and (ii) the market value of the property development projects as at 30 November 2020, based on the respective ownership percentages of each of the property development projects.
3. Deferred PRC taxes are calculated based on the appreciated value of the property development projects multiplied by a 25% tax rate.
4. The 4.86% discount is determined after arm's length commercial negotiations among the Vendor and the Company. The Vendor as the controlling Shareholder is willing to support the Company by offering a discount of 4.86% to the Adjusted NAV.

The Initial Consideration is adjusted by the (i) latest fair value of the property development projects held by the Target Group as at 30 November 2020 as disclosed in the Valuation Report; and (ii) the applicable tax rate of 25% calculated based on the appreciated value of the relevant property development projects, which we consider to be customary and reasonable for company principally engages in development and sales of properties. We have reviewed the calculation worksheet in relation to the appreciated value of the property development projects and are not aware of any material discrepancies.

5.1 The Valuation Report

According to the Valuation Report, the market value in existing state of the properties held by the Target Group as at 30 November 2020 was RMB16,565,000,000 (the “**Valuation**”). Independent Shareholders’ attention is drawn to the full text of the Valuation Report and certificate of properties (the “**Properties**”) held by the Target Group as set out in Appendix IV to the Circular.

In order to assess the expertise and independence of JLL, we have obtained and reviewed (i) the engagement letter of the JLL; (ii) JLL’s relevant qualification and experience. Based on our review of JLL’s engagement letter, we are satisfied that the terms and scope of the engagement between the Company and JLL are appropriate to the opinion JLL is required to give. We note that Mr. Eddie T. W. Yiu, the person in charge of Valuation Report, is a Chartered Surveyor who has 27 years’ experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region. For due diligence purpose, we conducted telephone discussion with the team members of JLL to understand its previous experiences on valuation projects and its works performed on the Valuation as well as the steps and measures taken by JLL in conducting the Valuation. JLL also confirmed that it is independent

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from the Group, Mr. Shum and their respective associates. In view of the above, we consider that JLL is qualified and possesses relevant experience in conducting the Valuation.

We have reviewed the Valuation Report and discussed with JLL regarding the methodologies of, and bases and assumptions adopted for the Valuation. Based on the Valuation Report and our discussion with JLL, we understand that comparison approach is adopted for appraising the property interests in (i) Group I (properties held under development by the Target Group) by making reference to comparable sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the valuation date and the remainder of the cost and fees expected to be incurred for completing the development; and (ii) Group II (properties held for future development by the Target Group) assuming sale of the property interests in their existing states with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. Further, for property interests in Group III (properties contracted to be acquired by the Target Group), no commercial value is attributed to the properties as the Target Group has not yet obtained the State-owned Land Use Rights Certificates/Real Estate Title Certificates and/or the payment of the land premium has not yet been fully settled as at the valuation date.

The comparison approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. We understand from JLL that comparison approach is fully in line with the relevant valuation and market standards for appraising the properties in the PRC. JLL advised that the investment approach, which capitalizes the existing rental of all lettable units of each of the Properties for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents, is not suitable as the Properties are intended to be held for sale. Also, the discounted cash flow approach, which requires adoption of numerous assumptions which are valid only under specific and limited circumstance are not suitable in respect of the nature of the Properties.

We have reviewed the list of comparable property or land site transactions identified by JLL for each of the Properties. Where there is no comparable transaction available, JLL has made reference to the price list of the property units pre-sold by the Target Group in appraising the Properties. We understand from JLL that the selection criteria of the comparable including location, accessibility, size and other relevant factors. We further note that (i) the location of the comparable transactions are in the same district of the relevant Properties; (ii) the comparable transactions are conducted in 2018 to 2020; and (iii) the information of the comparable transactions are sourced from JLL's in-house database. JLL has made relevant adjustments, where necessary, including size, location, and timing difference between the transaction date of the comparable transactions and the valuation date to account for the differences between the Properties and the comparable transactions.

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Having considered the above, we are of the view that the valuation methodologies adopted, together with the bases and assumptions, for appraising the Properties are reasonable and acceptable.

5.2 Analysis of comparable transactions

We note that the Initial Consideration represents a 4.86% discount to the Adjusted NAV. As the Target Group is principally engaged in property development, it is common to assess the adjusted net asset value of the Target Group against the relevant consideration for acquisition. We have identified on the website of the Stock Exchange 12 transactions with circular published between 1 July 2020 and up to the Latest Practicable Date (the “**Comparable Transactions**”). We consider the Comparable Transactions between 1 July 2020 and up to the Latest Practicable Date are exhaustive and representative as those property transactions have closely reflected recent market conditions of the property market and macroeconomic conditions in the PRC after the implementation of the quarantine measures to control the COVID-19 outbreak, which we believe had certain impact on valuation of property transactions in first half of 2020. Therefore, we do not extend the selection period. As the economy in the PRC gradually recovers in the second half of 2020, we consider that the Comparable Transactions selected in the abovementioned period would be more relevant for the purpose of assessing the recent property transactions in the PRC. Our selection criteria are (i) acquisitions of company(ies) holding mainly property(ies) or property development companies/projects by companies listed on Main Board of the Stock Exchange; and (ii) consideration basis being with reference to net assets of the subject target company/group after adjusted with the latest valuation of the subject property(ies) (the “**Reassessed NAV**”) or the latest independent valuation of the subject property(ies) conducted for the purpose of the transaction, and the amount of such Reassessed NAV or valuation are disclosed and provided in the respective circular(s) (see table below).

Date of circular	Stock code	Name of company	Connected or not	Reassessed NAV/ Independent property valuation (HK\$)	Consideration (HK\$)	(Discount)/Premium
15-Jul-20	2863	Golden Faith Group Holdings Limited	Yes	55,300,000	53,800,000	(1.82%)
20-Jul-20	207	Joy City Property Limited	Yes	690,777,141	681,804,000	(1.30%)
20-Jul-20	230	Minmetals Land Limited	Yes	1,676,900,000	1,620,340,000	(3.37%)

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Date of circular	Stock code	Name of company	Connected or not	Reassessed NAV/ Independent property valuation (HK\$)	Consideration (HK\$)	(Discount)/Premium
25-Aug-20	1246	Boill Healthcare Holdings Limited	Yes	160,000,000	157,700,000	(1.56%)
22-Sep-20	6182	Twintek Investment Holdings Limited	Yes	32,300,000	32,300,000	0.00%
22-Sep-20	123	Yuexiu Property Company Ltd	Yes	68,370,000	68,370,000	0.00%
25-Sep-20	2183	Sansheng Holdings (Group) Limited	Yes	1,073,968,000	347,349,600	(67.67%) (Note 1)
20-Nov-20	1598	China 21st Century Education Group Limited	Yes	124,844,000	123,900,000	(0.76%)
25-Nov-20	337	Greenland Hong Kong Holdings Limited	Yes	11,398,800,000	8,566,800,000	(24.80%)
30-Nov-20	1549	Ever Harvest Group Holdings Limited	Yes	74,096,325	74,000,000	(0.13%)
3-Dec-20	9978	Fineland Real Estate Services Group Limited	Yes	78,660,000	77,520,000	(1.40%)
28-Jan-21	3382	Tianjin Port Development Holdings Limited	Yes	281,576,438	281,576,438	0.00%
				Average		(3.20%)
				Median		(1.30%)
				Maximum		0.00%
				Minimum		(24.80%)

Source: the Stock Exchange

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Note:

1. As disclosed in the circular of Sansheng Holdings (Group) Limited (“**Sansheng Holdings**”) dated 25 September 2020, Sansheng Holdings proposed to acquire the target group, which principally engaged in property development in the PRC. The consideration for the acquisition of the target group of approximately HK\$347.3 million (equivalent to approximately RMB310.1 million) was determined with reference to, among others, the consolidated net asset value attributable to equity shareholder of the target group of approximately RMB745.7 million as at 31 March 2020 which will be reduced to zero upon completion of the reorganisation and the valuation surplus of the target properties attributable to the target group of approximately HK\$1,074.0 million (equivalent to approximately RMB958.9 million) as at 30 June 2020. Upon completion of the reorganisation, the equity attributable to shareholders of the target group will be reduced to a minimal level and all the capital and retained earnings will be distributed before the acquisition. Given that the net asset value attributable to equity shareholder of the target group will be reduced to zero, the Reassessed NAV is effectively equal to the valuation surplus of target properties. Therefore, the discount of approximately 67.67% is calculated based on the consideration of the target group of approximately HK\$347.3 million to the valuation surplus of approximately HK\$1,074.0 million. For other Comparable Transactions, the Reassessed NAV would normally be the net asset value of the target companies adjusted for the valuation surplus of the properties held by the target companies. We consider such calculation basis which compares the consideration to valuation surplus in the case of Sansheng Holdings is not comparable to the other Comparable Transactions and produces a result which is an outlier. Therefore, such discount is excluded for analysis purpose.

Based on the analysis of the Comparable Transactions set out in the table above, we note that discount to consideration for all the Comparable Transactions to its adjusted net asset value of their respective target companies range from discounts of approximately 24.80% to nil with average and median discounts of approximately 3.20% and 1.30%, respectively. We note that the discount of 4.86% represented by the Initial Consideration to the Adjusted NAV lies within the range of the discounts to the consideration of the Comparable Transactions. Also, it is at a deeper discount than the average and median of discounts to the consideration of the Comparable Transactions.

Given (i) the valuation methodologies and assumptions adopted by JLL are fair and reasonable as discussed; (ii) the Initial Consideration represents a discount of approximately 4.86% to the sum of the Adjusted NAV which falls within range of the discount to the consideration of the Comparable Transactions; and (iii) no adjustment will be made if the Adjusted NAV at Completion is equal to or more than the Adjusted NAV and the Final Consideration shall not exceed the Initial Consideration, we consider the basis for arriving at the Final Consideration to be fair and reasonable.

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6. Consideration Shares

6.1 *Analysis of the Issue Price*

As disclosed in the Letter from the Board, the Issue Price of HK\$3.30 per Consideration Share represents:

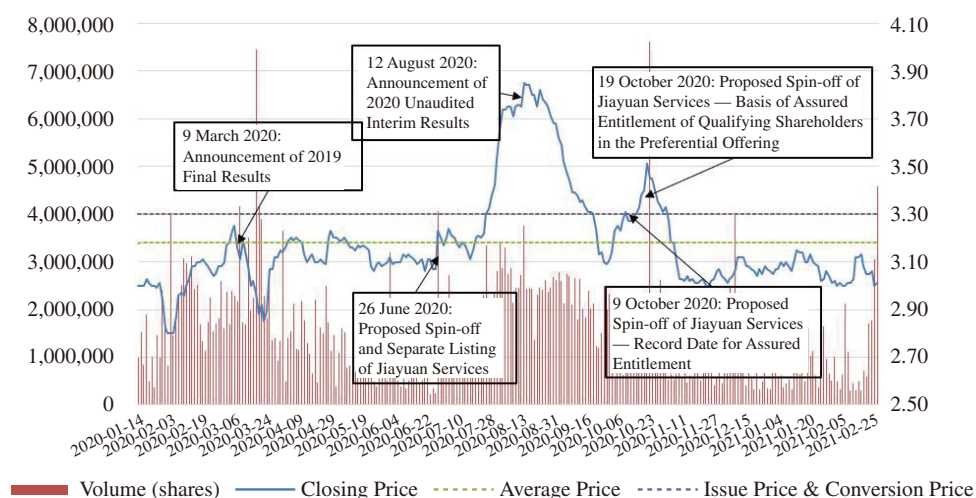
- (a) a premium of approximately 9.63% to the closing price per Share of HK\$3.01 as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 5.10% to the closing price per Share of HK\$3.14 as quoted on the Stock Exchange on 13 January 2021, being the date of the Sale and Purchase Agreement;
- (c) a premium of approximately 6.45% to the average closing price per Share of HK\$3.10 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the date of the Sale and Purchase Agreement;
- (d) a premium of approximately 6.90% to the average closing price per Share of HK\$3.09 as quoted on the Stock Exchange for the last ten consecutive trading days immediately preceding the date of the Sale and Purchase Agreement; and
- (e) a premium of approximately 1.59% to the consolidated net asset value per Share attributable to the Shareholders as at 30 June 2020 of approximately HK\$3.25 per Share calculated based on the consolidated net assets of the Group attributable to the Shareholders of approximately HK\$13,174,472,260 as at 30 June 2020 as extracted from the 2020 Interim Report and 4,055,734,623 Shares in issue as at the Latest Practicable Date.

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Historical Share Performance

We have reviewed the daily closing prices of the Shares for the period from 14 January 2020 (being the 12-months period prior to the date of the Sale and Purchase Agreement) and up to the Latest Practicable Date (the “**Review Period**”). We consider that the Review Period is adequate to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices prior to the Latest Practicable Date and such comparison is relevant for the assessment of the fairness and reasonableness of the Issue Price. The following chart sets out the daily closing prices of the Shares on the Stock Exchange during the Review Period:

Share Price Performance during the Review Period



Based on the chart above, the Share prices closed in a range between approximately HK\$2.80 and HK\$3.85 during the Review Period. The average closing Share price during the Review Period is approximately HK\$3.18. The closing Share prices demonstrated a general increasing trend in February 2020 and reached HK\$3.25 on 6 March 2020. On 9 March 2020, the Company announced its the final results for the year ended 31 December 2019 and the closing Share prices subsequently declined and closed at HK\$2.85 on 23 March 2020. The closing Share prices then fluctuated within the region of HK\$3.06 to HK\$3.23 between April 2020 and June 2020. On 26 June 2020, the Company announced the proposed spin-off and separate listing of its subsidiary, Jiayuan Services Holdings Limited, which is principally engaged in the provision of property management services as well as value-added services to non-property owners and community value-added services, on the Main Board of the Stock Exchange. The closing Share prices then demonstrated an increasing trend and reached its highest point of HK\$3.85 on 13 August 2020. On 12 August 2020, the Company announced the unaudited interim results for the six months ended 30 June 2020. The closing Share prices demonstrated a decreasing trend between mid-August 2020 and end of September 2020. On 9 October 2020, the Company

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announced the record date, being 23 October 2020, of the assured entitlement of the shares in Jiayuan Services Holdings Limited under the preferential offering (the “**Assured Entitlement**”). The Company further announced the basis of the Assured Entitlement on 19 October 2020. The closing Share prices demonstrated a general increasing trend since early October 2020 and reached HK\$3.51 on 21 October 2020. The closing Share prices subsequently retreated to HK\$3.00 on 23 November 2020 and then fluctuated within the range of HK\$3.00 to HK\$3.15.

During the Review Period, the Issue Price represented (i) a discount of approximately 14.3% to the highest closing Share price; (ii) a premium of approximately 17.9% to the lowest closing Share price; (iii) a premium of approximately 3.8% to the average closing Share price.

Comparison with recent issue of consideration shares

To further assess the fairness and reasonableness of the Issue Price, we have conducted a comparable analysis consist of companies listed on Main Board of the Stock Exchange, and which announced issue of consideration shares to vendors for acquisition(s) during the period from 1 July 2020 up to and including the Latest Practicable Date (“**Comparable Share Issues**”). We have identified 21 Comparable Share Issues, which we consider to be an exhaustive list of relevant comparable issues of consideration shares based on the aforesaid criteria.

Although the companies in the Comparable Share Issues may have different principal business, market capitalisation, profitability, financial position and identities of counterparties as compared to the Company, and different reasons for their acquisitions and for issuing the consideration shares, we consider that the Comparable Share Issues can provide us a general reference on the recent market trend of similar transactions in Hong Kong equity capital market. Based on the aforesaid, we consider the Comparable Share Issues are appropriate for the purpose of assessing the fairness and reasonableness of the Issue Price.

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Date of Announcement	Name of company	Stock code	Issue Price (HK\$)	Connected transactions or not	Premium/ (Discount) over/of the issue price to closing price prior to/on last trading day	Premium/ (Discount) over/of the issue price to the average closing price per share on the last five consecutive trading days prior to/on the last trading day	Premium/ (Discount) over/of the issue price to the average closing price per share on the last ten consecutive trading days prior to/on the last trading day
24-Jul-20	Boill Healthcare Holdings Limited	1246	0.35	Yes	(10.26%)	(14.63%)	(16.67%)
29-Jul-20	China Ever Grand Financial Leasing Group Co., Ltd.	379	0.186	No	(11.40%)	(15.10%)	(14.80%)
31-Jul-20	E-House (China) Enterprise Holdings Limited	2048	9.22	Yes	(15.57%)	(10.12%)	(6.79%)
28-Aug-20	C-MER Eye Care Holdings Limited	3309	6.135	No	0.08%	0.15%	(2.54%)
4-Sep-20	Hao Tian Development Group Limited	474	0.25	No	(21.90%)	(22.60%)	(21.10%)
13-Sep-20	Coolpad Group Limited	2369	0.13	No	(8.45%)	(16.77%)	(22.39%)
20-Sep-20	Viva Biotech Holdings	1873	8.955	No	(7.68%)	(0.48%)	2.40%
23-Sep-20	Termbray Industries International (Holdings) Limited	93	0.289	Yes	(6.77%)	(6.17%)	(5.86%)
21-Oct-20	Golden Faith Group Holdings Limited	2863	0.47	No	(14.55%)	(13.90%)	(11.80%)

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Date of Announcement	Name of company	Stock code	Issue Price (HK\$)	Connected transactions or not	Premium/ (Discount) over/of the issue price to closing price prior to/on last trading day	Premium/ (Discount) over/of the issue price to the average closing price per share on the last five consecutive trading days prior to/on the last trading day	Premium/ (Discount) over/of the issue price to the average closing price per share on the last ten consecutive trading days prior to/on the last trading day
23-Oct-20	Vongroup Limited	318	0.45	No	(1.67%)	(15.10%)	(15.40%)
26-Oct-20	Hengten Networks Group Limited	136	0.3	No	(9.09%)	(9.09%)	(9.64%)
7-Nov-20	7Road Holdings Limited	797	2.77	No	0.00%	0.00%	1.69%
13-Nov-20	Forgame Holdings Limited	484	2.19	No	0.00%	(10.32%)	(10.90%)
27-Nov-20	Elife Holdings Limited	223	0.1	Yes	29.87%	37.00%	39.30%
9-Dec-20	Suoxinda Holdings Limited	3680	4.65	No	(19.13%)	(20.00%)	(17.30%)
15-Dec-20	Union Medical Healthcare Limited	2138	5.425	No	(10.33%)	(1.58%)	(7.96%)
24-Dec-20	Yeahka Limited	9923	37.5	Yes	0.00%	3.59%	4.33%
27-Dec-20	Maxnerva Technology Services Limited	1037	0.5	No	4.17%	(0.40%)	0.81%
29-Dec-20	CA Cultural Technology Group Limited	1566	2.5	No	4.60%	3.82%	4.03%

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Date of Announcement	Name of company	Stock code	Issue Price (HK\$)	Connected transactions or not	to/on last trading day	Premium/ (Discount) over/of the issue price to the average closing price per share on the last five consecutive trading days prior to/on the last trading day	Premium/ (Discount) over/of the issue price to the average closing price per share on the last ten consecutive trading days prior to/on the last trading day
						Premium/ (Discount) over/of the issue price to closing price prior to/on last trading day	Premium/ (Discount) over/of the issue price to the average closing price per share on the last ten consecutive trading days prior to/on the last trading day
19-Jan-21	State Energy Group International Assets Holdings Limited	918	0.381	Yes	0.00%	4.40%	(8.20%)
10-Feb-21	C-MER Eye Care Holdings Limited	3309	6.07	No	3.94%	(5.92%)	(0.49%)
				Average	(4.48%)	(5.39%)	(5.68%)
				Median	(6.77%)	(6.17%)	(7.96%)
				Maximum	29.87%	37.00%	39.30%
				Minimum	(21.90%)	(22.60%)	(22.39%)
	Consideration Shares		3.30		5.10%	6.45%	6.90%

Source: the Stock Exchange

As illustrated in the table above, the mean and median of the issue price of the Comparable Share Issues to the historical share prices are at discounts ranging from 4.48% to 7.96%, whereas the Issue Price represents a premium ranging from 5.10% to 6.90% to the historical Share prices.

Having considered that (i) the Issue Price is at a premium to the average closing Share price during the Review Period; (ii) the Issue Price is at a premium to the historical closing price of the Share (being the last trading day, and the last five and 10 consecutive trading days immediately prior to the date of the Sale and Purchase Agreement), whereas the mean and median of the issue prices of the Comparable Share Issues are at discounts to the historical closing price; and (iii) the Issue Price is at slight premium of approximately 1.59% over the equity attributable to owners of the Company per Share as at 30 June 2020 of approximately HK\$3.25, we are of the view that the Issue Price is fair and reasonable and is in line with the market practice.

7. Convertible Bonds

7.1 Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds are set out below:

Convertible Bonds

Subject to certain conditions to Completion, the Company will issue the Convertible Bonds in an aggregate principal amount of HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) which, unless previously converted, will mature on the date falling 60 months from the Issue Date, unless extended at the request of the Company.

Denomination

The Convertible Bonds are issued in registered form and will be in denominations of HK\$1.00.

Issue price of the Convertible Bonds

100% of the aggregate principal amount of the Convertible Bonds.

Interest

The Convertible Bonds will bear no interest.

Maturity date

The date falling 60 months from the Issue Date.

Transferability

The Convertible Bonds may be freely assigned or transferred to any third party who has confirmed to the relevant Holder of the Convertible Bonds in writing it is not a connected person of the Company within the meaning of the Listing Rules (save that the Convertible Bonds may be assigned or transferred to a connected person when the Company has given its written consent), subject to the compliance with: (i) the terms and conditions of the Convertible Bonds; (ii) the Listing Rules; (iii) the approval for listing in respect of the Conversion Shares (as defined below); and (iv) all applicable laws and regulations.

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Ranking of the Convertible Bonds

The Convertible Bonds constitute the direct, subordinated, unconditional and unsecured general obligations of the Company and shall at all times rank *pari passu* and without any preference among themselves. The right to payment of the Holder of the Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation, be subordinated to the claims of all other present and future senior and subordinated creditors of the Company.

Maturity

Unless previously converted, the then outstanding principal amount of the Convertible Bonds shall be fully converted into Conversion Shares at 100% of their principal amount of the Maturity Date. The Convertible Bonds shall not be redeemable by any monetary consideration. For the avoidance of doubt, there are no other redemption terms under the terms of the Convertible Bonds, i.e. any principal amount under the Convertible Bonds shall only be payable by way of conversion by a Holder of the Convertible Bonds, although subject to the requirement that any such exercise of the conversion rights attached to the Convertible Bonds will not render the Company in breach of the minimum public float requirement as stipulated under the Listing Rules.

Conversion

At any time after the Issue Date and up to and inclusive of one Business Day prior to the Maturity Date, the Holder shall have the right, but not the obligation, to convert in whole or in part, the outstanding principal amount of the Convertible Bonds, into such number of fully paid Shares of the Company as determined in accordance with the following formula:

$$N = A/C$$

Where:

“N” is the number of Shares to be issued by the Company upon conversion.

“A” is the principal amount of the Convertible Bonds to be converted.

“C” is the Conversion Price.

The Holder shall affect conversions by delivering to the Company a completed notice in the form prescribed in the Convertible Bonds Instrument.

The Conversion Shares, when issued, will in all respects rank *pari passu* with the Shares already in issue on the day when the Conversion Shares are issued.

The Acquisition will not result in change in control of the Company.

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Conversion Price

The conversion price at which the Company shall issue the Conversion Shares to the Holder upon conversion of the Convertible Bonds will initially be HK\$3.30 per Share but will be subject to adjustment for dilutive events.

The terms of the Convertible Bonds, including the Conversion Price, has been arrived at after arm's length negotiations between the Company and Mr. Shum, with reference to, among other things, the recent trend of the Share price performance and the prevailing market price of the Shares.

The maximum number of 1,036,557,575 Conversion Shares to be issued upon full conversion of the Convertible Bonds represents approximately:

- (i) 25.56% of the existing issued share capital of the Company; and
- (ii) 17.47% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and Conversion Shares upon full conversion of the Convertible Bonds.

The Conversion Shares (when allotted and issued upon full conversion of the Convertible Bonds) will be issued under the Specific Mandate to be sought at the EGM.

Adjustments to Conversion Price

Please refer the paragraphs headed "Adjustments to Conversion Price" in the Letter from the Board for the details of the adjustment mechanism to the conversion price.

7.2 Analysis of the terms of the Convertible Bonds

Evaluation of the Conversion Price

As the Conversion Price is determined at HK\$3.30 per Conversion Share, which is the same as the Issue Price, please refer to the paragraphs headed "6.1 Analysis of the Issue Price" for analysis on the historical Share performance.

Comparison with recent issue of convertible bonds

To assess the fairness and reasonableness of the terms of the Convertible Bonds, we have conducted a comparable analysis consist of companies listed on Main Board of the Stock Exchange, and which announced issue of convertible bonds (excluding any issue of warrants or other convertible instruments to the convertible bonds subscribers in conjunction with the issue of convertible bonds) during the period from 1 July 2020 up to and including the Latest Practicable Date ("**Comparable CB Issues**"). We have identified 42 Comparable CB Issues, which we consider to be an exhaustive list of relevant comparable convertible bond issues based on the aforesaid criteria.

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Although the companies in the Comparable CB Issues may have different principal business, market capitalisation, profitability, financial position and identities of counterparties as compared to the Company, and different reasons for their acquisitions and for issuing the convertible bonds, we consider that the Comparable CB Issues can provide a general reference on the recent market trend of similar transactions in Hong Kong equity capital market. Based on the aforesaid, we consider the Comparable CB Issues are appropriate for the purpose of assessing the fairness and reasonableness of the terms of the Convertible Bonds.

Date of announcement	Name of company	Stock code	Principal amount	Interest rate (%)	Conversion price	Term (year)	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days	Premium/ (Discount) of the conversion price over/to the closing price on the respective last trading day
15-Jul-20	King Stone Energy Group Limited	663	HK\$50,000,000	7.00%	HK\$0.08	1	14.30%	14.30%
16-Jul-20	Styland Holdings Limited	211	up to HK\$23,000,000	6.00%	HK\$0.022	3	0.00%	3.80%
20-Jul-20	China Beidahuang Industry Group Holdings Limited	39	up to HK\$123,000,000	12.00%	HK\$0.1	1.5	28.20%	27.20%
24-Jul-20	Value Convergence Holdings Limited	821	up to HK\$52,000,000	0.00%	HK\$0.2	3	(4.31%)	(4.76%)
28-Jul-20	Wai Chun Bio-Technology Limited	660	HK\$67,000,000	4.00%	HK\$0.022	3	0.00%	(9.09%)
29-Jul-20	Changyou Alliance Group Limited	1039	HK\$126,000,000	3.50%	HK\$0.42	3	7.69%	4.74%
1-Sep-20	Capital VC Limited	2324	up to HK\$13,500,000	1.00%	HK\$0.25	3	52.40%	54.50%
10-Sep-20	ESR Cayman Limited	1821	US\$350,000,000	0.00%	HK\$32.13	5	27.50%	32.11%

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Date of announcement	Name of company	Stock code	Principal amount	Interest rate (%)	Conversion price	Term (year)	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days
10-Sep-20	Eagle Ride Investment Holdings Limited	901	up to HK\$100,000,000	8.00%	HK\$0.3	1	23.46%	70.45%
17-Sep-20	China New Higher Education Group Limited	2001	US\$100,000,000	1.00%	HK\$6.313	1	8.84%	14.57%
21-Sep-20	Wai Chun Bio-Technology Limited	660	HK\$67,000,000	4.00%	HK\$0.012	3	0.00%	6.25%
7-Oct-20	iDreamSky Technology Holdings Limited	1119	HK\$775,000,000	3.13%	HK\$4.99	5	0.00%	5.90%
9-Oct-20	China Beidahuang Industry Group Holdings Limited	39	HK\$123,000,000	12.00%	HK\$0.1	1	42.90%	46.20%
9-Oct-20	China LotSynergy Holdings Limited	1371	HK\$50,000,000	8.00%	HK\$0.15	2	(9.64%)	(10.07%)
16-Oct-20	QPL International Holdings Limited	243	HK\$9,400,000	0.00%	HK\$0.25	2	26.90%	25.00%
23-Oct-20	Victory City International Holdings Limited	539	HK\$400,000,000	5.00%	HK\$0.135	2	29.81%	29.56%
28-Oct-20	Xinyang Maojian Group Limited	362	HK\$100,000,000	0.00%	HK\$0.4	3	12.68%	11.73%

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Date of announcement	Name of company	Stock code	Principal amount	Interest rate (%)	Conversion price	Term (year)	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days
29-Oct-20	Zhou Hei Ya International Holdings Company Limited	1458	HK\$1,550,000,000	1.00%	HK\$10.40	5	22.50%	20.65%
8-Nov-20	Wai Hung Group Holdings Limited	3321	RMB200,000,000	8.00%	HK\$5.04	1	1.82%	0.08%
17-Nov-20	Grand Field Group Holdings	115	HK\$102,300,000	5.00%	HK\$0.8	1.5	2.60%	2.80%
18-Nov-20	Lygem (China) Real Estate Investment Company Limited	95	US\$70,000,000	5.50%	HK\$2.505	5.5	3.09%	1.17%
19-Nov-20	Union Medical Healthcare Limited	2138	HK\$39,000,000	2.50%	HK\$5.21	5	10.00%	(1.33%)
24-Nov-20	Far East Horizon Limited	3360	US\$200,000,000	0.00%	HK\$8.56	5	9.04%	7.67%
29-Nov-20	Elife Holdings Limited	223	RMB17,000,000	0.00%	HK\$0.1	3	29.90%	39.30%
30-Nov-20	Wai Chun Group Holdings Limited	1013	HK\$60,000,000	4.00%	HK\$0.1	5	2.04%	(10.39%)
1-Dec-20	Huazhang Technology Holding Limited	1673	HK\$100,000,000	12.00%	HK\$0.71	0.5	0.00%	(2.82%)
2-Dec-20	Xiaomi Corporation	1810	US\$855,000,000	0.00%	HK\$36.74	7	40.50%	39.70%
3-Dec-20	CAR Inc.	699	US\$175,000,000	5.00%	HK\$4.0	5	5.82%	6.10%

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Date of announcement	Name of company	Stock code	Principal amount	Interest rate (%)	Conversion price	Term (year)	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days
14-Dec-20	New Concepts Holdings Limited	2221	HK\$10,000,000	6.00%	HK\$0.20	3	5.79%	11.73%
18-Dec-20	VIVA Biotech Holdings	1873	US\$280,000,000	1.00%	HK\$11.637	5	35.00%	39.40%
22-Dec-20	SinoMab BioScience Limited	3681	HK\$100,000,000	4.95%	HK\$5.0	1	25.00%	45.35%
29-Dec-20	Genertec Universal Medical Group Company Limited	2666	US\$150,000,000	2.00%	HK\$6.56	5	14.29%	12.71%
4-Jan-21	Mobvista Inc.	1860	US\$30,000,000	3.50%	HK\$5.54	3 to 5	14.94%	22.19%
6-Jan-21	Zhejiang Expressway Co., Ltd	576	Euro230,000,000	0.00%	HK\$8.83	5	35.00%	35.20%
8-Jan-21	Hansoh Pharmaceutical Group Company Limited	3692	US\$600,000,000	0.00%	HK\$60.00	5	44.06%	51.63%
8-Jan-21	China Hongqiao Group Limited	1378	US\$300,000,000	5.25%	HK\$8.91	5	14.97%	19.76%
25-Jan-21	Sparkle Roll Group Limited	970	HK\$100,000,000	0.00%	HK\$0.25	3	7.30%	8.04%
26-Jan-21	Target Insurance (Holdings) Limited	6161	HK\$400,000,000	0.00%	HK\$0.57	5	(8.06%)	(12.31%)
28-Jan-21	Cathay Pacific Airways Limited	293	HK\$6,740,000,000	2.75%	HK\$8.57	5	30.00%	25.84%

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Date of announcement	Name of company	Stock code	Principal amount	Interest rate (%)	Conversion price	Term (year)	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days
							Premium/ (Discount) of the conversion price over/to the closing price on the respective last trading day	Premium/ (Discount) of the conversion price over/to the average closing price for the respective last five trading days
2-Feb-21	Tibet Water Resources Ltd.	1115	HK\$79,600,000	5.00%	HK\$0.74	3	0.82%	3.50%
9-Feb-21	China Parenting Network Holdings Limited	1736	HK\$35,000,000	5.00%	HK\$0.19	1	(19.60%)	(19.60%)
22-Feb-21	Hope Education Group Co. Ltd	1765	US\$350,000,000	0.00%	HK\$0.28	5	24.90%	18.10%
				Average	3.48%	3.4	14.52%	16.25%
				Median	3.32%	3.0	11.34%	12.22%
				Maximum	12.00%	7.0	52.40%	70.45%
				Minimum	0.00%	0.5	(19.60%)	(19.60%)
				Convertible Bonds	0.00%	5.0	5.10%	6.45%

Notes:

- The proposed issue of convertible bonds announced on 27 November 2020 by Sino Golf Holdings Limited (stock code: 361) and announced on 30 October 2020 by Summit Ascent Holdings Ltd (stock code: 102) are excluded from the Comparable CB Issues and the above analysis as they appear to be extreme outliers as compared to other comparable issues as the premium of conversion price over (i) the closing price on the last trading day prior to the announcements; (ii) the average closing price of the last five trading days prior to the announcement reached more than 200% which may in turn provide an abnormal maximum value and average value for comparison, thus does not provide a meaningful analysis.

(a) Interest rate

The interest rates in respect of the Comparable CB Issues ranged from nil to 12.0% per annum, with an average and median of approximately 3.48% and 3.32% per annum respectively. Given that there is no interest on the Convertible Bonds, it falls within the range and is at the low end of the interest rate range of the Comparable CB Issues. We consider that the Convertible Bonds which carry no interest is beneficial to the Group as it can alleviate the Group from the financial burden for payment of interest cost on the Convertible Bonds.

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(b) Term to maturity

As for the terms relating to maturity, we note that the maturity in respect of the Comparable CB Issues ranged from 0.5 to 7 years, with an average and median of around 3.4 and 3.0 years respectively. The terms to maturity of the Convertible Bonds are 5 years, which falls within the range of those Comparable CB Issues and is longer than the average and media maturity. We consider the terms to maturity of the Convertible Bonds is generally in line with the recent market practice.

(c) Conversion Price

As set out in the table above, we note that the conversion price to (i) the closing price on the last trading day prior to the announcements in relation to the respective Comparable CB Issues ranged from a premium of approximately 52.40% to a discount of approximately 19.60%, with an average and median premium of approximately 14.52% and 11.34% respectively; (ii) the average closing price of the last five trading days prior to the announcements in relation to the respective Comparable CB Issues ranged from a premium of approximately 70.45% to a discount of approximately 19.60%, with an average and median premium of approximately 16.25% and 12.22% respectively. The Conversion Price is at (i) a premium of approximately 5.10% to the closing price per Share on the date of the Sale and Purchase Agreement; and (ii) a premium of approximately 6.45% to the average closing price per Share for the last five trading days prior to the date of the Sale and Purchase Agreement.

We note that the premium of the Conversion Price over (i) the closing price per Share on date of the Sale and Purchase Agreement; and (ii) the average closing price per Share for the last five trading days prior to the date of the Sale and Purchase Agreement are lower than the average and median premium of the Comparable CB Issues. Nonetheless, having considered that

- (i) the Convertible Bonds bear no interest which is beneficial to the Group;
- (ii) the Conversion Price is above the average closing Share price during the Review Period as discussed in the paragraphs headed “6.1 Analysis of the Issue Price — Historical Share Performance” above;
- (iii) the Conversion Price represents a slight premium to the equity attributable to owners of the Company per Share as at 30 June 2020 of approximately HK\$3.25; and

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- (iv) the outstanding principal amount of the Convertible Bonds shall be fully converted into the Conversion Shares at the Maturity Date and the Convertible Bonds shall not be redeemable by any monetary consideration. Such conversion mechanism at maturity will enable the Group to relief from the financial burden of redeeming the outstanding principal amount of Convertible Bonds at maturity and preserve its working capital for its business development,

we are of the view that the Conversion Price is fair and reasonable and in line with the market practice.

8. Effect on the shareholding structure of the Company

As disclosed in the Circular, set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after Completion and the allotment and issue of the Consideration Shares; and (iii) immediately after full conversion of the Convertible Bonds:

Shareholders	As at the Latest Practicable Date		Immediately after Completion and the allotment and issue of the Consideration Shares, but before the exercise of the conversion rights attached to the Convertible Bonds		Immediately after Completion and the allotment and issue of (i) the Consideration Shares and (ii) the Conversion Shares upon the exercise in full of the conversion rights attached to the Convertible Bonds	
			(Note 2)		(Note 2 & Note 5)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Mr. Shum and his associate(s) (Note 3)	2,828,310,136 (Note 1)	69.74	3,668,310,136	74.93	4,704,867,711	79.31
Public Shareholders	1,227,424,487	30.26	1,227,424,487	25.07	1,227,424,487	20.69
Total:	<u>4,066,734,623</u>	<u>100.00</u>	<u>4,895,734,623</u>	<u>100.00</u>	<u>5,932,292,198</u>	<u>100.00</u>

Notes:

- 2,756,308,418 of these Shares are held by Mingyuan Investment, which is wholly-owned by Mr. Shum.
- The figures above assume that other than the Consideration Shares and the Conversion 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 and the Conversion Shares.

LETTER FROM MAXA CAPITAL

3. On 13 January 2021, the Company entered into the Sale and Purchase Agreement (as subsequently amended and supplemented by the Supplemental 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, at the Initial Consideration of HK\$7,247,560,000 (equivalent to approximately RMB6,142,000,000) (subject to adjustment), which will be settled (i) as to HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) by way of issue of the Convertible Bonds; (ii) as to HK\$2,772,000,000 (equivalent to approximately RMB2,349,152,542) by way of issue and allotment of 840,000,000 Consideration Shares; and (iii) as to the remaining balance of HK\$1,054,920,000 (equivalent to approximately RMB894,000,000) by cash.
4. The percentage figures included in this table are subject to rounding adjustment.
5. The shareholding structure is prepared for illustrative purpose only. There is no right for any Holder(s) to convert any principal amount of the Convertible Bonds held by the Holder(s) and the Company shall not issue any Conversion Shares thereof if, upon such conversion and issue of the Conversion Shares, the Company will be in breach of the minimum public float requirement as stipulated under the Listing Rules.

As illustrated in the table above and assuming the Completion and the allotment of the Consideration Shares, the shareholding in the Company held by public Shareholders will be diluted from approximately 30.26% to 25.07% and will be further diluted to approximately 20.69% upon full conversion of the Convertible Bonds.

It is noted that such dilution is disadvantageous to the existing public Shareholders. Nevertheless, having considered (i) the benefits of entering into the Sale and Purchase Agreement as discussed in the paragraphs headed “3. Reasons for and benefits of the Acquisition” above; (ii) the terms of the Sale and Purchase Agreement, including the Consideration, the Issue Price and the Conversion Price, being fair and reasonable as discussed in the paragraphs headed “5. Basis of the Consideration”, “6. Consideration Shares” and “7. Convertible Bonds” above, we are of the view that the dilution to the shareholding of the existing public Shareholders resulting from the issue of the Consideration Shares and Convertible Bonds is acceptable.

9. 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

As majority of the property development projects held by the Target Group are still under construction work and not expected to be completed shortly after Completion. Accordingly, the Acquisition would not immediately contribute material revenue or profit to the Group upon Completion. It is expected that once the property development projects are completed and delivered, the Group’s profit will be enhanced.

LETTER FROM MAXA CAPITAL

Asset and liabilities

As set out in the unaudited pro forma consolidated statement of financial position of the Enlarged Group in Appendix III to the Circular, assuming the Acquisition had taken place on 30 June 2020, it is expected that the total assets of the Group would increase from approximately RMB66,145.9 million to approximately RMB73,996.0 million and the total liabilities of the Group would increase from approximately RMB52,673.3 million to approximately RMB54,590.7 million. As a result, the net asset value of the Group would increase from approximately RMB13,472.6 million to approximately RMB19,405.3 million.

Gearing ratio and liquidity

Based on the 2020 Interim Report, as at 30 June 2020, the Group's gearing ratio (defined as bank and other borrowings and senior notes net of the cash and cash equivalents and pledged restricted bank deposits, divided by total equity) was 77.5%. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, the gearing ratio of the Enlarged Group would further decrease to 63.1%. The decrease of gearing ratio indicates a healthier financial position of the Group after the Completion.

The working capital of the Group, which is calculated by current assets net of current liabilities, was approximately RMB13,630.8 million as at 30 June 2020. Since the Consideration will be partially satisfied by cash, the Acquisition would result in a cash outflow consist of part of consideration and the costs related to the Acquisition. Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular, the working capital would have increased to approximately RMB16,559.6 million as if the Acquisition had been completed on 30 June 2020. According to the section headed "Working Capital" in Appendix I to the Circular that 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 the Circular in the absence of any unforeseeable circumstances.

LETTER FROM MAXA CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the view that (i) the 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; and (ii) the Acquisition, although is not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders as well as the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Maxa Capital Limited
Sammy Leung
Managing Director

Mr. Sammy Leung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Maxa Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 9 years of experience in corporate finance industry.

An exchange rate of HK\$1.18 = RMB1.00 has been used for currency translation, where applicable. Such exchange rate is for illustration purposes only and does not constitute any representations that any amount in HK\$ or RMB has been, could have been or may be converted at such rate.

1. FINANCIAL INFORMATION OF THE GROUP

The annual reports of the Group for the financial years ended 31 December 2017, 2018 and 2019 and the interim report of the Group for the six months ended 30 June 2020 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:

- (i) annual report of the Company for the year ended 31 December 2017 published on 16 April 2018 (pages 67 to 163):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0416/ltn201804161153.pdf>

- (ii) annual report of the Company for the year ended 31 December 2018 published on 29 April 2019 (pages 83 to 207):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn201904292447.pdf>

- (iii) annual report of the Company for the year ended 31 December 2019 published on 16 April 2020 (pages 86 to 199):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041601179.pdf>

- (iv) interim report of the Company for the six months ended 30 June 2020 are published on 7 September 2020 (pages 27 to 64):

<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0907/2020090701011.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

As at the close of business on 31 December 2020, 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:

Borrowings

	<i>RMB'000</i>
Bank loans, secured and guaranteed	8,049,387
Bank loans, secured and unguaranteed	304,362
Trust loans, secured and guaranteed	3,863,911
Senior notes, secured and guaranteed	8,753,017
Other loans, secured and guaranteed	1,699,581
	<u>22,670,258</u>

The aforesaid secured borrowings of approximately RMB22,670 million were secured by the Enlarged Group's investment properties, property and equipment, inventories of properties, shares of subsidiaries, pledged bank deposits and financial assets at fair value through profit or loss as at 31 December 2020.

Lease liabilities

As at 31 December 2020, the Enlarged Group had lease liabilities of approximately RMB10 million.

Financial guarantee

As at 31 December 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding guarantees of approximately RMB10,647 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 Enlarged Group's properties under development. Such guarantees will be released by banks upon the purchaser obtaining the relevant building ownership certificate and completion of the relevant mortgage registration.

Pursuant to a facility agreement dated 7 September 2020 entered into between Lingshihuafu, as borrower, and Qingdao Xifa Commercial Factoring Co., Ltd., as lender, Qingdao Jiayuan Real Estate Group Co., Ltd. agreed to provide guarantees for a term loan of up to RMB300,000,000 granted to Lingshihuafu.

Contingent liabilities

As of 31 December 2020, the Enlarged Group did not have any outstanding material contingent liabilities.

Save as disclosed above and apart from intra-group liabilities, at the close of business on 31 December 2020, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness issued and outstanding or agreed to be issued, hire purchase commitments, liabilities under acceptances or acceptance credits or any 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 2019, being the date to which the latest published financial statements of the Company were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In 2021, in view of the outbreak of the novel coronavirus and the challenges and opportunities brought by the new trend in the property market, the Group will be committed to implementing steady financial policies and risk control measures, ensuring construction quality and safety, strengthening its contracted sales and receipt of sales proceeds and applying strict control over its various costs and expenses, so as to secure a stable operating cash flow as well as investment returns.

Further, the Group will continue to replenish its premium land bank by adopting practical strategies to optimise the geographical layout of its projects and devise investment portfolios to suit the different urbanisation stages of the PRC with a view to capturing the different demands for the purchase of property in various local markets. In future, on a foundation of solid development, the Group will make flexible adjustments according to various local market situations and achieve high quality and all-rounded development for continuous increase of profitability in order to maximise the value for its shareholders.

The following is the text of a report set out on pages IIA-1 to IIA-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION OF THE COMBINED GROUP TO THE DIRECTORS OF JIAYUAN INTERNATIONAL GROUP LIMITED

Introduction

We report on the historical financial information of Luyuan Investment Holdings Limited (“**Luyuan**”) and its subsidiaries (together, the “**Combined Group**”) set out on pages IIA-4 to IIA-66, which comprises the combined statements of financial position as at 31 December 2017, 2018 and 2019 and 30 September 2020, the statements of financial position of Luyuan as at 31 December 2017, 2018, 2019 and 30 September 2020 and the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020 (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 IIA-4 to IIA-66 forms an integral part of this report, which has been prepared for inclusion in the circular of Jiayuan International Group Limited (the “**Company**”) dated 26 February 2021 (the “**Circular**”) in connection with the proposed acquisition of Luyuan by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of the Combined Group for the Track Record Period (“**Underlying Financial Statements**”), on which the Historical Financial Information is based, were prepared by the directors of Luyuan. The directors of Luyuan are responsible for the preparation of the Underlying Financial Statements in accordance with the basis of

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presentation and preparation set out therein which conform with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), and for such internal control as the directors determine is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountant’s 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, *Accountant’s Reports on Historical Financial Information in Investment Circulars* issued by 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 accountant’s 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 accountant considers 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 presentation and preparation set out in Notes 1.3 and 2.1 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 directors, 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 accountant’s report, a true and fair view of the financial position of Luyuan as at 31 December 2017, 2018 and 2019 and 30 September 2020 and the combined financial position of the Combined Group as at 31 December 2017, 2018 and 2019 and 30 September 2020 and of its combined financial performance and its combined cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 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 statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the nine months ended 30 September 2019 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 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 and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. 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 accountant’s report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.3 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong

26 February 2021

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

Combined statements of comprehensive income

	Note	Year ended 31 December			Nine months ended 30 September	
		2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Revenue	7	–	–	–	–	795,317
Cost of sales	9	–	–	–	–	(502,678)
Gross profit		–	–	–	–	292,639
Other income	8	4	422	283	219	237
Other losses, net	10	(1)	(49)	(21)	(91)	(2,867)
Net impairment (losses)/reversal on financial assets	3(b)	–	(3,040)	2,078	2,123	(16,405)
Selling and marketing costs	9	(415)	(3,437)	(1,409)	(856)	(3,679)
Administrative expenses	9	(566)	(12,899)	(4,931)	(1,893)	(15,437)
Finance costs	11	–	(7,746)	(2,006)	(1,616)	(716)
Profit/(loss) before taxation		(978)	(26,749)	(6,006)	(2,114)	253,772
Income tax credit/(expenses)	12	226	6,644	894	466	(118,297)
Profit/(loss) and total comprehensive income/(loss) for the year/period		<u>(752)</u>	<u>(20,105)</u>	<u>(5,112)</u>	<u>(1,648)</u>	<u>135,475</u>
Profit/(loss) and total comprehensive income/(loss) for the year/period attributable to:						
– Owners of Luyuan		(752)	(20,105)	(5,112)	(1,648)	137,418
– Non-controlling interests		–	–	–	–	(1,943)
		<u>(752)</u>	<u>(20,105)</u>	<u>(5,112)</u>	<u>(1,648)</u>	<u>135,475</u>

Combined statements of financial position

		As at 31 December			As at
	Note	2017	2018	2019	30 September
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Non-current assets					
Property and equipment	14	84	270	216	1,740
Deferred tax assets	15	226	6,870	8,042	24,827
		<u>310</u>	<u>7,140</u>	<u>8,258</u>	<u>26,567</u>
Current assets					
Inventories of properties	16	195,769	322,545	419,858	2,150,476
Prepayments and other receivables	17	379	465,257	728,754	2,710,010
Prepaid income tax		–	32,332	34,842	–
Contract acquisition costs		–	689	941	–
Right to acquire land use rights	26(a)	–	–	143,220	–
Restricted bank deposits	18	–	90,084	18,386	2,566
Cash and cash equivalents	18	<u>1,864</u>	<u>301</u>	<u>6,243</u>	<u>5,601</u>
		<u>198,012</u>	<u>911,208</u>	<u>1,352,244</u>	<u>4,868,653</u>
Total assets		<u>198,322</u>	<u>918,348</u>	<u>1,360,502</u>	<u>4,895,220</u>

APPENDIX IIA FINANCIAL INFORMATION OF THE COMBINED GROUP

		As at 31 December		As at	
	Note	2017	2018	2019	30 September
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Current liabilities					
Trade and other payables	19	179,074	50,875	93,781	900,175
Pre-sale deposits received	20	–	737,775	852,469	18,783
Current income tax liabilities		–	–	–	97,086
Bank and other borrowings	21	–	130,555	25,812	1,314
		<u>179,074</u>	<u>919,205</u>	<u>972,062</u>	<u>1,017,358</u>
Net current assets/(liabilities)		<u>18,938</u>	<u>(7,997)</u>	<u>380,182</u>	<u>3,851,295</u>
Total assets less current liabilities		<u>19,248</u>	<u>(857)</u>	<u>388,440</u>	<u>3,877,862</u>
Non-current liabilities					
Bank and other borrowings	21	–	–	249,000	900,000
Equity attributable to owners of Luyuan					
Combined capital	22	20,000	20,000	20,000	2,176,452
(Accumulated losses)/retained earnings		<u>(752)</u>	<u>(20,857)</u>	<u>(25,969)</u>	<u>111,449</u>
		<u>19,248</u>	<u>(857)</u>	<u>(5,969)</u>	<u>2,287,901</u>
Non-controlling interests		<u>–</u>	<u>–</u>	<u>145,409</u>	<u>689,961</u>
Total equity		<u>19,248</u>	<u>(857)</u>	<u>139,440</u>	<u>2,977,862</u>
Total equity and non-current liabilities		<u>19,248</u>	<u>(857)</u>	<u>388,440</u>	<u>3,877,862</u>

Statements of financial position of Luyuan

		As at 31 December			As at
	<i>Note</i>	2017	2018	2019	30 September
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets					
Investment in a subsidiary		—	—	—	—
Current liabilities					
Trade and other payables		—	—	—	10
Net current liabilities		—	—	—	(10)
Total assets less current liabilities		—	—	—	(10)
Equity					
Share capital	22	—	—	—	—
Accumulated losses		—	—	—	(10)
Total equity		—	—	—	(10)
Total equity and non-current liabilities		—	—	—	(10)

Combined statements of changes in equity

	<i>Note</i>	Attributable to owners of Luyuan			Non-controlling interests RMB'000	Total equity RMB'000
		Combined capital RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000		
At 1 January 2017		–	–	–	–	–
Loss and total comprehensive loss for the year		–	(752)	(752)	–	(752)
Capital injection from then shareholder	22(a)	20,000	–	20,000	–	20,000
At 31 December 2017		<u>20,000</u>	<u>(752)</u>	<u>19,248</u>	<u>–</u>	<u>19,248</u>
At 1 January 2018		20,000	(752)	19,248	–	19,248
Loss and total comprehensive loss for the year		–	(20,105)	(20,105)	–	(20,105)
At 31 December 2018		<u>20,000</u>	<u>(20,857)</u>	<u>(857)</u>	<u>–</u>	<u>(857)</u>
At 1 January 2019		20,000	(20,857)	(857)	–	(857)
Loss and total comprehensive loss for the year		–	(5,112)	(5,112)	–	(5,112)
Acquisition of subsidiaries	26	–	–	–	145,409	145,409
At 31 December 2019		<u>20,000</u>	<u>(25,969)</u>	<u>(5,969)</u>	<u>145,409</u>	<u>139,440</u>

	<i>Note</i>	Attributable to owners of Luyuan			Non-controlling interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
		Combined capital <i>RMB'000</i>	(Accumulated losses)/ retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>		
At 1 January 2020		20,000	(25,969)	(5,969)	145,409	139,440
Profit/(loss) and total comprehensive income/(loss) for the period		–	137,418	137,418	(1,943)	135,475
Capital injection from the ultimate shareholder and non-controlling interests	22(b)	2,176,452	–	2,176,452	546,495	2,722,947
Acquisition of entities under common control	22(a)	(20,000)	–	(20,000)	–	(20,000)
At 30 September 2020		<u>2,176,452</u>	<u>111,449</u>	<u>2,287,901</u>	<u>689,961</u>	<u>2,977,862</u>
(Unaudited)						
At 1 January 2019		20,000	(20,857)	(857)	–	(857)
Loss and total comprehensive loss for the period		–	(1,648)	(1,648)	–	(1,648)
At 30 September 2019		<u>20,000</u>	<u>(22,505)</u>	<u>(2,505)</u>	<u>–</u>	<u>(2,505)</u>

Combined statements of cash flows

	Note	Year ended 31 December			Nine months ended 30 September	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cash flows from operating activities						
Cash (used in)/generated from operations	23	(191,677)	587,539	8,886	46,563	(2,126,378)
Income tax paid		—	(32,332)	(2,510)	(4,685)	(3,154)
Net cash (used in)/generated from operating activities		<u>(191,677)</u>	<u>555,207</u>	<u>6,376</u>	<u>41,878</u>	<u>(2,129,532)</u>
Cash flows from investing activities						
Deposits for trust financing arrangements		—	(4,399)	—	—	—
Refund of deposits for trust financing arrangements		—	—	4,399	3,090	—
Additions of property and equipment	14	(90)	(271)	(41)	(7)	(1,803)
Proceeds from disposal of property and equipment		—	6	—	—	—
Interest received		4	247	248	195	175
Net cash outflow for acquisition of subsidiaries	26	—	—	(245,177)	(249,000)	—
Net (advances to)/repayments from related parties		—	(431,211)	(1,575,573)	20,308	(2,001,360)
Placement of restricted bank deposits		—	(90,084)	—	—	—
Withdrawal of restricted bank deposits		—	—	71,698	87,518	15,820
Net cash used in investing activities		<u>(86)</u>	<u>(525,712)</u>	<u>(1,744,446)</u>	<u>(137,896)</u>	<u>(1,987,168)</u>

APPENDIX IIA FINANCIAL INFORMATION OF THE COMBINED GROUP

		Year ended 31 December			Nine months ended 30 September	
	Note	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cash flows from financing activities						
Proceeds from borrowings		–	130,900	15,800	8,000	900,000
Repayment of borrowings		–	–	(131,700)	(138,900)	(264,000)
Interest paid		(1,277)	(17,056)	(11,425)	(10,541)	(45,506)
Net advances from/(repayments to) related parties	23	174,904	(144,902)	1,871,337	264,001	148,117
Net advances from non-controlling interests	23	–	–	–	–	654,500
Capital injection from the then shareholder	22	20,000	–	–	–	2,176,452
Capital injection from non-controlling interests	22	–	–	–	–	546,495
Net cash generated from/(used in) financing activities		<u>193,627</u>	<u>(31,058)</u>	<u>1,744,012</u>	<u>122,560</u>	<u>4,116,058</u>
Net increase/(decrease) in cash and cash equivalents		1,864	(1,563)	5,942	26,542	(642)
Cash and cash equivalents at beginning of year/period		<u>–</u>	<u>1,864</u>	<u>301</u>	<u>301</u>	<u>6,243</u>
Cash and cash equivalents at end of year/period	18	<u>1,864</u>	<u>301</u>	<u>6,243</u>	<u>26,843</u>	<u>5,601</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION AND REORGANISATION

1.1 General information

Luyuan Investment Holdings Limited (“**Luyuan**”) was a limited liability company incorporated in the British Virgin Islands (“**BVI**”) on 21 December 2017. The address of Luyuan’s registered office is at the office of Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

Luyuan is an investment holding company and is wholly-owned by Mr. Shum Tin Ching (“**Mr. Shum**” or the “**Ultimate Shareholder**”). The principal activities of its subsidiaries are set out in note 1.2. Luyuan and together with these subsidiaries are collectively referred to as the “Combined Group”.

1.2 History and reorganisation of the Combined Group

History of the Combined Group

During the Track Record Period, the property development business in the People’s Republic of China (“**PRC**”) of the Combined Group was primarily conducted by Weihai Xiangyuan Real Estate Development Co., Ltd. (“**Weihai Xiangyuan**”), Zhongwei (Qingdao) Real Estate Development Co., Ltd. (“**Qingdao Zhongwei**”) and Qingdao Shuiqingmuhua Creative Development Co., Ltd. (“**Qingdao Shuiqingmuhua**”).

Weihai Xiangyuan and Qingdao Zhongwei were established by companies controlled by the Ultimate Shareholder since their incorporation, while the equity interest in Qingdao Shuiqingmuhua was acquired by the Ultimate Shareholder from an independent third party in 2019.

Reorganisation of the Combined Group

On 17 March 2020, Luyuan Property Development Limited (“**Luyuan Property**”) was incorporated by Luyuan in Hong Kong. On 28 June 2020, Qingdao Jiazhi Investment Co., Ltd. (“**Qingdao Jiazhi**”) was incorporated by Luyuan Property in the PRC.

Pursuant to a reorganisation (the “**Reorganisation**”) to prepare for the acquisition of the property development business by Luyuan, Qingdao Jiayuan Real Estate Group Co., Ltd. (“**Qingdao Group**”), a company controlled by the Ultimate Shareholder and as the shareholder of Weihai Xiangyuan, will acquire (a) 79.73% equity interest of Qingdao Zhongwei, (b) 58.5% equity interest of Qingdao Shuiqingmuhua through acquisition of 65% interest of Ningbo Puying Industrial Investment Partnership (Limited Partnership) (“**Ningbo Puying**”) and its immediate holding companies and (c) 63% equity interest of Qingdao Lingshihuafu Property Co., Ltd. (“**Lingshihuafu**”).

Qingdao Jiazhi will then acquire the entire equity interest in Qingdao Group from the Ultimate Shareholder. Upon completion of the Reorganisation, Luyuan will become the holding company of the companies now comprising the Combined Group.

Given Luyuan, Weihai Xiangyuan, Qingdao Zhongwei and Qingdao Shuiqingmuhua and their immediate holding companies and subsidiaries are under common control before and after the end of the Track Record Period, the Historical Financial Information of the Combined Group is prepared on a combined basis as if Luyuan had direct or indirect interests in the following subsidiaries during the Track Record Period:

Name of subsidiary	Place and date of incorporation	Principal activities/ Place of operation	Attributable equity interest					Registered/ issued capital
			As at 31 December			As at 30	As at the	
			2017	2018	2019	September 2020	date of this report	
<u>Directly held by Luyuan</u>								
Luyuan Property (魯源房地產開發有限公司)	Hong Kong, 17 March 2020	Investment holding in Hong Kong	–	–	–	100%	100%	Hong Kong Dollar ("HKD") 1
<u>Indirectly held by Luyuan</u>								
Qingdao Jiazhì (青島嘉智投資有限公司)	PRC, 28 June 2020	Investment holding in PRC	–	–	–	100%	100%	United States dollar ("USD") 5,000,000
Qingdao Group (青島佳源房地產集團有限公司)	PRC, 12 September 2019	Investment holding in PRC	–	–	100%	100%	100%	RMB1,000,000,000
Jiaxing Xiyue Trading Co., Ltd. ("Jiaxing Xiyue") (嘉興市熙悅貿易有限公司)	PRC, 13 August 2020	Investment holding in PRC	–	–	–	100%	100%	RMB200,000
Jiaxing Yeyuan Real Estate Development Co., Ltd. ("Jiaxing Yeyuan") (嘉興市業源房地產開發有限公司)	PRC, 12 August 2019	Investment holding in PRC	–	–	100%	100%	100%	RMB20,000,000
Ningbo Puying (寧波樸盈實業投資合夥企業 (有限合夥)) ⁽⁴⁾	PRC, 26 December 2018	Investment holding in PRC	–	–	65%	65%	65%	RMB468,500,000
Qingdao Shuiqingmuhua (青島水清木華創意發展有限公司) ⁽⁵⁾	PRC, 1 March 2017	Property development in PRC	–	–	58.5%	58.5%	68.5%	RMB100,000,000

Name of subsidiary	Place and date of incorporation	Principal activities/ Place of operation	Attributable equity interest					Registered/ issued capital
			As at 31 December		2019	As at 30	As at the	
			2017	2018		September 2020	date of this report	
Weihai Xiangyuan (威海市祥源房地產開發有限公司)	PRC, 26 June 2017	Property development in PRC	100%	100%	100%	100%	100%	RMB20,000,000
Qingdao Zhongwei (中巍(青島)房地產開發有限公司)	PRC, 20 December 2019	Property development in PRC	–	–	79.93%	79.93%	79.93%	RMB3,139,656,810

Notes:

- (1) All subsidiaries are companies incorporated with limited liabilities.
- (2) The English names of the subsidiaries represent the best efforts made by the management of the Company in translating their Chinese names when they do not have official English names.
- (3) No audited financial statements have been issued for each single entity for the years ended 31 December 2017, 2018 and 2019 and nine months ended 30 September 2020.
- (4) Luyuan has a total of 96.3% equity interests in Ningbo Puying but is only entitled to 65% of the profit share in accordance with the partnership agreements.
- (5) In December 2019, the Combined Group acquired Ningbo Puying and its subsidiary, Qingdao Shuiqingmuhua from a third party. The acquisition of subsidiaries is set out in Note 26.

1.3 Basis of presentation

The companies now comprising the Combined Group were controlled by the same ultimate controlling party immediately before and after the Reorganisation with no change in their business substance or management. Accordingly, the Reorganisation is regarded as a business combination under common control, and for the purpose of this report, the Historical Financial Information has been prepared using the principles of merger accounting, as prescribed in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants.

The Historical Financial Information has been prepared by including the financial information of the companies now comprising the Combined Group engaged in the property development business, as if the current group structure had been in existence throughout the periods presented.

The net assets of the combining companies were combined using the existing book values before the Reorganisation. No amount is recognised in consideration for goodwill or excess of acquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the acquisition cost at the time of business combination under common control, to the extent of the continuation of the controlling party’s interest.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

As Lingshihuafu will become a joint venture after the Reorganisation and was not under common control by the Ultimate Shareholder immediately before and after the Reorganisation, it is therefore not included in the Combined Group for the purpose of this Accountant’s Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of the Historical Financial Information. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) which include all HKFRS, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations issued by the HKICPA. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Combined Group’s accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

The Combined Group’s accounting policies are consistent with those of the Company.

2.2 New and amended standards and interpretations adopted

The Combined Group has applied HKFRS 15 “Revenue from contracts with customers” and HKFRS 9 “Financial Instruments” from 1 January 2018 and has applied HKFRS 16 “Leases” from 1 January 2019. The directors of Luyuan considered that the initial application of these HKFRS have no material impact to the Historical Financial Information.

The other standards, amendments and interpretations effective in the Track Record Period also did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the Historical Financial Information.

2.3 New and amended standards and interpretations not yet adopted

Up to the date of issuance of this report, the HKICPA has issued the following new standards and amendments to existing standards which are not yet effective and have not been early adopted by the Combined Group:

		Effective for annual periods beginning on or after
HKFRS 17	Insurance contract	1 January 2023
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
HK Interpretation 5 (2020)	Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause	1 January 2023
Accounting Guideline 5 (Revised)	Merger accounting for common control combinations	1 January 2022
Amendments to HKFRS 3	Update reference to the conceptual framework	1 January 2022
Amendments to HKAS 16	Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022
Annual improvements	Annual Improvements to HKFRS Standards 2018-2020 Cycle	1 January 2022
Amendments to HKFRS9, HKAS 39, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase two	1 January 2021
Amendments to HKAS 16	COVID-19-related rent concessions	1 June 2020
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined

The Combined Group has already commenced an assessment of the impact of these new or revised standards and amendments, certain of which are relevant to the Combined Group's operations. According to the preliminary assessment made by the directors of Luyuan, no significant impact on the financial performance and position of the Combined Group is expected when they become effective.

2.4 Principles of consolidation

2.4.1 Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Combined Group has control. The Combined Group controls an entity when the Combined Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Combined Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business/assets combinations by the Combined Group (refer to Note 2.5).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Combined Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the combined statements of comprehensive income, combined statements of changes in equity and combined statements of financial position respectively.

2.4.2 *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.5 Business combinations**2.5.1 *Non-common control business combinations***

Acquisitions of businesses, other than business combination under common control, 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, except that:

- deferred tax assets or liabilities, and assets or liabilities 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 arrangements of the acquiree or share-based payment arrangements of the Combined Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; 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 amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount 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 may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

2.5.2 *Merger accounting for business combination involving businesses under common control*

The Historical Financial Information incorporate 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 comprehensive income includes 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 beginning of the previous reporting period or when they first came under common control, whichever is shorter. The Historical Financial Information includes the entities that were managed by the management of the Combined Group throughout the years presented. These activities were combined with all intra-group balances and transactions eliminated within the Combined Group.

2.5.3 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 their respective fair values, the remaining balance of the purchase price is then allocated to the 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.

2.6 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by Luyuan on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the combined financial statements of the investee's net assets including goodwill.

2.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of Luyuan that makes strategic decisions. The Combined Group's customers are all located in the PRC. No geographical segment of customers is disclosed.

2.8 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Combined Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The combined financial statements are presented in RMB which is Luyuan's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses are presented in the combined statements of comprehensive income within 'other losses, net'.

(iii) Group companies

The results and financial positions of all the Combined Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each combined statements of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

2.9 Leases

The Combined Group as a lessee

As explained in Note 2.2, the Combined Group has adopted HKFRS 16 from 1 January 2019. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Combined Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Combined Group under residual value guarantees;
- the exercise price of a purchase option if the Combined Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Combined Group exercising that option.

Payments associated with short-term leases of equipment and vehicles and leases of low value assets are recognised on a straight-line basis as an expense in the combined statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Combined Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right-of-use assets resulted from lease payments are stated at cost less accumulated depreciation and accumulated impairment losses.

Accounting policies applied until 31 December 2018

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2.10 Property and equipment

Property and equipment are stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Combined Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Motor vehicles	4 years
Furniture, fittings and equipment	5-10 years
Computer equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other losses, net' in the combined statements of comprehensive income.

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Financial assets

As explained in Note 2.2, the Combined Group has adopted HKFRS 9 from 1 January 2018.

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out below.

There is no significant classification impact of the financial assets and financial liabilities under HKFRS 9 and HKAS 39 at the date of initial application.

(i) Classification

The Combined Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss (“**FVPL**”);
- those to be measured subsequently at fair value through other comprehensive income (“**FVOCI**”); and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the Combined Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Combined Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and measurement

At initial recognition, the Combined Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the combined statements of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Combined Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Combined Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the combined statements of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through other comprehensive income: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the combined statements of comprehensive income and recognised in 'other gains and losses'. Interest income from these financial assets is included in finance income using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or financial assets at FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net in the combined statements of comprehensive income within 'other gains and losses' in the period in which it arises. Interest income from these financial assets is included in the 'other income'.

Equity instruments

The Combined Group subsequently measures all equity investments at fair value. Where the Combined Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the combined statements of comprehensive income. Dividends from such investments continue to be recognised in the combined statements of comprehensive income as 'other income' when the Combined Group's right to receive payments is established.

Accounting policies applied until 31 December 2017

The Combined Group's financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity investment, 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 or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchase or sales 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.

Financial assets at fair value through profit or loss

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date the Combined Group commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial instruments at fair value through profit or loss have two sub-categories namely financial instruments held for trading and those designated at fair value through profit or loss at inception. Financial instruments typically bought with the intention to sell in the near future are classified as held for trading. A financial instrument can only be designated at inception as at fair value through profit or loss and cannot be subsequently changed. For financial instruments designated at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising the gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial asset contains an embedded derivative that needs to be separately recorded.

These financial instruments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the statement of comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Combined Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

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 fair value through profit or loss.

Debt investment held by the Combined Group that is classified as AFS financial asset is measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS debt investment relating to interest income calculated using the effective interest method is recognised in profit or loss. Other changes in the carrying amount of AFS financial asset is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

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 are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

2.13 Impairment of financial assets

The Combined Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3(b) details how the Combined Group determines whether there has been a significant increase in credit risk.

For cash and cash equivalents, restricted bank deposits, other receivables and financial guarantees contracts, the Combined Group measures the loss allowance equal to 12 months ECL, unless when there has been a significant increase in credit risk since initial recognition, the Combined Group recognises lifetime ECL.

A number of significant judgements are required in measuring the ECL, such as:

- i) Determining criteria for significant increase in credit risk;
- ii) Choosing appropriate models and assumptions for the measurement of ECL including exposure at default (EAD), probability of default (PD), loss given default (LGD), etc.; and
- iii) Establishing the number and relative weightings of forward-looking scenarios for the associated ECL.

For the financial instruments subject to ECL measurement, the Combined Group assesses the significant increase in credit risk since initial recognition or whether an instrument is considered to be credit impaired, outlines a 'three-stage' model expected credit loss models are established and staging definition are set for each of these financial assets class. Incorporating forward-looking information, expected credit losses for financial assets are recognised into the different stages and measured the impairment provisions respectively.

Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Combined Group. The impairment provisions are measured at an amount equal to the 12-month expected credit losses for the financial assets which are not considered to have significantly increased in credit risk since initial recognition.

Stage 2: If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The impairment provisions is measured based on expected credit losses on a lifetime basis.

Stage 3: If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. The impairment provisions are measured based on expected credit losses on lifetime basis.

For the financial assets at Stage 1 and Stage 2, the interest income is calculated based on its gross carrying amount (i.e. amortised cost) before adjusting for impairment provision using the effective interest method. For the financial assets at Stage 3, the interest income is calculated based on the carrying amount of the asset, net of the impairment provision, using the effective interest method. Financial assets that are originated or purchased credit impaired are financial assets that are impaired at the time of initial recognition, and the impairment provision for these assets is the expected credit loss for the entire lifetime since initial recognition as purchased or originated credit-impaired financial assets.

There is no significant classification impact of the impairment of financial assets under HKFRS 9 and HKAS 39 at the date of initial application.

Accounting policies applied until 31 December 2017

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

Objective evidence of impairment could include:

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

For certain categories of financial assets, such as other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for indicators of 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 past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of other 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 other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

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 debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.15 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises cost of land use rights, construction costs, depreciation of machinery and equipment, borrowing costs capitalised for qualifying assets and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Costs to fulfill a contract comprise the development cost and land use rights cost directly related to an existing contract that will be used to satisfy performance obligations in the future. The costs to fulfill a contract are recorded in properties under development if they are expected to be recovered. The amount is amortised on a systematic basis, consistent with the pattern of revenue recognition of the contract to which the asset relates.

2.16 Properties held for sale

Properties remaining unsold at year end are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing marketing conditions.

2.17 Cash and cash equivalents

For purpose of presentation in the combined statements of cash flows, cash and cash equivalents comprise cash on hand held by the Combined Group, deposits held at call with financial institutions, other short-term, highly liquid investments, demand deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

2.18 Contract assets and contract liabilities

Upon entering into a contract with a buyer, the Combined Group obtains rights to receive consideration from the buyer and assumes performance obligations to transfer goods or provide services to the buyer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

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. The contract liabilities are presented as pre-sale deposits received on the combined statements of financial position.

The Combined Group recognises the incremental costs of obtaining a contract with a buyer as contract acquisition cost if the Combined Group expects to recover those costs.

2.19 Combined capital

The Reorganisation has not been completed as at 30 September 2020. For the purpose of Historical Financial Information, the combined capital in the combined statements of financial positions as at 31 December 2017, 2018 and 2019 and 30 September 2020 represented the combined share capital of the subsidiaries now comprising the Combined Group attributable to the owners of Luyuan.

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Combined Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

2.22 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred income tax is recognised in the combined statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where Luyuan and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where Luyuan is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.23 Employee benefits

(i) *Short-term obligations*

Liabilities for wages and salaries and performance related bonus, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Performance related bonus is determined by reference to the performance of individuals and market trend. The liabilities are presented within "Trade and other payables" in the combined statements of financial position.

(ii) *Pension obligations*

The Combined Group only operate defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of the Combined Group participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which the Combined Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Combined Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Combined Group in independently administrated funds managed by the governments.

The Combined Group's contributions to the defined contribution retirement scheme are expensed as incurred.

2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Combined Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of properties in the ordinary course of the Combined Group's activities. Revenue is shown, net of discounts and after eliminating sales with the Combined Group companies. The Combined Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Combined Group's activities, as described below.

Revenue from contracts with customers

Revenues are recognised when or as the control of the asset is transferred to the buyer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Combined Group's performance:

- provides all of the benefits received and consumed simultaneously by the buyer; or
- creates and enhances an asset that the buyer controls as the Combined Group performs; or
- do 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 buyer obtains control of the asset.

If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenue from sales of properties is recognised over time when the Combined Group's performance under the sale contract 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; otherwise revenue from sales of property is recognised at a point in time.

For property sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the buyer obtains the physical possession or the legal title of the completed property and the Combined Group has present right to payment and the collection of the consideration is probable. Revenue of sales of the properties for the Combined Group is recognised at point in time.

In determining the transaction price, the Combined Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

2.26 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3 FINANCIAL RISK MANAGEMENT

The Combined Group's major financial instruments include other receivables, restricted bank deposits, cash and cash equivalents, trade and other payables and bank and other borrowings. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to the Combined Group's exposure to market risks or the manner in which it manages and measures during the year/period reported.

(a) Market risk

(i) Interest rate risk

The Combined Group is exposed to fair value interest rate risk in relation to fixed-rate restricted bank deposits, cash and cash equivalents and bank and other borrowings.

The Combined Group is also exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on restricted bank deposits, cash and cash equivalents and bank and other borrowings which carry interest at prevailing market interest rates.

The Combined Group's cash flow interest rate risk is mainly concentrated on the fluctuation of deposits rate and the lending rate quoted by the People's Bank of China arising from the Combined Group's bank and other borrowings.

The Combined Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for restricted bank deposits, cash and cash equivalents and other borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the respective reporting period. As at 31 December 2017, 2018 and 2019 and 30 September 2020, a 100 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate.

For the year ended 31 December 2017, 2018 and 2019 and nine months ended 30 September 2020, if the floating interest rate had been higher/lower by 100 basis points with all other variables held constant, the profit before taxation would have changed as follows:

Increase/(decrease)	As at 31 December			As at 30
	2017	2018	2019	September
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
– 100 basis point higher	19	904	246	(9,281)
– 100 basis point lower	(19)	(904)	(246)	9,281

(ii) Foreign currency risk

The Combined Group collects all of its revenue in RMB and most of the expenditures including expenditures incurred in property sales as well as capital expenditures are also denominated in RMB.

The Combined Group undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arises. The Combined Group currently does not have a foreign currency hedging policy.

As at 30 September 2020, the Combined Group has cash and cash equivalents and other payables denominated in foreign currencies, which expose the Combined Group to foreign currency risk and mainly concentrated on the exposure to USD.

The carrying amounts of the Combined Group's foreign currency denominated monetary assets and liabilities in USD at 30 September 2020 is RMB3,000 and RMB34,934,000 respectively.

As at 30 September 2020, if RMB had weakened/strengthened by 5% against the USD with all other variables hold constant, profit before taxation for the nine months ended 30 September 2020 would have been RMB1,747,000 lower/higher.

(b) Credit risk

Credit risks refer to the risk of losses incurred by the inability of debtors or counterparties to fulfil their contractual obligations or by the adverse changes in their credit conditions. The Combined Group is exposed to credit risk in relation to its cash and cash equivalents and restricted bank deposits, other receivables and financial guarantee contracts.

Cash and cash equivalents and restricted bank deposits

The credit risks on cash and cash equivalents and restricted bank deposits are limited because the counterparties are banks/financial institutions with acceptable credit ratings.

Other receivables

The credit risk of other receivables is managed through an internal process. 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 reporting year/period.

Financial guarantee contracts

For the financial guarantee contracts provided by the Combined Group to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties, the Combined Group measured the loss allowance on financial guarantee contracts by reference to the historical default rate of the purchasers, the loss on default based on the current property value, the pre-sale deposits already received and the forward looking information. The directors of Luyuan considered that the loss allowances on financial guarantee contracts at 31 December 2018 and 2019 and 30 September 2020 were insignificant to the Combined Group. For properties which have been pre-sold, or for the completed properties that have been sold but the building ownership certificates have not yet been issued, the Combined Group typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of guarantee, the bank holding the mortgage may demand the Combined Group to repay the outstanding amount of the loan and any accrued interest thereon. Under such circumstances, the Combined Group is able to retain the customer's sales deposit and sell the property to recover any amounts paid by the Combined Group to the bank. In this regard, the directors of Luyuan consider that the Combined Group's credit risk is significantly reduced.

Impairment assessments

(i) Credit risk before 1 January 2018

The Combined Group assesses at the end of the reporting period the carrying amount of financial assets. If there is any objective evidence that a financial asset is impaired, the Combined Group provides for such impairment losses. The objective evidence which indicates impairment of financial assets represents events actually occurring after initial recognition of financial assets which have an impact on the financial assets' estimated future cash flows, and the impact can be reliably measured.

For a financial asset that is individually significant, the Combined Group assesses the asset individually for impairment, and recognises the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Combined Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognised are not included with similar credit risk characteristics in the collective assessment for impairment.

After the Combined Group recognises an impairment loss of financial assets, if there is objective evidence that the financial assets' value restores and the restoration can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed and recognised in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognised at the date the impairment was reversed.

The loss allowances recognised for other receivables is insignificant as at 1 January 2017 and 31 December 2017. No impairment allowance was made on cash and cash equivalents, restricted bank deposits and financial guarantee contracts at the end of each reporting period as the directors of Luyuan consider the effect is minimal.

(ii) *Credit risk from 1 January 2018*

From 1 January 2018, the Combined Group formulates the credit losses of cash and cash equivalents and restricted bank deposits, other receivables and financial guarantees contracts using expected credit loss models according to HKFRS 9 requirements.

Parameters of ECL model

The parameters and assumptions involved in ECL model are described below.

The Combined Group considers the credit risk characteristics of different financial instruments when determining if there is significant increase in credit risk. For financial instruments with or without significant increase in credit risk, 12-month or lifetime expected credit losses are provided respectively. The expected credit loss is the result of discounting the product of Exposure at Default (EAD), Probability of Default (PD) and Loss given Default (LGD).

- i) EAD is based on the amounts the Combined Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.
- ii) The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- iii) LGD represents the Combined Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the Lifetime. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grading band. This is supported by historical analysis.

Judgement of significant increase in credit risk (“SICR”)

Under HKFRS 9, when considering the impairment stages for financial assets, the Combined Group evaluates the credit risk at initial recognition and also whether there is any significant increase in credit risk for each reporting period. The Combined Group considers various reasonable supporting information to judge if there is significant increase in credit risk when determining the ECL staging for financial assets. Major factor being considered include solvency and operational capabilities. The Combined Group could base on individual financial instruments or portfolios of financial instruments with similar credit risk characteristics to determine ECL staging by comparing the credit risks of the financial instruments at the reporting date with those at initial recognition.

The Combined Group set quantitative and qualitative criteria to judge whether the credit risk has SICR after initial recognition. The judgement criteria mainly includes the PD changes of the debtors, changes of credit risk categories and other indicators of SICR, etc.

The definition of credit-impaired assets

Under HKFRS 9, in order to determine whether credit impairment occurs, the defined standards adopted by the Combined Group are consistent with the internal credit risk management objectives for relevant financial assets, while considering quantitative and qualitative indicators. When the Combined Group assesses whether the debtor has credit impairment, the following factors are mainly considered:

- The debt has overdue for more than 90 days after the contract payment date
- The lender gives the debtor concessions for economic or contractual reasons due to the debtor’s financial difficulties, where such concessions are normally reluctant to be made by the lender
- The debtor has significant financial difficulties
- The debtor is likely to go bankrupt or needs other financial restructuring

The credit impairment of financial assets may be caused by the joint effects of multiple events, and may not be caused by separately identifiable events.

Forward-looking information

The determinations of 12 months and the lifetime EAD, PD and LGD also incorporates forward-looking information. The Combined Group has performed historical data analysis and identified the key macro-economic variables associated with credit risk and expected credit losses for each portfolio. Through regression analysis, the relationship among economic indicators in history with EAD, PD and LGD is determined, and the EAD, PD, LGD are then determined through forecasting economic indicator.

Combined with the expert judgement, the Combined Group established the values used for different scenarios. In addition to the base economic scenario, the Combined Group also considers other possible scenarios and relative weightings. The Combined Group regularly reassess the number of scenarios and their attributes. The Combined Group combined statistical analysis results to determine the weights of different scenarios, and also considered the range of possible outcomes represented by each scenario, to determine the final macro-economic assumptions and weights for measuring the relevant expected credit loss.

The Combined Group comprehensively considers internal and external data, expert forecasts and statistical analysis to determine the relationship between economic indicators with PD and LGD. The Combined Group evaluates and forecasts these economic indicators at least annually, provides the best estimates for the future, and regularly evaluates the results.

Similar to other economic forecasts, the estimates of economic indicators have high inherent uncertainties, actual results may have significant difference with estimates. The Combined Group considered the estimates above represented the optimal estimation of possible outcomes.

Sensitivity analysis

Expected credit losses are sensitive to the parameters used in the model, the macro-economic variables of the forward-looking forecast, the weight probabilities in different scenarios, and other factors considered in the application of expert judgement. Changes in these input parameters, assumptions, models, and judgments do not have significant impact on the measurement of expected credit losses.

Credit exposure

Without considering the impact of collateral and other credit enhancements, for on-balance sheet assets, the maximum exposures are based on net carrying amounts as reported in the combined financial statements. The Combined Group also assumes credit risk due to financial guarantee contracts. The details are disclosed in Note 27.

The following table presents the credit risk exposure of the financial assets under the scope of expected credit loss. Without considering guarantee or any other credit enhancement measures, for on-balance sheet assets, the maximum credit risk exposure is presented as the gross carrying amount of the financial assets:

	Stage	As at 31 December		As at 30
		2018	2019	September
		RMB'000	RMB'000	2020
				RMB'000
Financial assets at amortised cost:				
Restricted bank deposits	Stage 1	90,084	18,386	2,566
Cash and cash equivalents	Stage 1	301	6,243	5,601
Other receivables	Stage 1	436,385	150,901	2,203,017
Financial guarantee contracts	Stage 1	276,243	334,405	300,000

- (i) For restricted bank deposits and cash and cash equivalents, the Combined Group determines the expected credit losses by referring to external credit rating of the related banks.
- (ii) For other receivables, the Combined Group assesses the expected credit losses with reference to the credit status of the recipients and the past due status of doubtful debtors.

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- (iii) For financial guarantee contracts, the gross carrying amount represents the maximum amount the Combined Group has guaranteed under the respective contracts.

The following tables explain the changes in the gross carrying amount and impairment provision of other receivables between the beginning and the end of the annual period due to these factors:

For the year ended 31 December 2018					
	Stage	1 January <i>RMB'000</i>	Net increase/ (decrease) <i>RMB'000</i>	Acquisition of subsidiaries <i>RMB'000</i>	31 December <i>RMB'000</i>
Gross carrying amount	Stage 1	24	436,361	–	436,385
Impairment provision	Stage 1	–	3,040	–	3,040
For the year ended 31 December 2019					
	Stage	1 January <i>RMB'000</i>	Net increase/ (decrease) <i>RMB'000</i>	Acquisition of subsidiaries <i>RMB'000</i>	31 December <i>RMB'000</i>
Gross carrying amount	Stage 1	436,385	(335,538)	50,054	150,901
Impairment provision	Stage 1	3,040	(2,078)	1,113	2,075
For the nine months ended 30 September 2019 (Unaudited)					
	Stage	1 January <i>RMB'000</i>	Net increase/ (decrease) <i>RMB'000</i>	Acquisition of subsidiaries <i>RMB'000</i>	30 September <i>RMB'000</i>
Gross carrying amount	Stage 1	436,385	(287,575)	–	148,810
Impairment provision	Stage 1	3,040	(2,123)	–	917
For the nine months ended 30 September 2020					
	Stage	1 January <i>RMB'000</i>	Net increase/ (decrease) <i>RMB'000</i>	Acquisition of subsidiaries <i>RMB'000</i>	30 September <i>RMB'000</i>
Gross carrying amount	Stage 1	150,901	2,052,116	–	2,203,017
Impairment provision	Stage 1	2,075	16,405	–	18,480

No impairment allowance was made on cash and cash equivalents, restricted bank deposits and financial guarantee contracts at the end of each reporting period as the directors of Luyuan consider the effect is minimal.

(c) Liquidity risk

The directors of Luyuan closely monitor the cash flows of the Combined Group and, upon maturity, would renew the bank and other borrowings, where necessary, to enable the Combined Group to carry on its operations in the foreseeable future. In this regard, the directors of Luyuan consider that Combined Group's liquidity risk is significantly reduced.

The following tables detail the Combined Group's remaining contractual maturity for its 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. Specifically, bank loans which are repayable on demand are included in the earliest time band. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	On demand or less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>
At 31 December 2017				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	187,335	–	–	187,335
	<u>187,335</u>	<u>–</u>	<u>–</u>	<u>187,335</u>
	On demand or less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>
At 31 December 2018				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	51,400	–	–	51,400
Bank and other borrowings				
– At fixed rate	140,542	–	–	140,542
	<u>191,942</u>	<u>–</u>	<u>–</u>	<u>191,942</u>
Financial guarantee				
– Mortgage guarantees	276,243	–	–	276,243
	<u>276,243</u>	<u>–</u>	<u>–</u>	<u>276,243</u>

	On demand or less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>
At 31 December 2019				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	79,596	–	–	79,596
Bank and other borrowings				
– At fixed rate	59,427	33,615	255,907	348,949
	<u>139,023</u>	<u>33,615</u>	<u>255,907</u>	<u>428,545</u>
Financial guarantee				
– Mortgage guarantees	334,405	–	–	334,405
	<u>334,405</u>	<u>–</u>	<u>–</u>	<u>334,405</u>
	On demand or less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>
At 30 September 2020				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	874,458	–	–	874,458
Bank and other borrowings				
– At variable rate	52,164	50,850	943,860	1,046,874
	<u>926,622</u>	<u>50,850</u>	<u>943,860</u>	<u>1,921,332</u>
Financial guarantee – Facilities granted to related parties	300,000	–	–	300,000
	<u>300,000</u>	<u>–</u>	<u>–</u>	<u>300,000</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The amounts included above for financial guarantee contracts are the maximum amounts which the Combined Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of each reporting period, the directors of Luyuan consider that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

(d) Fair value measurements of financial instruments

The Combined Group's financial instruments include cash and cash equivalents, restricted bank deposits, other receivables, trade and other payables and bank and other borrowings. As at 31 December 2017, 2018, 2019 and 30 September 2020, the financial instruments are all measured at amortised cost and their fair value approximate to carrying value. Details of these financial instruments are disclosed in respective notes.

(e) Financial instruments by category

	As at 31 December			As at 30
	2017	2018	2019	September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets as per combined statements of financial position				
Prepayments and other receivables (excluding prepayments)	24	433,345	148,826	2,184,537
Restricted bank deposits	–	90,084	18,386	2,566
Cash and cash equivalents	1,864	301	6,243	5,601
Total	1,888	523,730	173,455	2,192,704
Liabilities as per combined statements of financial position				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	178,647	49,238	79,596	874,458
Bank and other borrowings	–	130,555	274,812	901,314
Total	178,647	179,793	354,408	1,775,772

As at 31 December 2017, 2018, 2019 and 30 September 2020, the financial instruments of the Combined Group are all measured at amortised cost.

4 CAPITAL MANAGEMENT

The directors of Luyuan manage its capital to ensure that 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 balances. The Combined Group's overall strategy remains unchanged throughout the Track Record Period.

The Combined Group monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debts include bank and other borrowings, as disclosed in respective notes, and net of cash and cash equivalents and restricted bank deposits.

The directors of Luyuan review the gearing ratio and capital structure on a semi-annual basis. As part of this review, the directors of Luyuan consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of Luyuan, the Combined Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The calculation of gearing ratio as at 31 December 2017, 2018 and 2019 and 30 September 2020 were as follows:

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank and other borrowings	–	130,555	274,812	901,314
Less:				
Cash and cash equivalents	(1,864)	(301)	(6,243)	(5,601)
Restricted bank deposits	–	(90,084)	(18,386)	(2,566)
Net debt	<u>(1,864)</u>	<u>40,170</u>	<u>250,183</u>	<u>893,147</u>
Total equity	<u>19,248</u>	<u>(857)</u>	<u>139,440</u>	<u>2,977,862</u>
Gearing ratio	<u>N/A</u>	<u>N/A</u>	<u>179%</u>	<u>30%</u>

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Combined Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Valuation of inventories of properties

The Combined Group's inventories of properties are stated at the lower of cost and the net realisable value ("NRV"). The management of the Combined Group make significant judgment on the estimation of selling prices and costs to completion in determining the NRV of these inventories of properties.

Based on the experience of the management of the Combined Group and the nature of the subject properties, the management of the Combined Group determines the NRV of these inventories of properties by reference to the estimated costs to completion, costs to sale and selling prices of the inventories of properties, which takes into account a number of factors including the pre-sale units in the same project or comparable properties with similar type, size and location, and market conditions in the prevailing real estate markets.

If there is an increase in costs to completion or a decrease in estimated selling prices, this may result in write-downs for these inventories of properties. Such write-downs require the use of estimates of the management of the Combined Group. Based on the management's estimation of the NRV of the inventories of properties, no impairment was considered to be necessary.

(b) Measurement of the expected credit losses

The measurement of the expected credit losses for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3(b).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

(c) Valuation of deferred income tax assets

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

6 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the directors of Luyuan.

During the years/period, the Combined Group is principally engaged in the property development and sales in the PRC. CODM reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of Luyuan regards that there is only one segment which is used to make strategic decisions.

The major operating entities of the Combined Group is domiciled in the PRC. Accordingly, all of the Combined Group's revenue were derived in the PRC during the years/period.

As at 31 December 2017, 2018 and 2019 and 30 September 2020, all of the non-current assets were located in the PRC.

7 REVENUE

Revenue is stated net of sales related tax and is analysed as follows:

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Sales of properties	–	–	–	–	795,317
Revenue is recognised:					
Contracts with customers:					
– At a point in time	–	–	–	–	795,317

There was no individual customer contributing over 10% of the total revenue for the Track Record Period.

Performance obligations for contracts with customers

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are based on customer's specifications with no alternative use. Taking into consideration of the relevant contract terms and the legal environment in the PRC, the Combined Group concluded that the Combined Group does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of properties is therefore recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Combined Group has present right to payment and collection of the consideration is probable. The Combined Group receives certain percentage of the contract value as deposits from customers when they sign the sale and purchase agreement while construction work of property is still ongoing. Certain customers who use mortgage loans provided by the banks and the remaining amount of the total contract value will be paid to the Combined Group from the banks once the customers meet the requirements of the banks. Such advance payment schemes result in contract liabilities being recognised.

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities:

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue recognised that was included in the contract liabilities balance at the beginning of the year/period	—	—	—	—	764,998

8 OTHER INCOME

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest income on bank deposits	4	247	248	195	175
Others	—	175	35	24	62
	4	422	283	219	237

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9 EXPENSES BY NATURE

	Year ended 31 December			Nine months ended 30 September	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Cost of inventories sold	—	—	—	—	502,678
Employee benefit expenses (Note 13)	518	2,304	3,875	1,232	7,411
Tax and surcharges	—	861	708	565	6,038
Travelling and entertainment expenses	104	502	971	464	1,314
Advertising and promotion expenses	67	1,823	485	291	963
Sales commission	—	—	—	—	959
Rental expenses	214	79	62	2	567
Office expenses	42	82	99	65	397
Depreciation of property and equipment (Note 14)	4	14	28	11	249
Management services fees	—	10,540	—	—	76
Other expenses	32	131	112	119	1,142
	<u>981</u>	<u>16,336</u>	<u>6,340</u>	<u>2,749</u>	<u>521,794</u>
Total cost of sales, selling and marketing costs and administrative expenses	<u>981</u>	<u>16,336</u>	<u>6,340</u>	<u>2,749</u>	<u>521,794</u>

10 OTHER LOSSES, NET

	Year ended 31 December			Nine months ended 30 September	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Loss on disposals of property and equipment	—	3	—	—	—
Foreign exchange losses, net	—	—	—	—	2,833
Other losses	1	46	21	91	34
	<u>1</u>	<u>49</u>	<u>21</u>	<u>91</u>	<u>2,867</u>

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11 FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Interest expenses:					
– Interest on bank and other borrowings	–	10,162	10,319	9,687	36,008
– Interest on advances from related parties	1,262	7,746	2,006	1,616	–
– Interest on advances from non-controlling interests	–	–	–	–	7,621
	1,262	17,908	12,325	11,303	43,629
Less: amounts capitalised on qualifying assets	(1,262)	(10,162)	(10,319)	(9,687)	(42,913)
	–	7,746	2,006	1,616	716

12 INCOME TAX EXPENSES/(CREDIT)

	Year ended 31 December			Nine months ended 30 September	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Current income tax expenses					
– Corporate income tax	–	–	–	–	63,230
– Land appreciation tax (“LAT”)	–	–	–	–	71,852
	–	–	–	–	135,082
Deferred income tax credit (Note 15)	(226)	(6,644)	(894)	(466)	(16,785)
	(226)	(6,644)	(894)	(466)	118,297

No provision for taxation has been recognised for companies incorporated in the BVI as they are not subject to any tax.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits of the Combined Group's subsidiaries in Hong Kong. There were no taxable income incurred during the Track Record Period.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

All gains arising from the sale or transfer of real estate in the PRC are subject to land appreciation tax at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including payments made for acquisition of land use rights, costs and certain expenses for the development of the land. Apart from the aforementioned deductions, property developers enjoy an additional deduction, which is equal to 20% of the payment made for acquisition of land use rights and the costs of land development and construction of new buildings or related facilities.

The income tax on the Combined Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of the Combined Group companies as follows:

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
(Loss)/profit before income tax	(978)	(26,749)	(6,006)	(2,114)	253,772
Tax calculated at income tax rate of 25%	(245)	(6,687)	(1,502)	(528)	63,442
Expenses not deductible for tax purpose	19	43	84	43	180
Tax losses not recognised as deferred income tax assets	—	—	524	19	786
Land appreciation tax	—	—	—	—	71,852
Tax effect of land appreciation tax	—	—	—	—	(17,963)
Income tax (credit)/expenses	(226)	(6,644)	(894)	(466)	118,297

13 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Nine months ended 30 September	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Salaries and other allowances	904	4,445	5,136	2,075	10,001
Retirement scheme contributions	42	186	129	47	39
Other retirement benefit costs	20	146	440	384	592
Total benefits	966	4,777	5,705	2,506	10,632
Capitalised in contract acquisition costs	–	(689)	(214)	(134)	(56)
Capitalised in properties under development	(448)	(1,784)	(1,616)	(1,140)	(3,165)
Recognised in profit or loss	518	2,304	3,875	1,232	7,411

According to the relevant laws and regulations in the PRC, Luyuan's PRC subsidiaries are required to participate in defined contribution retirement schemes administrated by the local municipal government. Luyuan's PRC subsidiaries contribute funds which are calculated on certain percentage of the employee salary as required by local municipal government to the schemes to fund the retirement benefits of the employees. The principal obligation of the Combined Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

(a) Director's emoluments

No director's emoluments were paid by the Combined Group during the Track Record Period.

(b) Director's retirement benefits and termination benefits

No retirement benefits were paid to or receivable by director in respect of his other services in connection with the management of the affairs of Luyuan or its subsidiaries' undertaking during the Track Record Period.

No payment was made to the director as compensation for early termination of appointment during the Track Record Period.

(c) Consideration provided to third parties for making available director's services

During the Track Record Period, the Combined Group did not provide consideration to any third parties for making available director's services.

(d) **Information about loans, quasi-loans and other dealings in favour of the director, controlled bodies corporate by and controlled entities with such director**

Save as disclosed in Note 29(b), there were no other loans, quasi-loans and other dealings in favour of the directors, controlled bodies corporate by and connected entities with such directors during the Track Record Period.

(e) **Director's material interests in transactions, arrangements or contracts**

Save as disclosed in Note 29(a), no significant transactions, arrangements and contracts in relation to the Combined Group's business to which the Combined Group was a party and in which a director of Luyuan had a material interest, whether directly or indirectly, subsisted at the end of the years/period or at any time during the Track Record Period.

14 PROPERTY AND EQUIPMENT

	Motor vehicles <i>RMB'000</i>	Furniture, fitting and equipment <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2017	–	–	–	–
Additions	–	13	77	90
At 31 December 2017	–	13	77	90
Accumulated depreciation				
At 1 January 2017	–	–	–	–
Charge for the year	–	(1)	(5)	(6)
At 31 December 2017	–	(1)	(5)	(6)
Carrying values				
At 31 December 2017	–	12	72	84
Cost				
At 1 January 2018	–	13	77	90
Additions	244	24	3	271
Disposal	–	(10)	–	(10)
At 31 December 2018	244	27	80	351
Accumulated depreciation				
At 1 January 2018	–	(1)	(5)	(6)
Charge for the year	(45)	(5)	(26)	(76)
Disposal	–	1	–	1
At 31 December 2018	(45)	(5)	(31)	(81)
Carrying values				
At 31 December 2018	199	22	49	270

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	Motor vehicles <i>RMB'000</i>	Furniture, fitting and equipment <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2019	244	27	80	351
Additions	—	7	34	41
	<u>244</u>	<u>34</u>	<u>114</u>	<u>392</u>
At 31 December 2019				
Accumulated depreciation				
At 1 January 2019	(45)	(5)	(31)	(81)
Charge for the year	(61)	(6)	(28)	(95)
	<u>(106)</u>	<u>(11)</u>	<u>(59)</u>	<u>(176)</u>
At 31 December 2019				
Carrying values				
At 31 December 2019	<u>138</u>	<u>23</u>	<u>55</u>	<u>216</u>
Cost				
At 1 January 2020	244	34	114	392
Additions	355	128	1,320	1,803
	<u>599</u>	<u>162</u>	<u>1,434</u>	<u>2,195</u>
At 30 September 2020				
Accumulated depreciation				
At 1 January 2020	(106)	(11)	(59)	(176)
Charge for the period	(83)	(8)	(188)	(279)
	<u>(189)</u>	<u>(19)</u>	<u>(247)</u>	<u>(455)</u>
At 30 September 2020				
Carrying values				
At 30 September 2020	<u>410</u>	<u>143</u>	<u>1,187</u>	<u>1,740</u>
(Unaudited)				
At 1 January 2019	244	27	80	351
Additions	—	7	—	7
	<u>244</u>	<u>34</u>	<u>80</u>	<u>358</u>
At 30 September 2019				
Accumulated depreciation				
At 1 January 2019	(45)	(5)	(31)	(81)
Charge for the period	(46)	(4)	(20)	(70)
	<u>(91)</u>	<u>(9)</u>	<u>(51)</u>	<u>(151)</u>
At 30 September 2019				
Carrying values				
At 30 September 2019	<u>153</u>	<u>25</u>	<u>29</u>	<u>207</u>

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Depreciation charge was capitalised or expensed in the following categories:

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Inventory of properties	2	62	67	59	30
Selling and marketing costs	1	11	12	9	11
Administrative expenses	3	3	16	2	238
	<u>6</u>	<u>76</u>	<u>95</u>	<u>70</u>	<u>279</u>

15 DEFERRED INCOME TAX

The following are the major deferred tax assets recognised and movements thereon during the years/period:

	Accrued LAT RMB'000	Tax losses RMB'000	Loss allowance RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	–	–	–	–	–
Recognised in profit or loss	–	226	–	–	226
At 31 December 2017	<u>–</u>	<u>226</u>	<u>–</u>	<u>–</u>	<u>226</u>
At 1 January 2018	–	226	–	–	226
Recognised in profit or loss	–	5,704	760	180	6,644
At 31 December 2018	<u>–</u>	<u>5,930</u>	<u>760</u>	<u>180</u>	<u>6,870</u>
At 1 January 2019	–	5,930	760	180	6,870
Acquisition of subsidiaries	–	–	278	–	278
Recognised in profit or loss	–	1,368	(519)	45	894
At 31 December 2019	<u>–</u>	<u>7,298</u>	<u>519</u>	<u>225</u>	<u>8,042</u>
At 1 January 2019	–	5,930	760	180	6,870
Recognised in profit or loss	–	997	(530)	(1)	466
At 30 September 2019 (Unaudited)	<u>–</u>	<u>6,927</u>	<u>230</u>	<u>179</u>	<u>7,336</u>
At 1 January 2020	–	7,298	519	225	8,042
Recognised in profit or loss	17,963	(5,054)	4,101	(225)	16,785
At 30 September 2020	<u>17,963</u>	<u>2,244</u>	<u>4,620</u>	<u>–</u>	<u>24,827</u>

There is no deferred tax liabilities recognised during the year/period.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2017, 2018 and 2019 and 30 September 2020, the Combined Group's subsidiaries do not plan to remit dividend to their holding companies incorporated outside the PRC, for which no deferred income tax liability had been provided.

As at 31 December 2017, 2018 and 2019 and 30 September 2020, the Combined Group had unused tax losses of RMB904,000, RMB23,720,000, RMB31,288,000 and RMB14,216,000 available to offset against future profits. Deferred tax assets have been recognised in respect of tax losses of RMB904,000, RMB23,720,000, RMB29,192,000 and RMB8,976,000 respectively at 31 December 2017, 2018 and 2019 and 30 September 2020. The unrecognised tax losses will expire in the following years:

	As at 31 December			As at
	2017	2018	2019	30 September
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
2024	–	–	2,096	2,096
2025	–	–	–	3,144
	<u>–</u>	<u>–</u>	<u>2,096</u>	<u>5,240</u>

16 INVENTORIES OF PROPERTIES

	As at 31 December			As at
	2017	2018	2019	30 September
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
At cost:				
Properties under development	195,769	322,545	419,858	2,147,212
Properties held for sale	–	–	–	3,264
	<u>195,769</u>	<u>322,545</u>	<u>419,858</u>	<u>2,150,476</u>

The operating cycle of the Combined Group's property development projects generally ranges from two to three years.

The Combined Group's inventories of properties are all situated in the PRC.

Amounts of properties under development comprises as follows:

	As at 31 December			As at
	2017	2018	2019	30 September
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
– Construction costs including depreciation and staff cost capitalised	1,217	116,124	203,070	134,071
– Land use rights	193,290	194,997	195,045	1,970,230
– Borrowing costs capitalised	<u>1,262</u>	<u>11,424</u>	<u>21,743</u>	<u>42,911</u>
	<u>195,769</u>	<u>322,545</u>	<u>419,858</u>	<u>2,147,212</u>

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The capitalisation rate used to capitalise interest on general borrowings for the year ended 31 December 2017 and the nine months ended 30 September 2020 were 6.20% and 12.00% respectively. For the year ended 31 December 2018 and 2019 only specific borrowings cost have been capitalised for qualifying assets.

Details of assets pledged as collateral for the Combined Group's bank and other borrowings are disclosed in Note 24.

17 PREPAYMENTS AND OTHER RECEIVABLES

		As at 31 December		As at 30 September	
		2017	2018	2019	2020
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	(a)	355	31,912	579,928	525,473
Other receivables	(b)	24	436,385	150,901	2,203,017
Less: loss allowance		—	(3,040)	(2,075)	(18,480)
		24	433,345	148,826	2,184,537
		379	465,257	728,754	2,710,010

(a) Prepayments mainly represented prepayments for land use rights, construction costs, and business and other taxes.

(b) Details of other receivables are as follows:

		As at 31 December		As at 30 September	
		2017	2018	2019	2020
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Advances to related parties	29	—	431,211	149,103	2,100,511
Deposits for trust financing arrangements	(i)	—	4,399	—	—
Deposits for construction services		—	—	—	81,909
Other deposits		10	756	831	67
Advances to third parties	(ii)	14	19	967	20,530
		24	436,385	150,901	2,203,017
Less: allowance for impairment		—	(3,040)	(2,075)	(18,480)
Other receivables – net		24	433,345	148,826	2,184,537

(i) The amounts are deposited in trust financing companies for raising trust loans to the Combined Group. The deposits carried interest rate ranging from 1.5% to 2.1% per annum and will be refunded to the Combined Group upon final repayments of the trust loans or repayable on demand.

(ii) As at 30 September 2020, advances to third parties mainly represented interest free loans to community residents committees.

18 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December			As at
	2017	2018	2019	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks and on hand	1,864	90,385	24,629	8,167
Less: Restricted bank deposits (a)	—	(90,084)	(18,386)	(2,566)
Cash and cash equivalents	<u>1,864</u>	<u>301</u>	<u>6,243</u>	<u>5,601</u>

- (a) Restricted bank deposits represent pre-sale deposits placed in bank accounts in accordance with the applicable government regulations. These bank balances can only be applied in designated property development projects, and they carry prevailing interest at the rate of 0.30% per annum as at 31 December 2018 and 2019 and 30 September 2020.
- (b) Cash at banks and deposits held at call carry prevailing market interest rates of 0.30% per annum as at 31 December 2017, 2018 and 2019, ranging from 0.25% to 0.30% and 0.25% to 0.35% per annum as at 30 September 2019 and 2020 respectively.
- (c) The cash at banks are denominated in below currencies:

	As at 31 December			As at
	2017	2018	2019	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	1,864	90,385	24,629	8,164
USD	—	—	—	3
	<u>1,864</u>	<u>90,385</u>	<u>24,629</u>	<u>8,167</u>

The conversion and the remittance of RMB out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC governments.

APPENDIX IIA FINANCIAL INFORMATION OF THE COMBINED GROUP

19 TRADE AND OTHER PAYABLES

		As at 31 December			As at
		2017	2018	2019	30 September
	Note	RMB'000	RMB'000	RMB'000	2020
					RMB'000
Trade payables	(a)	90	12,171	12,743	70,959
Advances from related parties	29(c)	174,889	31,184	27,019	788,191
Payroll payable		427	1,637	3,111	2,485
Other taxes payable		–	–	320	23,232
Other deposits	(b)	3,440	5,340	13,563	10,652
Deposits related to sales of properties		–	–	10,754	–
Other payables		228	543	26,271	4,656
Total		179,074	50,875	93,781	900,175

- (a) Trade payables comprise construction costs and other project-related expenses which are due for payment based on project progress measured by the Combined Group.

The following is an ageing analysis of trade payables, presented based on the invoice date, at the end of the reporting period:

	As at 31 December			As at
	2017	2018	2019	30 September
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
0-60 days	90	12,084	7,439	63,083
61-180 days	–	72	3,233	3,550
181-365 days	–	15	965	322
Over 1 year	–	–	1,106	4,004
	90	12,171	12,743	70,959

- (b) Other deposits mainly represented various deposits received from contractors in relation to tendering and execution of construction contracts.

20 PRE-SALE DEPOSITS RECEIVED

	As at 31 December			As at
	2017	2018	2019	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities related to sales of properties	–	676,858	782,081	17,232
Value-added tax payable	–	60,917	70,388	1,551
	<u>–</u>	<u>737,775</u>	<u>852,469</u>	<u>18,783</u>

The Combined Group receives 30%-100% of the contract value as deposits from customers when they sign the sale and purchase agreements. The deposits and advance payment schemes result in contract liabilities being recognised throughout the property construction period until the sale of the completed property is recognised.

APPENDIX IIA FINANCIAL INFORMATION OF THE COMBINED GROUP

21 BANK AND OTHER BORROWINGS

		As at 31 December			As at
		2017	2018	2019	30 September
	Note	RMB'000	RMB'000	RMB'000	2020
					RMB'000
Bank loans					
– secured and guaranteed	(i)	–	–	–	901,314
Trust loans	(ii)				
– secured and guaranteed	(i)	–	130,555	–	–
– unsecured		–	–	259,320	–
Other loans					
– secured and guaranteed	(i)	–	–	15,492	–
Total bank and other borrowings		–	130,555	274,812	901,314
Less: Amounts due within one year or on demand shown under current liabilities		–	(130,555)	(25,812)	(1,314)
Amounts shown under non-current liabilities		–	–	249,000	900,000

(i) The collaterals of secured loans are set out in Note 24. The loans are guaranteed by the entities controlled by the Ultimate Shareholder.

(ii) These borrowings are in the form of trust arrangement with trust financing companies. The conventional loan arrangements are loan agreements entered into between the Combined Group and trust financing companies.

The effective interest rates at the end of each reporting year/period are as follows:

	As at 31 December			As at
	2017	2018	2019	30 September
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Bank loans	–	–	–	5.65%
Trust loans	–	10.04%	13.00%	–
Other loans	–	–	16.57%	–

22 COMBINED CAPITAL/SHARE CAPITAL

The share capital of Luyuan represents:

	Number of ordinary shares	Nominal value of shares USD	Equivalent nominal value of shares RMB
Authorised			
At 21 December 2017 (date of incorporation), 31 December 2017, 2018 and 2019 and 30 September 2020	50,000	50,000	390,815
Issued and fully paid			
At 21 December 2017 (date of incorporation), 31 December 2017, 2018 and 2019 and 30 September 2020	1	1	7

The combined capital of the Combined Group represents the aggregate share/paid-in capital of the companies comprising the Combined Group, after elimination of the inter-company investments, that are attributable to the owners of Luyuan.

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Luyuan	–	–	–	–
Weihai Xiangyuan (a)	20,000	20,000	20,000	–
Qingdao Zhongwei (b)	–	–	–	2,176,452
	20,000	20,000	20,000	2,176,452

Notes:

- (a) On 26 June 2017, Weihai Xiangyuan was established by Jiaying Jindi Real Estate Co., Ltd. (“**Jiaying Jindi**”), a PRC limited company wholly-owned by Shencheng Group, with a paid-in capital of RMB20,000,000. On 11 November 2019, Jiaying Jindi transferred its interest in Weihai Xiangyuan to Shencheng Group. On 3 July 2020, Shencheng Group transferred the interest in Weihai Xiangyuan to Qingdao Group at a consideration of RMB20,000,000.
- (b) Qingdao Zhongwei is owned by Hong Kong Jianyuan Investment Co., Ltd. (“**Jianyuan Hong Kong**”), a company controlled by the Ultimate Shareholder, and Shenzhen Guoshun Min'an Supply Chain Co., Ltd. (“**Guoshun Min'an**”), a third party, with a paid-in capital of RMB2,722,947,000. Jianyuan Hong Kong held 79.93% of the equity interest that represented a paid-in capital of RMB2,176,452,000. Guoshun Min'an held 20.07% of the equity interest and paid RMB546,495,000 as paid-in capital.

23 CASH FLOW INFORMATION

(a) Cash (used in) generated from operations:

		Year ended 31 December		Nine months ended 30 September	
	Note	2017	2018	2019	2019
		RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit/(loss) before taxation		(978)	(26,749)	(6,006)	(2,114)
Adjustments for:					253,772
Interest income on bank deposits	8	(4)	(247)	(248)	(195)
Finance costs	11	–	7,746	2,006	1,616
Net impairment loss/(reversal) on financial assets		–	3,040	(2,078)	(2,123)
Depreciation of property and equipment		6	76	95	70
Loss on disposal of property and equipment		–	3	–	–
Operating cash flows before movements in working capital		(976)	(16,131)	(6,231)	(2,746)
Increase in inventories of properties		(194,507)	(116,614)	(86,994)	(50,623)
Payment for deposits for land use rights		–	–	–	–
(Increase)/decrease in other receivables		(379)	(32,308)	18,614	(21,300)
Increase/(decrease) in trade and other payables		4,185	15,506	(30,945)	17,028
(Increase)/decrease in contract acquisition costs		–	(689)	(252)	(134)
Increase/(decrease) in pre-sale deposits received		–	737,775	114,694	104,338
Cash (used in)/generated from operations		(191,677)	587,539	8,886	46,563
					(2,126,378)

APPENDIX IIA FINANCIAL INFORMATION OF THE COMBINED GROUP

(b) Reconciliation of liabilities arising from financing activities

	Bank and other borrowings <i>RMB'000</i>	Advances from related parties <i>RMB'000</i>	Advances from non-controlling interests <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2017	–	–	–	–
Cash flows				
– Net cash flows from financing activities	–	174,904	–	174,904
– Interest paid	–	(1,277)	–	(1,277)
Non-cash flows				
– Interest expenses	–	1,262	–	1,262
At 31 December 2017	–	174,889	–	174,889
At 1 January 2018	–	174,889	–	174,889
Cash flows				
– Net cash flows from financing activities	130,900	(144,902)	–	(14,002)
– Interest paid	(10,507)	(6,549)	–	(17,056)
Non-cash flows				
– Interest expenses	10,162	7,746	–	17,908
At 31 December 2018	130,555	31,184	–	161,739
At 1 January 2019	130,555	31,184	–	161,739
Cash flows				
– Net cash flows from financing activities	(115,900)	1,871,337	–	1,755,437
– Interest paid	(9,482)	(1,943)	–	(11,425)
Non-cash flows				
– Acquisitions of subsidiaries	259,320	–	36,144	295,464
– Interest expenses	10,319	2,006	–	12,325
– Offset by other receivables	–	(1,875,565)	(36,144)	(1,911,709)
At 31 December 2019	274,812	27,019	–	301,831
At 1 January 2020	274,812	27,019	–	301,831
Cash flows				
– Net cash flows from financing activities	636,000	148,117	654,500	1,438,617
– Interest paid	(45,506)	–	–	(45,506)
Non-cash flows				
– Interest expenses	36,008	–	7,621	43,629
– Offset by other receivables	–	(49,066)	–	(49,066)
At 30 September 2020	901,314	126,070	662,121	1,689,505
At 1 January 2019	130,555	31,184	–	161,739
Cash flows				
– Net cash flows from financing activities	(130,900)	264,001	–	133,101
– Interest paid	(9,075)	(1,466)	–	(10,541)
Non-cash flows				
– Interest expenses	9,687	1,616	–	11,303
– Offset by other receivables	–	(264,001)	–	(264,001)
At 30 September 2019 (unaudited)	267	31,334	–	31,601

24 PLEDGE OF ASSETS

The following assets were pledged to secure the mortgage guarantees provided to customers and certain banking and other facilities granted to the Combined Group at the end of the reporting year/period:

	As at 31 December			As at
	2017	2018	2019	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Inventories of properties	<u>–</u>	<u>471,240</u>	<u>349,897</u>	<u>1,970,228</u>

As at 31 December 2018, 100% equity interest of Weihai Xiangyuan has been pledged to secure various borrowings of the Combined Group.

25 COMMITMENTS

At the end of each reporting period, the Combined Group had no material capital commitments.

26 ACQUISITION OF SUBSIDIARIES

In December 2019, the Combined Group acquired a total of 96.3% equity interest in Ningbo Puying from a third party. Ningbo Puying is an investment holding Company and its subsidiary, Qingdao Shuiqingmuhua, is engaged in property development in the PRC. According to the partnership agreements, the Combined Group is only entitled to 65% of profit share of Ningbo Puying. As at the acquisition date, Ningbo Puying and Qingdao Shuiqingmuhua have not carried out any property development work. The directors of Luyuan considered that the acquired assets and liabilities of Ningbo Puying and Qingdao Shuiqingmuhua did not constitute any business and this acquisition has been accounted for as purchases of assets and liabilities.

APPENDIX IIA FINANCIAL INFORMATION OF THE COMBINED GROUP

Details of the purchase consideration and the net assets acquired are as follows:

	<i>RMB'000</i>
Total cash considerations settled in 2019	249,000

Total recognised amounts of identifiable assets acquired and liabilities assumed are as follows:

	<i>RMB'000</i>
– Cash and cash equivalents	3,823
– Other receivables	584,540
– Right to acquire land use rights (a)	143,220
– Deferred tax assets	278
– Other borrowings	(259,320)
– Other payables	(78,132)
	<u>394,409</u>
Non-controlling interests	<u>(11,332)</u>
Net assets attributable to owners of Ningbo Puying	<u><u>383,077</u></u>
Share of Ningbo Puying	<u>65%</u>
Net assets acquired	<u>249,000</u>

Outflow of cash to acquire subsidiary, net of cash acquired in 2019:

	<i>RMB'000</i>
– Full settlement of cash considerations	249,000
– Cash and cash equivalents in the subsidiaries acquired	(3,823)
	<u>245,177</u>
Net cash outflow on acquisition	<u><u>245,177</u></u>

- (a) As Qingdao Shuiqingmuhua has not obtained the land certificate, the excess of purchase cost over carrying amount of net assets of Qingdao Shuiqingmuhua of RMB143,220,000 was recorded as the right to acquire land use rights.

27 GUARANTEES

	As at 31 December			As at
	2017	2018	2019	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
				<i>RMB'000</i>
Mortgage guarantees (a)	–	276,243	334,405	–
Facilities granted to related parties (b)	–	–	–	300,000
	<u>–</u>	<u>–</u>	<u>–</u>	<u>300,000</u>

- (a) The Combined Group provided guarantees in respect of mortgage bank loans granted to purchasers of the Combined Group's properties. Guarantees are given to banks with respect of loans procured by the purchasers of the Combined Group's properties. Such guarantees will be released by banks upon the purchasers obtaining the relevant ownership certificate and completion of the relevant mortgage registration.
- (b) Pursuant to a facility agreement dated 7 September 2020 entered into between Lingshihuaifu, as borrower, and Qingdao Xifa Commercial Factoring Co., Ltd., Qingdao Group agreed to provide guarantees for a term loan of up to RMB300,000,000 granted to Lingshihuaifu.

In the opinion of the directors of Luyuan, the fair values of these financial guarantee contracts of the Combined Group are insignificant at initial recognition and at relevant reporting dates and accordingly, no value has been recognised at the inception of the guarantee contracts and as at 31 December 2017, 2018 and 2019 and as at 30 September 2020.

28 CONTINGENT LIABILITIES

The Combined Group has no material contingent liabilities outstanding as at 31 December 2017, 2018 and 2019 and 30 September 2020.

29 RELATED PARTY TRANSACTIONS AND BALANCES

Luyuan is ultimately controlled by Mr. Shum.

(a) Related party transactions

Apart from those related party transactions disclosed above, the following transactions were carried out with related parties.

	Year ended 31 December			Nine months ended	
	2017	2018	2019	30 September 2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
(i) Entities controlled by Mr. Shum and the close family members of Mr. Shum					
Procurement of architectural design fee	8	1,340	619	619	134
Procurement of intelligent system equipment	–	–	1,323	86	637
Procurement of property management services	–	–	776	691	886
Interest paid	1,262	7,746	2,006	1,616	–
Management service fees	–	10,540	–	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(ii) Non-controlling Shareholder					
Advances from non-controlling parties	–	–	–	–	654,500
Interest paid	–	–	–	–	7,621
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The prices for the above transactions were determined in accordance with the terms of the underlying agreements.

(b) Key management compensation

	Year ended 31 December			Nine months ended 30 September	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Short term benefits	—	—	263	—	1,655
Post-employment benefits	—	—	2	—	36
	<u>—</u>	<u>—</u>	<u>265</u>	<u>—</u>	<u>1,691</u>

The remuneration of directors and other members of key management is determined with reference to performance of individuals and market trends.

(c) Related party balances

The Combined Group has the following significant balances with related parties:

	As at 31 December			As at 30 September
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
(i) Entities controlled by Mr. Shum				
Trading nature and included in:				
– Trade payables	8	1,109	2,061	2,135
Non-trading nature and included in:				
– Other receivables	—	431,211	131,103	2,082,511
– Other payables	174,889	31,184	27,019	126,070
(ii) Non-controlling Shareholder				
Non-trading nature and included in:				
– Other receivables	—	—	18,000	18,000
– Other payables	—	—	—	662,121

Included in other payables were amounts due to entities controlled by Mr. Shum, amounting to RMB140,138,000 as at 31 December 2017, which bore interest at a rate of 6.2% per annum and were repayable within one year, and amounting to RMB30,000,000 as at 31 December 2018, which bore interest at a rate of 7.2% per annum and were repayable within one year.

The advances from non-controlling shareholders, amounting to RMB654,500,000 as at 30 September 2020, bore interest at a rate of 12% per annum and were repayable within one year.

The other balances due from/to related parties were interest free, unsecured and to be settled on demand.

30 EVENTS AFTER THE REPORTING PERIOD

On 11 January 2021, the Combined Group acquired 10% equity interest in Qingdao Shuiqingmuhua from the non-controlling shareholder for a consideration of RMB18,000,000.

31 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Luyuan or any of the companies now comprising the Combined Group in respect of any period subsequent to 30 September 2020. No dividend distribution has been declared or made by Luyuan or any of the companies now comprising the Combined Group in respect of any period subsequent to 30 September 2020.

The following is the text of a report set out on pages IIB-1 to IIB-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION OF LINGSHIHUAFU TO THE DIRECTORS OF JIAYUAN INTERNATIONAL GROUP LIMITED

Introduction

We report on the historical financial information of Qingdao Lingshihua Property Co. Ltd. ("**Lingshihua**") set out on pages IIB-4 to IIB-52, which comprises the statements of financial position as at 31 December 2017, 2018 and 2019 and 30 September 2020 and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020 (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 IIB-4 to IIB-52 forms an integral part of this report, which has been prepared for inclusion in the circular of Jiayuan International Group Limited (the "**Company**") dated 26 February 2021 (the "**Circular**") in connection with the proposed investment in Lingshihua as part of the acquisition of Luyuan Investment Holdings Limited ("**Luyuan**") by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The financial statements of Lingshihua for the Track Record Period ("**Underlying Financial Statements**"), on which the Historical Financial Information is based, were prepared by the directors of Lingshihua. The directors of Lingshihua are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), and for such internal control as the directors determine is necessary to enable the preparation of Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

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Reporting accountant's 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, *Accountant's Reports on Historical Financial Information in Investment Circulars* issued by 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 accountant's 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 accountant considers 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 set out in Note 2.1 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 directors, 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 accountant's report, a true and fair view of the financial position of Lingshihuaafu as at 31 December 2017, 2018 and 2019 and 30 September 2020 and of its financial performance and its cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of Lingshihuaafu which comprises the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the nine months ended 30 September 2019 and other explanatory information (the “**Stub Period Comparative Financial Information**”). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information in accordance with the basis of preparation set out in Note 2.1 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 and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. 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 accountant’s report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements have been made.

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong

26 February 2021

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

The Underlying Financial Statements, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

Statements of comprehensive income

		Year ended 31 December			Nine months ended 30 September	
	Note	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Revenue	8	–	–	–	–	–
Cost of sales	11	–	–	–	–	–
Gross profit		–	–	–	–	–
Other income	9	183,355	252,553	624	322	703
Other losses, net	10	(17)	(14)	(50)	(40)	(60)
Net impairment (losses)/reversal on financial assets	4(b)	(63)	(1,194)	5,030	6,652	(11,478)
Selling and marketing costs	11	(274)	(5,333)	(10,354)	(7,747)	(3,250)
Administrative expenses	11	(1,571)	(4,978)	(8,625)	(4,478)	(3,259)
Finance costs	12	(216,544)	(245,004)	(1,653)	(1,236)	(1,241)
Loss before taxation		(35,114)	(3,970)	(15,028)	(6,527)	(18,585)
Income tax credit	13	8,621	927	3,710	1,588	4,625
Loss and total comprehensive loss for the year/period		(26,493)	(3,043)	(11,318)	(4,939)	(13,960)

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

Statements of financial position

		As at 31 December			As at
	<i>Note</i>	2017	2018	2019	30 September
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2020
					<i>RMB'000</i>
Non-current assets					
Property and equipment	15	1,252	1,090	712	432
Deferred tax assets	16	8,621	15,233	18,943	23,568
Prepayments and other receivables	18	–	37,901	20,086	11,214
		<u>9,873</u>	<u>54,224</u>	<u>39,741</u>	<u>35,214</u>
Current assets					
Inventories of properties	17	239,923	2,032,322	4,639,699	5,464,388
Prepayments and other receivables	18	2,536,717	2,013,933	2,497,463	3,036,577
Contract acquisition costs		–	–	2,900	7,844
Prepaid income tax		–	–	36,058	83,714
Restricted bank deposits	19	–	–	103,710	158,278
Cash and cash equivalents	19	<u>100,253</u>	<u>1,035</u>	<u>23,101</u>	<u>46,111</u>
		<u>2,876,893</u>	<u>4,047,290</u>	<u>7,302,931</u>	<u>8,796,912</u>
Total assets		<u>2,886,766</u>	<u>4,101,514</u>	<u>7,342,672</u>	<u>8,832,126</u>

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

		As at 31 December			As at
	Note	2017	2018	2019	30 September
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Current liabilities					
Trade and other payables	20	2,890,144	2,077,096	1,045,879	1,072,054
Pre-sale deposits received	21	–	–	1,015,493	2,384,471
Bank and other borrowings	22	–	–	1,120,664	2,719,615
		<u>2,890,144</u>	<u>2,077,096</u>	<u>3,182,036</u>	<u>6,176,140</u>
Net current assets/(liabilities)		<u>(13,251)</u>	<u>1,970,194</u>	<u>4,120,895</u>	<u>2,620,772</u>
Total assets less current liabilities		<u>(3,378)</u>	<u>2,024,418</u>	<u>4,160,636</u>	<u>2,655,986</u>
Non-current liabilities					
Bank and other borrowings	22	–	2,047,894	4,195,430	2,704,740
Equity					
Paid-in capital	23	27,000	27,000	27,000	27,000
Accumulated losses		<u>(30,378)</u>	<u>(50,476)</u>	<u>(61,794)</u>	<u>(75,754)</u>
Total equity		<u>(3,378)</u>	<u>(23,476)</u>	<u>(34,794)</u>	<u>(48,754)</u>
Total equity and non-current liabilities		<u>(3,378)</u>	<u>2,024,418</u>	<u>4,160,636</u>	<u>2,655,986</u>

Statements of changes in equity

	<i>Note</i>	Paid-in capital RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017		27,000	(3,885)	23,115
Loss and total comprehensive loss for the year		<u>–</u>	<u>(26,493)</u>	<u>(26,493)</u>
At 31 December 2017		<u>27,000</u>	<u>(30,378)</u>	<u>(3,378)</u>
At 31 December 2017		27,000	(30,378)	(3,378)
Change in accounting policies	3(b)	<u>–</u>	<u>(17,055)</u>	<u>(17,055)</u>
At 1 January 2018, as restated		27,000	(47,433)	(20,433)
Loss and total comprehensive loss for the year		<u>–</u>	<u>(3,043)</u>	<u>(3,043)</u>
At 31 December 2018		<u>27,000</u>	<u>(50,476)</u>	<u>(23,476)</u>
At 1 January 2019		27,000	(50,476)	(23,476)
Loss and total comprehensive loss for the year		<u>–</u>	<u>(11,318)</u>	<u>(11,318)</u>
At 31 December 2019		<u>27,000</u>	<u>(61,794)</u>	<u>(34,794)</u>
At 1 January 2020		27,000	(61,794)	(34,794)
Loss and total comprehensive loss for the period		<u>–</u>	<u>(13,960)</u>	<u>(13,960)</u>
At 30 September 2020		<u>27,000</u>	<u>(75,754)</u>	<u>(48,754)</u>
(Unaudited) At 1 January 2019		27,000	(50,476)	(23,476)
Loss and total comprehensive loss for the period		<u>–</u>	<u>(4,939)</u>	<u>(4,939)</u>
At 30 September 2019		<u>27,000</u>	<u>(55,415)</u>	<u>(28,415)</u>

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

Statements of cash flows

		Year ended 31 December			Nine months ended	
	Note	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cash flows from operating activities						
Cash (used in)/generated from operations	24	(2,528,990)	544,584	(13,215)	(441,020)	(264,255)
Income tax paid		<u>–</u>	<u>–</u>	<u>(36,058)</u>	<u>(21,026)</u>	<u>(47,656)</u>
Net cash (used in)/generated from operating activities		<u>(2,528,990)</u>	<u>544,584</u>	<u>(49,273)</u>	<u>(462,046)</u>	<u>(311,911)</u>
Cash flows from investing activities						
Deposits for trust financing arrangements		–	(37,500)	(32,000)	(20,776)	–
Refund of deposits for trust financing arrangements		–	–	37,500	29,200	–
Additions of property and equipment	15	(1,381)	(191)	(3)	(2)	(2)
Proceeds from disposal of property and equipment		19	–	–	–	–
Interest received		16	114	888	607	252
Net (advances to)/repayments from related parties		–	(1,665,608)	(300,755)	(294,663)	672,808
Repayment from non-controlling shareholder		158	–	–	–	–
Placement of restricted bank deposits		<u>–</u>	<u>–</u>	<u>(103,710)</u>	<u>(119,741)</u>	<u>(54,568)</u>
Net cash (used in)/generated from investing activities		(1,188)	(1,703,185)	(398,080)	(405,375)	618,490

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

	<i>Note</i>	Year ended 31 December			Nine months ended 30 September	
		2017	2018	2019	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
					(Unaudited)	
Cash flows from						
financing activities						
Proceeds from borrowings		–	2,050,000	5,180,000	4,057,600	300,000
Repayment of borrowings		–	–	(1,834,570)	(1,783,580)	(291,890)
Interest paid		(248,044)	(457,833)	(553,011)	(275,920)	(291,679)
Net advances						
from/(repayments to)						
related parties		<u>2,877,819</u>	<u>(532,784)</u>	<u>(2,323,000)</u>	<u>(1,105,307)</u>	<u>–</u>
Net cash generated						
from/(used in)						
financing activities		<u>2,629,775</u>	<u>1,059,383</u>	<u>469,419</u>	<u>892,793</u>	<u>(283,569)</u>
Net increase/(decrease)						
in cash and cash						
equivalents		99,597	(99,218)	22,066	25,372	23,010
Cash and cash equivalents						
at beginning of						
year/period		<u>656</u>	<u>100,253</u>	<u>1,035</u>	<u>1,035</u>	<u>23,101</u>
Cash and cash						
equivalents at end of						
year/period	19	<u>100,253</u>	<u>1,035</u>	<u>23,101</u>	<u>26,407</u>	<u>46,111</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

Qingdao Lingshihuafu Property Co., Ltd. (“**Lingshihuafu**”) is a limited liability company incorporated in the People’s Republic of China (“**PRC**”) on 31 May 2006. The address of Lingshihuafu’s registered office is International Business Centre, Hong Kong East Road 107, Laoshan District, Qingdao, Shangdong Province, PRC. Lingshihuafu is principally engaged in property development in PRC.

Lingshihuafu were initially owned by Zhuhai Hengqin Xihuafuli Real Estate Co., Ltd. (“**Zhuhai Xihuafuli**”) and Qingdao Zhujiawa Industrial Co., Ltd. (“**Qingdao Zhujiawa**”) which held 70% and 30% equity interest, respectively. Zhuhai Xihuafuli was a company wholly owned by Mr. Yu Xihua. On 28 February 2017, Zhejiang Jiayuan Shencheng Real Estate Property Group Co., Ltd. (“**Shencheng Group**”), a company controlled by Mr. Shum Tin Ching (“**Mr. Shum**”), acquired 90% equity interest of Zhuhai Xihuafuli from Mr. Yu Xihua.

On 25 September 2020, Mr. Yu Xihua acquired the 90% equity interest of Zhuhai Xihuafuli from Shencheng Group in exchange for Zhuhai Xihuafuli transferred 63% equity interest of Lingshihuafu to Shencheng Group. As a result of the exchange, Shencheng Group, Qingdao Zhujiawa and Mr. Yu Xihua held 63%, 30% and 7% equity interest respectively in Lingshihuafu. In accordance with an agreement entered into between Shencheng Group and Mr. Yu Xihua on 25 September 2020, both parties will be acting in concert in the management of Lingshihuafu. Consequently Lingshihuafu became a joint venture of Shencheng Group.

According to the sale and purchase agreement entered into between Luyuan Investment Holdings Limited (“**Luyuan**”) and Shencheng Group, as a part of the reorganisation (the “**Reorganisation**”) in connection with the acquisition of Luyuan by Jiayuan International Group Limited (the “**Company**”), Qingdao Jiayuan Real Estate Group Co., Ltd. (“**Qingdao Group**”), a company controlled by Luyuan will acquire the 63% equity interest of Lingshihuafu from Shencheng Group. As a result, Lingshihuafu will become a joint venture of Luyuan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of the Historical Financial Information. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) which include all HKFRS, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations issued by the HKICPA. The Historical Financial Information has been prepared under the historical cost convention.

The preparation of Historical Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying Lingshihuafu’s accounting policies. The areas involving a higher degree of judgments or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 6.

Lingshihuafu’s accounting policies are consistent with those of the Company.

2.2 New and amended standards and interpretations adopted

Lingshihuafu has applied HKFRS 15 “Revenue from contracts with customers” and HKFRS 9 “Financial Instruments” from 1 January 2018 and has applied HKFRS 16 “Leases” from 1 January 2019. The directors of Lingshihuafu considered that the initial application of HKFRS 15 and HKFRS 16 have no material impact to the Historical Financial Information. The effect of initially applying HKFRS 9 is disclosed in Note 3.

The other standards, amendments and interpretations effective in the Track Record Period also did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the Historical Financial Information.

2.3 New and amended standards and interpretations not yet adopted

Up to the date of issuance of this report, the HKICPA has issued the following new standards and amendments to existing standards which are not yet effective and have not been early adopted by Lingshihuafu:

		Effective for annual periods beginning on or after
HKFRS 17	Insurance contract	1 January 2023
Amendments to HKAS 1	Classification of liabilities as current or non-current	1 January 2023
HK Interpretation 5 (2020)	Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause	1 January 2023
Accounting Guideline 5 (Revised)	Merger accounting for common control combinations	1 January 2022
Amendments to HKFRS 3	Update reference to the conceptual framework	1 January 2022
Amendments to HKAS 16	Proceeds before intended use	1 January 2022
Amendments to HKAS 37	Onerous contracts – cost of fulfilling a contract	1 January 2022
Annual improvements	Annual Improvements to HKFRS Standards 2018-2020 Cycle	1 January 2022
Amendments to HKFRS 9, HKAS 39, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase two	1 January 2021
Amendments to HKAS 16	COVID-19-related rent concessions	1 June 2020
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associates or joint ventures	To be determined

Lingshihuafu has already commenced an assessment of the impact of these new or revised standards and amendments, certain of which are relevant to Lingshihuafu's operations. According to the preliminary assessment made by the directors of Lingshihuafu, no significant impact on the financial performance and position of Lingshihuafu is expected when they become effective.

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“CODM”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of Lingshihuafu that makes strategic decisions. Lingshihuafu's customers are all located in the PRC. No geographical segment of customers is disclosed.

2.5 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of Lingshihuafu are measured using the currency of the primary economic environment in which Lingshihuafu operates (the “**functional currency**”). The Historical Financial Information is presented in RMB which is Lingshihuafu's functional currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses are presented in the statement of comprehensive income within 'other losses, net'.

2.6 Leases

Lingshihuaifu as a lessee

As explained in Note 2.2, Lingshihuaifu has adopted HKFRS 16 from 1 January 2019. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by Lingshihuaifu. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by Lingshihuaifu under residual value guarantees;
- the exercise price of a purchase option if Lingshihuaifu is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects Lingshihuaifu exercising that option.

Payments associated with short-term leases of equipment and vehicles and leases of low value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income. Short-term leases are leases with a lease term of 12 months or less.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in Lingshihuaifu, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right-of-use assets resulted from lease payments are stated at cost less accumulated depreciation and accumulated impairment losses.

Accounting policies applied until 31 December 2018

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

2.7 Property and equipment

Property and equipment are stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to LingshihuaFu and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Motor vehicles	4 years
Furniture, fittings and equipment	5-10 years
Computer equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other losses, net' in the statement of comprehensive income.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

As explained in 2.2, Lingshihuaifu has adopted HKFRS 9 from 1 January 2018. The new policy is described below and the impact of the change is set out in Note 3.

(i) Classification

Lingshihuaifu classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss (“**FVPL**”);
- those to be measured subsequently at fair value through other comprehensive income (“**FVOCI**”); and
- those to be measured at amortised cost.

The classification depends on the entity’s business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether Lingshihuaifu has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

Lingshihuaifu reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and measurement

At initial recognition, Lingshihuaifu measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on Lingshihuaifu’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which Lingshihuaifu classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in the statement of comprehensive income when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign

exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the statement of comprehensive income and recognised in 'other losses, net'. Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or financial assets at FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented net in the statement of comprehensive income within 'other losses, net' in the period in which it arises. Interest income from these financial assets is included in the 'other income'.

Equity instruments

Lingshihuafu subsequently measures all equity investments at fair value. Where Lingshihuafu's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the statement of comprehensive income. Dividends from such investments continue to be recognised in the statement of comprehensive income as 'other income' when Lingshihuafu's right to receive payments is established.

Accounting policies applied until 31 December 2017

Lingshihuafu's financial assets are classified as financial assets at fair value through profit or loss, held-to-maturity investment, 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 or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchase or sales 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.

Financial assets at fair value through profit or loss

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date Lingshihuafu commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial instruments at fair value through profit or loss have two sub-categories namely financial instruments held for trading and those designated at fair value through profit or loss at inception. Financial instruments typically bought with the intention to sell in the near future are classified as held for trading. A financial instrument can only be designated at inception as at fair value through profit or loss and cannot be subsequently changed. For financial instruments designated at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising the gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial asset contains an embedded derivative that needs to be separately recorded.

These financial instruments are initially recorded at fair value. Subsequent to initial recognition, they are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the statement of comprehensive income.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that Lingshihuaifu has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

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 fair value through profit or loss.

Debt investment held by Lingshihuaifu that is classified as AFS financial asset is measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS debt investment relating to interest income calculated using the effective interest method is recognised in profit or loss. Other changes in the carrying amount of AFS financial asset is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

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 are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

2.10 Impairment of financial assets

Lingshihuaifu assesses on a forward looking basis the expected credit losses (“ECL”) associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. See 4(b) for details how Lingshihuaifu determines whether there has been a significant increase in credit risk.

For cash and cash equivalents, restricted bank deposits, prepayments and other receivables and financial guarantees contracts, Lingshihuaifu measures the loss allowance equal to 12 months ECL, unless when there has been a significant increase in credit risk since initial recognition, Lingshihuaifu recognises lifetime ECL.

A number of significant judgements are required in measuring the ECL, such as:

- i) Determining criteria for significant increase in credit risk;
- ii) Choosing appropriate models and assumptions for the measurement of ECL including exposure at default (EAD), probability of default (PD), loss given default (LGD), etc.; and
- iii) Establishing the number and relative weightings of forward-looking scenarios for the associated ECL.

For the financial instruments subject to ECL measurement, Lingshihuaifu assesses the significant increase in credit risk since initial recognition or whether an instrument is considered to be credit impaired, outlines a ‘three-stage’ model expected credit loss models are established and staging definition are set for each of these financial assets class. Incorporating forward-looking information,

expected credit losses for financial assets are recognised into the different stages and measured the impairment provisions respectively.

Stage 1: A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by Lingshihuafu. The impairment provisions are measured at an amount equal to the 12-month expected credit losses for the financial assets which are not considered to have significantly increased in credit risk since initial recognition.

Stage 2: If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The impairment provisions is measured based on expected credit losses on a lifetime basis.

Stage 3: If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. The impairment provisions are measured based on expected credit losses on lifetime basis.

For the financial assets at Stage 1 and Stage 2, the interest income is calculated based on its gross carrying amount (i.e. amortised cost) before adjusting for impairment provision using the effective interest method. For the financial assets at Stage 3, the interest income is calculated based on the carrying amount of the asset, net of the impairment provision, using the effective interest method. Financial assets that are originated or purchased credit impaired are financial assets that are impaired at the time of initial recognition, and the impairment provision for these assets is the expected credit loss for the entire lifetime since initial recognition as purchased or originated credit-impaired financial assets.

Accounting policies applied until 31 December 2017

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

Objective evidence of impairment could include:

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

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

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

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of prepayments and other 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 prepayments and other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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.

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 debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises cost of land use rights, construction costs, depreciation of machinery and equipment, borrowing costs capitalised for qualifying assets and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Costs to fulfill a contract comprise the development cost and land use rights cost directly related to an existing contract that will be used to satisfy performance obligations in the future. The costs to fulfill a contract are recorded in properties under development if they are expected to be recovered. The amount is amortised on a systematic basis, consistent with the pattern of revenue recognition of the contract to which the asset relates.

2.13 Cash and cash equivalents

For purpose of presentation in the statement of cash flows, cash and cash equivalents comprise cash on hand held by Lingshihuafu, deposits held at call with financial institutions, other short-term, highly liquid investments, demand deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

2.14 Contract assets and contract liabilities

Upon entering into a contract with a buyer, Lingshihuafu obtains rights to receive consideration from the buyer and assumes performance obligations to transfer goods or provide services to the buyer. The combination of those rights and performance obligations gives rise to a net asset or a net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining rights exceeds the measure of the remaining performance obligations. Conversely, the contract is a liability and

recognised as contract liabilities if the measure of the remaining performance obligations exceeds the measure of the remaining rights.

A contract liability represents Lingshihuaifu's obligation to transfer goods or services to a customer for which Lingshihuaifu has received consideration (or an amount of consideration is due) from the customer. The contract liabilities are presented as pre-sale deposits received on the statement of financial position.

Lingshihuaifu recognises the incremental costs of obtaining a contract with a buyer as contract acquisition costs within contract assets if Lingshihuaifu expects to recover those costs.

2.15 Paid-in capital

Paid-in capital is classified as equity.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless Lingshihuaifu has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and is limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred income tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred income tax is recognised in the statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where Lingshihuaifu and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.19 Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries and performance related bonus, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Performance related bonus is determined by reference to the performance of individuals and market trend. The liabilities are presented within "Trade and other payables" in the statement of financial position.

(ii) Pension obligations

Lingshihuaifu only operate defined contribution pension plans. In accordance with the rules and regulations in the PRC, the PRC based employees of Lingshihuaifu participate in various defined contribution retirement benefit plans organized by the relevant municipal and provincial governments in the PRC under which Lingshihuaifu and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, Lingshihuaifu has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of Lingshihuaifu in independently administrated funds managed by the governments.

Lingshihuaifu's contributions to the defined contribution retirement scheme are expensed as incurred.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of Lingshihuaifu. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of properties in the ordinary course of Lingshihuaifu's activities. Revenue is shown, net of discounts. Lingshihuaifu recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of Lingshihuaifu's activities, as described below.

Revenue from contracts with customers

Revenues are recognised when or as the control of the asset is transferred to the buyer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if Lingshihuaifu's performance:

- provides all of the benefits received and consumed simultaneously by the buyer; or
- creates and enhances an asset that the buyer controls as Lingshihuaifu performs; or
- do not create an asset with an alternative use to Lingshihuaifu and Lingshihuaifu 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 buyer obtains control of the asset.

If contracts involve the sale of multiple services, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenue from sales of properties is recognised over time when Lingshihuaifu's performance under the sale contract does not create an asset with an alternative use to Lingshihuaifu and Lingshihuaifu has an enforceable right to payment for performance completed to date; otherwise revenue from sales of property is recognised at a point in time.

For property sales contract for which the control of the property is transferred at a point in time, revenue is recognised when the buyer obtains the physical possession or the legal title of the completed property and Lingshihuaifu has present right to payment and the collection of the consideration is probable. Revenue of sales of the properties for Lingshihuaifu is recognised at point in time.

In determining the transaction price, Lingshihuaifu adjusts the promised amount of consideration for the effect of a financing component if it is significant.

2.22 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

3 CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments on Lingshihuafu's financial statements.

(a) Impact on the financial statements

HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

(b) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in Note 2.9.

There is no significant classification impact of the financial assets and financial liabilities under HKFRS 9 at the date of initial application.

The total impact on Lingshihuafu's accumulated losses as at 1 January 2018 is as follows:

	<i>RMB'000</i>
Closing accumulated losses 31 December 2017	(30,378)
Increase in provision for other receivables	(22,740)
Increase in deferred tax assets relating to impairment provisions	5,685
	<hr/>
Opening accumulated losses 1 January 2018	(47,433)
	<hr/> <hr/>

Lingshihuafu measures the loss allowance equal to 12 months expected credit loss ("ECL"), unless when there has been a significant increase in credit risk since initial recognition, Lingshihuafu recognises lifetime ECL. This resulted in an increase of the loss allowance on 1 January 2018 of other receivables disclosed as above.

4 FINANCIAL RISK MANAGEMENT

Lingshihuafu's major financial instruments include other receivables, restricted bank deposits, cash and cash equivalents, trade and other payables and bank and other borrowings. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no significant change to Lingshihuafu's exposure to market risks or the manner in which it manages and measures during the year/period reported.

(a) Market risk

(i) Interest rate risk

Lingshihuafu is exposed to fair value interest rate risk in relation to fixed-rate restricted bank deposits, cash and cash equivalents and bank and other borrowings.

Lingshihuafu is also exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on restricted bank deposits, cash and cash equivalents and bank and other borrowings which carry interest at prevailing market interest rates.

Lingshihuafu's cash flow interest rate risk is mainly concentrated on the fluctuation of deposits rate and the lending rate quoted by the People's Bank of China arising from Lingshihuafu's bank and other borrowings.

Lingshihuafu currently does not use any derivative contracts to hedge its exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for restricted bank deposits, cash and cash equivalents and other borrowings at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the respective reporting period. As at 31 December 2017, 2018 and 2019 and 30 September 2020, a 100 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate.

For the years ended 31 December 2017, 2018 and 2019 and nine months ended 30 September 2020, if the floating interest rate had been higher/lower by 100 basis points with all other variables held constant, the profit before taxation would have changed as follows:

Increase/(decrease)	As at 31 December			As at 30
	2017	2018	2019	September
	RMB'000	RMB'000	RMB'000	2020 RMB'000
– 100 basis point higher	1,003	10	(17,745)	(14,139)
– 100 basis point lower	(1,003)	(10)	17,745	14,139

(ii) Foreign currency risk

Lingshihuafu collects all of its revenue in RMB and the expenditures including expenditures incurred in property sales as well as capital expenditures are also denominated in RMB.

(b) Credit risk

Credit risks refer to the risk of losses incurred by the inability of debtors or counterparties to fulfil their contractual obligations or by the adverse changes in their credit conditions. Lingshihuafu is exposed to credit risk in relation to its cash and cash equivalents and restricted bank deposits, other receivables and financial guarantees contracts.

Cash and cash equivalents and restricted bank deposits

The credit risks on cash and cash equivalents and restricted bank deposits are limited because the counterparties are banks/financial institutions with acceptable credit ratings.

Other receivables

The credit risk of other receivables is managed through an internal process. Lingshihuafu 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. Lingshihuafu reviews the recoverable amount of these receivables at the end of each reporting year/period.

Financial guarantee contracts

For the financial guarantee contracts provided by Lingshihuafu to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of properties, Lingshihuafu measured the loss allowance on financial guarantee contracts by reference to the historical default rate of the purchasers, the loss on default based on the current property value, the pre-sale deposits already received and the forward looking information. The directors of Lingshihuafu considered that the loss allowances on financial guarantee contracts at 31 December 2019 and 30 September 2020 were insignificant to Lingshihuafu. For properties which have been pre-sold, or for the completed properties that have been sold but the building ownership certificates have not yet been issued, Lingshihuafu typically provides guarantees to banks in connection with the customers' borrowing of mortgage loans to finance their purchase of the properties for an amount up to 70% of the total purchase price of the property. If a purchaser defaults on the payment of its mortgage during the term of guarantee, the bank holding the mortgage may demand Lingshihuafu to repay the outstanding amount of the loan and any accrued interest thereon. Under such circumstances, Lingshihuafu is able to retain the customer's sales deposit and sell the property to recover any amounts paid by Lingshihuafu to the bank. In this regard, the directors of Lingshihuafu consider that Lingshihuafu's credit risk is significantly reduced.

Impairment assessments***(i) Credit risk before 1 January 2018***

Lingshihuafu assesses at the end of the reporting period the carrying amount of financial assets. If there is any objective evidence that a financial asset is impaired, Lingshihuafu provides for such impairment losses. The objective evidence which indicates impairment of financial assets represents events actually occurring after initial recognition of financial assets which have an impact on the financial assets' estimated future cash flows, and the impact can be reliably measured.

For a financial asset that is individually significant, Lingshihuafu assesses the asset individually for impairment, and recognises the amount of impairment in profit or loss. For a financial asset that is not individually significant, Lingshihuafu assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets for which an impairment loss is individually recognised are not included with similar credit risk characteristics in the collective assessment for impairment.

After Lingshihuafu recognises an impairment loss of financial assets, if there is objective evidence that the financial assets' value restores and the restoration can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed and recognised in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognised at the date the impairment was reversed.

The following tables show the reconciliation of loss allowances that has been recognised for other receivables.

	<i>RMB'000</i>
As at 1 January 2017	–
– Charge for the year	63
As at 31 December 2017	63
Change in accounting policies (<i>Note 3(b)</i>)	22,740
As at 1 January 2018	22,803

No impairment allowance was made on cash and cash equivalents, restricted bank deposits and financial guarantee contracts at 31 December 2017 as the directors of Lingshihuaifu consider the effect is minimal.

(ii) *Credit risk from 1 January 2018*

From 1 January 2018, Lingshihuaifu formulates the credit losses of cash and cash equivalents and restricted bank deposits, other receivables and financial guarantees contracts using expected credit loss models according to HKFRS 9 requirements.

Parameters of ECL model

The parameters and assumptions involved in ECL model are described below.

Lingshihuaifu considers the credit risk characteristics of different financial instruments when determining if there is significant increase in credit risk. For financial instruments with or without significant increase in credit risk, 12-month or lifetime expected credit losses are provided respectively. The expected credit loss is the result of discounting the product of Exposure at Default (EAD), Probability of Default (PD) and Loss given Default (LGD).

- i) EAD is based on the amounts Lingshihuaifu expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.
- ii) The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- iii) LGD represents Lingshihuaifu's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the Lifetime. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grading band. This is supported by historical analysis.

Judgement of significant increase in credit risk (“SICR”)

Under HKFRS 9, when considering the impairment stages for financial assets, Lingshihuafu evaluates the credit risk at initial recognition and also whether there is any significant increase in credit risk for each reporting period. Lingshihuafu considers various reasonable supporting information to judge if there is significant increase in credit risk when determining the ECL staging for financial assets. Major factor being considered include solvency and operational capabilities. Lingshihuafu could base on individual financial instruments or portfolios of financial instruments with similar credit risk characteristics to determine ECL staging by comparing the credit risks of the financial instruments at the reporting date with those at initial recognition.

Lingshihuafu set quantitative and qualitative criteria to judge whether the credit risk has SICR after initial recognition. The judgement criteria mainly includes the PD changes of the debtors, changes of credit risk categories and other indicators of SICR, etc.

The definition of credit-impaired assets

Under HKFRS 9, in order to determine whether credit impairment occurs, the defined standards adopted by Lingshihuafu are consistent with the internal credit risk management objectives for relevant financial assets, while considering quantitative and qualitative indicators. When Lingshihuafu assesses whether the debtor has credit impairment, the following factors are mainly considered:

- The debt has overdue for more than 90 days after the contract payment date
- The lender gives the debtor concessions for economic or contractual reasons due to the debtor’s financial difficulties, where such concessions are normally reluctant to be made by the lender
- The debtor has significant financial difficulties
- The debtor is likely to go bankrupt or needs other financial restructuring

The credit impairment of financial assets may be caused by the joint effects of multiple events, and may not be caused by separately identifiable events.

Forward-looking information

The determinations of 12 months and the lifetime EAD, PD and LGD also incorporates forward-looking information. Lingshihuafu has performed historical data analysis and identified the key macro-economic variables associated with credit risk and expected credit losses for each portfolio. Through regression analysis, the relationship among economic indicators in history with EAD, PD and LGD is determined, and the EAD, PD, LGD are then determined through forecasting economic indicator.

Combined with the expert judgement, Lingshihuafu established the values used for different scenarios. In addition to the base economic scenario, Lingshihuafu also considers other possible scenarios and relative weightings. Lingshihuafu regularly reassess the number of scenarios and their attributes. Lingshihuafu combined statistical analysis results to determine the weights of different scenarios, and also considered the range of possible outcomes represented by each scenario, to determine the final macro-economic assumptions and weights for measuring the relevant expected credit loss.

Lingshihuafu comprehensively considers internal and external data, expert forecasts and statistical analysis to determine the relationship between economic indicators with PD and LGD. Lingshihuafu evaluates and forecasts these economic indicators at least annually, provides the best estimates for the future, and regularly evaluates the results.

Similar to other economic forecasts, the estimates of economic indicators have high inherent uncertainties, actual results may have significant difference with estimates. Lingshihuafu considered the estimates above represented the optimal estimation of possible outcomes.

Sensitivity analysis

Expected credit losses are sensitive to the parameters used in the model, the macro-economic variables of the forward-looking forecast, the weight probabilities in different scenarios, and other factors considered in the application of expert judgement. Changes in these input parameters, assumptions, models, and judgments do not have significant impact on the measurement of expected credit losses.

Credit exposure

Without considering the impact of collateral and other credit enhancements, for on-balance sheet assets, the maximum exposures are based on net carrying amounts as reported in the financial statements. Lingshihuafu also assumes credit risk due to financial guarantee contracts. The details are disclosed in Note 27.

The following table presents the credit risk exposure of the financial assets under the scope of expected credit loss. Without considering guarantee or any other credit enhancement measures, for on-balance sheet assets, the maximum credit risk exposure is presented as the gross carrying amount of the financial assets:

				As at 30 September 2020
	Stage	2018	2019	
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets at amortised cost:				
Restricted bank deposits	Stage 1	–	103,710	158,278
Cash and cash equivalents	Stage 1	1,035	23,101	46,111
Other receivables	Stage 1	2,057,693	2,462,721	2,969,136
Financial guarantee contracts	Stage 1	–	124,810	371,510

- (i) For restricted bank deposits and cash and cash equivalents, Lingshihuafu determines the expected credit losses by referring to external credit rating of the related banks.
- (ii) For other receivables, management assesses the expected credit losses with reference to the credit status of the recipients and the past due status of doubtful debtors.
- (iii) For financial guarantee contracts, the gross carrying amount represents the maximum amount Lingshihuafu has guaranteed under the respective contracts.

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

The following tables explain the changes in the gross carrying amount and impairment provision of other receivables between the beginning and the end of the annual period due to these factors:

		For the year ended 31 December 2018		
			Net increase/ (decrease)	
	Stage	1 January RMB'000	(decrease) RMB'000	31 December RMB'000
Gross carrying amount	Stage1	2,386,129	(328,436)	2,057,693
Impairment provision	Stage1	22,803	1,194	23,997

		For the year ended 31 December 2019		
			Net increase/ (decrease)	
	Stage	1 January RMB'000	(decrease) RMB'000	31 December RMB'000
Gross carrying amount	Stage1	2,057,693	405,028	2,462,721
Impairment provision	Stage1	23,997	(5,030)	18,967

		For the nine months ended 30 September 2019 (Unaudited)		
			Net increase/ (decrease)	
	Stage	1 January RMB'000	(decrease) RMB'000	30 September RMB'000
Gross carrying amount	Stage1	2,057,693	31,320	2,089,013
Impairment provision	Stage1	23,997	(6,652)	17,345

		For the nine months ended 30 September 2020		
			Net increase	
	Stage	1 January RMB'000	(decrease) RMB'000	30 September RMB'000
Gross carrying amount	Stage1	2,462,721	506,415	2,969,136
Impairment provision	Stage1	18,967	11,478	30,445

No impairment allowance was made on cash and cash equivalents, restricted bank deposits and financial guarantee contracts at the end of each reporting period as the directors of Lingshihuafu consider the effect is minimal.

(c) Liquidity risk

The directors of Lingshihuafu closely monitor the cash flows of Lingshihuafu and, upon maturity, would renew the bank and other borrowings, where necessary, to enable Lingshihuafu to carry on its operations in the foreseeable future. In this regard, the directors of Lingshihuafu consider that Target's liquidity risk is significantly reduced.

The following tables detail Lingshihuafu's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Lingshihuafu can be required to pay. Specifically, bank loans which are repayable on demand are included in the earliest time band. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total undiscounted cash flows RMB'000
At 31 December 2017				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	3,154,893	–	–	3,154,893
	<u>3,154,893</u>	<u>–</u>	<u>–</u>	<u>3,154,893</u>
	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total undiscounted cash flows RMB'000
At 31 December 2018				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	2,048,358	–	–	2,048,358
Bank and other borrowings – at fixed rate	226,654	1,865,923	304,862	2,397,439
	<u>2,275,012</u>	<u>1,865,923</u>	<u>304,862</u>	<u>4,445,797</u>

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

	On demand or less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>
At 31 December 2019				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	988,735	–	–	988,735
Bank and other borrowings				
– at fixed rate	1,555,377	2,508,862	–	4,064,239
– at variable rate	126,046	126,046	1,942,497	2,194,589
	<u>2,670,158</u>	<u>2,634,908</u>	<u>1,942,497</u>	<u>7,247,563</u>
Financial guarantee				
– Mortgage guarantees	<u>124,810</u>	<u>–</u>	<u>–</u>	<u>124,810</u>
	On demand or less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>
At 30 September 2020				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	1,033,427	–	–	1,033,427
Bank and other borrowings				
– at fixed rate	3,047,111	1,157,361	–	4,204,472
– at variable rate	121,420	1,672,455	–	1,793,875
	<u>4,201,958</u>	<u>2,829,816</u>	<u>–</u>	<u>7,031,774</u>
Financial guarantee				
– Mortgage guarantees	<u>371,510</u>	<u>–</u>	<u>–</u>	<u>371,510</u>

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The amounts included above for financial guarantee contracts are the maximum amounts Lingshihuafu could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of each reporting period, the directors of Lingshihuafu consider that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

(d) Fair value measurements of financial instruments

Lingshihuafu's financial instruments include cash and cash equivalents, restricted bank deposits, other receivables, trade and other payables and bank and other borrowings. As at 31 December 2017, 2018, 2019 and 30 September 2020, the financial instruments are all measured at amortised cost and their fair value approximate to carrying value. Details of these financial instruments are disclosed in respective notes.

(e) Financial instruments by category

	As at 31 December			As at
	2017	2018	2019	30 September
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Assets as per statements of financial position				
Prepayments and other receivables (excluding prepayments)	2,386,066	2,033,696	2,443,754	2,938,691
Restricted bank deposits	–	–	103,710	158,278
Cash and cash equivalents	100,253	1,035	23,101	46,111
Total	<u>2,486,319</u>	<u>2,034,731</u>	<u>2,570,565</u>	<u>3,143,080</u>
Liabilities as per statements of financial position				
Trade and other payables (excluding other tax payables, payroll payables and deposits related to sales of properties)	2,877,997	2,046,712	987,085	1,032,086
Bank and other borrowings	–	2,047,894	5,316,094	5,424,355
Total	<u>2,877,997</u>	<u>4,094,606</u>	<u>6,303,179</u>	<u>6,456,441</u>

As at 31 December 2017, 2018, 2019 and 30 September 2020, the financial instruments of Lingshihuafu are all measured at amortised cost.

5 CAPITAL MANAGEMENT

The directors of Lingshihuaifu manage its capital to ensure that Lingshihuaifu will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. Lingshihuaifu's overall strategy remains unchanged throughout the Track Record Period.

Lingshihuaifu monitors capital on basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debts include bank and other borrowings, as disclosed in respective notes, and net of cash and cash equivalents and restricted bank deposits.

The directors of Lingshihuaifu review the gearing ratio and capital structure on a semi-annual basis. As part of this review, the directors of Lingshihuaifu consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of Lingshihuaifu, Lingshihuaifu will balance its overall capital structure through the payment of dividends as well as obtain new borrowings or the redemption of existing debt.

The calculation of net debts as at 31 December 2017, 2018 and 2019 and 30 September 2020 were as follows:

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other borrowings	–	2,047,894	5,316,094	5,424,355
Less:				
Cash and cash equivalents	(100,253)	(1,035)	(23,101)	(46,111)
Restricted bank deposits	–	–	(103,710)	(158,278)
Temporary deposits for repayment of borrowings	–	–	–	(1,178,800)
Net debt	<u>(100,253)</u>	<u>2,046,859</u>	<u>5,189,283</u>	<u>4,041,166</u>
Total equity	<u>(3,378)</u>	<u>(23,476)</u>	<u>(34,794)</u>	<u>(48,754)</u>

As at 30 September 2020, Lingshihuaifu's liabilities exceeded its assets by RMB48,754,000 primarily due to the fact that Lingshihuaifu has total pre-sale deposits received of RMB2,384,471,000. After reviewing the cash flow projections of Lingshihuaifu, the Directors of Lingshihuaifu have considered the risk of capital management is insignificant.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying Lingshihuaifu's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Valuation of inventories of properties

Lingshihuaifu's inventories of properties are stated at the lower of cost and the net realisable value ("NRV"). The management of Lingshihuaifu make significant judgment on the estimation of selling prices and costs to completion in determining the NRV of these inventories of properties.

Based on the experience of the management of Lingshihuafu and the nature of the subject properties, the management of Lingshihuafu determines the NRV of these inventories of properties by reference to the estimated costs to completion, costs to sale and selling prices of the inventories of properties, which takes into account a number of factors including the pre-sale units in the same project or comparable properties with similar type, size and location, and market conditions in the prevailing real estate markets.

If there is an increase in costs to completion or a decrease in estimated selling prices, this may result in write-downs for these inventories of properties. Such write-downs require the use of estimates of the management of Lingshihuafu. Based on the management's estimation of the NRV of the inventories of properties, no impairment was considered to be necessary.

(b) Measurement of the expected credit losses

The measurement of the expected credit losses for financial assets measured at amortized cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4(b).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

(c) Valuation of deferred income tax assets

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

7 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the directors of Lingshihuafu.

During the years/period, Lingshihuafu is principally engaged in the property development and sales in the PRC. CODM reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of Lingshihuafu regards that there is only one segment which is used to make strategic decisions.

The major operating entities of Lingshihuafu is domiciled in the PRC. Accordingly, all of Lingshihuafu's revenue were derived in the PRC during the years/period.

As at 31 December, 2017, 2018 and 2019 and 30 September 2020, all of the non-current assets were located in the PRC.

8 REVENUE

There was no revenue recognised for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2019 and 2020.

Performance obligations for contracts with customers

For contracts entered into with customers on sales of properties, the relevant properties specified in the contracts are based on customer's specifications with no alternative use. Taking into consideration of the relevant contract terms and the legal environment in the PRC, Lingshihuaifu concluded that Lingshihuaifu does not have an enforceable right to payment prior to transfer of the relevant properties to customers. Revenue from sales of properties is therefore recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and Lingshihuaifu has present right to payment and collection of the consideration is probable. Lingshihuaifu receives certain percentage of the contract value as deposits from customers when they sign the sale and purchase agreement while construction work of property is still ongoing. Certain customers who use mortgage loans provided by the banks and the remaining amount of the total contract value will be paid to Lingshihuaifu from the banks once the customers meet the requirements of the banks. Such advance payment schemes result in contract liabilities being recognised.

9 OTHER INCOME

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest income on bank deposits	16	114	266	142	253
Interest income on deposits for trust financing arrangements	–	401	358	180	450
Interest income on deposits paid (Note 18(b)(ii))	183,300	252,038	–	–	–
Others	39	–	–	–	–
	<u>183,355</u>	<u>252,553</u>	<u>624</u>	<u>322</u>	<u>703</u>

10 OTHER LOSSES, NET

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Loss on disposals of property and equipment	10	–	–	–	–
Other losses	7	14	50	40	60
	<u>17</u>	<u>14</u>	<u>50</u>	<u>40</u>	<u>60</u>

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

11 EXPENSES BY NATURE

	Year ended 31 December			Nine months ended 30 September	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Advertising and marketing	–	1,006	7,180	5,617	2,215
Employee benefit expenses (<i>Note 14</i>)	597	3,548	6,153	3,976	1,889
Tax and surcharges	–	1,570	3,148	996	1,679
Depreciation of property and equipment (<i>Note 15</i>)	131	310	354	258	273
Travelling and entertainment expenses	756	567	678	595	244
Donations	–	–	500	–	100
Rental expenses	197	2,044	105	75	62
Office expenses	126	935	370	333	18
Professional services fees	–	38	114	76	–
Other expenses	38	293	377	299	29
Total selling and marketing costs and administrative expenses	<u>1,845</u>	<u>10,311</u>	<u>18,979</u>	<u>12,225</u>	<u>6,509</u>

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

12 FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Interest expenses:					
– Interest on advances from related parties	248,098	245,004	1,653	1,236	1,241
– Interest on bank and other borrowings	–	210,673	475,781	375,326	391,830
	248,098	455,677	477,434	376,562	393,071
Less: amounts capitalised on qualifying assets	(31,554)	(210,673)	(475,781)	(375,326)	(391,830)
	<u>216,544</u>	<u>245,004</u>	<u>1,653</u>	<u>1,236</u>	<u>1,241</u>

13 INCOME TAX CREDIT

	Year ended 31 December			Nine months ended 30 September	
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2019 RMB'000 (Unaudited)	2020 RMB'000
Deferred income tax (Note 16)	(8,621)	(927)	(3,710)	(1,588)	(4,625)

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of Lingshihuaifu is 25% from 1 January 2008 onwards.

All gains arising from the sale or transfer of real estate in the PRC are subject to land appreciation tax at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including payments made for acquisition of land use rights, costs and certain expenses for the development of the land. Apart from the aforementioned deductions, property developers enjoy an additional deduction, which is equal to 20% of the payment made for acquisition of land use rights and the costs of land development and construction of new buildings or related facilities. No sales have been recognised during the Track Record Period.

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

The income tax on Lingshihuafu's loss before income tax differs from the theoretical amount that would arise using the enacted tax rate of the home country of Lingshihuafu as follows:

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Loss before income tax	(35,114)	(3,970)	(15,028)	(6,527)	(18,585)
Tax calculated at income tax rate of 25%	(8,778)	(993)	(3,756)	(1,631)	(4,646)
Expenses not deductible for tax purpose	157	66	46	43	21
Income tax credit	(8,621)	(927)	(3,710)	(1,588)	(4,625)

14 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries and other allowances	1,217	6,964	11,997	7,644	7,729
Retirement scheme contributions	31	230	329	231	22
Other retirement benefit costs	109	752	1,448	1,220	1,390
Total benefits	1,357	7,946	13,774	9,095	9,141
Capitalised in contract acquisition costs	–	–	(1,755)	(1,212)	(2,849)
Capitalised in properties under development	(760)	(4,398)	(5,866)	(3,907)	(4,403)
Recognised in profit or loss	597	3,548	6,153	3,976	1,889

According to the relevant laws and regulations in the PRC, Lingshihuafu is required to participate in defined contribution retirement schemes administrated by the local municipal government. Lingshihuafu contribute funds which are calculated on certain percentage of the employee salary as required by local municipal government to the schemes to fund the retirement benefits of the employees. The principal obligation of Lingshihuafu with respect to the retirement benefit schemes is to make the required contributions under the schemes.

(a) Directors' emoluments

No remunerations were paid to directors of Lingshihuaifu during the Track Record Period.

(b) Directors' retirement benefits and termination benefits

No retirement benefits were paid to directors in respect of their other services in connection with the management of the affairs of Lingshihuaifu during the Track Record Period.

No payment was made to directors as compensation for early termination of appointment during the Track Record Period.

(c) Consideration provided to third parties for making available directors' services

During the Track Record Period, Lingshihuaifu did not provide consideration to any third parties for making available directors' services.

(d) Information about loans, quasi-loans and other dealings in favour of the director, controlled bodies corporate by and controlled entities with such director

Save as disclosed in Note 29, there were no other loans, quasi-loans and other dealings in favour of the directors, controlled bodies corporate by and connected entities with such directors during the Track Record Period.

(e) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in Note 29, no significant transactions, arrangements and contracts in relation to Lingshihuaifu's business to which Lingshihuaifu was a party and in which a director of Lingshihuaifu had a material interest, whether directly or indirectly, subsisted at the end of the years/period or at any time during the Track Record Period.

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

15 PROPERTY AND EQUIPMENT

	Motor vehicles <i>RMB'000</i>	Furniture, fitting and equipment <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Carrying values				
At 1 January 2017	<u>–</u>	<u>31</u>	<u>–</u>	<u>31</u>
Cost				
At 1 January 2017	–	56	–	56
Additions	1,187	13	181	1,381
Disposals	<u>–</u>	<u>(56)</u>	<u>–</u>	<u>(56)</u>
At 31 December 2017	<u>1,187</u>	<u>13</u>	<u>181</u>	<u>1,381</u>
Accumulated depreciation				
At 1 January 2017	–	(25)	–	(25)
Charge for the year	(123)	(2)	(6)	(131)
Disposals	<u>–</u>	<u>27</u>	<u>–</u>	<u>27</u>
At 31 December 2017	<u>(123)</u>	<u>–</u>	<u>(6)</u>	<u>(129)</u>
Carrying values				
At 31 December 2017	<u>1,064</u>	<u>13</u>	<u>175</u>	<u>1,252</u>
Cost				
At 1 January 2018	1,187	13	181	1,381
Additions	<u>–</u>	<u>108</u>	<u>83</u>	<u>191</u>
At 31 December 2018	<u>1,187</u>	<u>121</u>	<u>264</u>	<u>1,572</u>
Accumulated depreciation				
At 1 January 2018	(123)	–	(6)	(129)
Charge for the year	<u>(268)</u>	<u>(6)</u>	<u>(79)</u>	<u>(353)</u>
At 31 December 2018	<u>(391)</u>	<u>(6)</u>	<u>(85)</u>	<u>(482)</u>
Carrying values				
At 31 December 2018	<u>796</u>	<u>115</u>	<u>179</u>	<u>1,090</u>

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

	Motor vehicles <i>RMB'000</i>	Furniture, fitting and equipment <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2019	1,187	121	264	1,572
Additions	<u>—</u>	<u>3</u>	<u>—</u>	<u>3</u>
At 31 December 2019	<u>1,187</u>	<u>124</u>	<u>264</u>	<u>1,575</u>
Accumulated depreciation				
At 1 January 2019	(391)	(6)	(85)	(482)
Charge for the year	<u>(269)</u>	<u>(24)</u>	<u>(88)</u>	<u>(381)</u>
At 31 December 2019	<u>(660)</u>	<u>(30)</u>	<u>(173)</u>	<u>(863)</u>
Carrying values				
At 31 December 2019	<u><u>527</u></u>	<u><u>94</u></u>	<u><u>91</u></u>	<u><u>712</u></u>
Cost				
At 1 January 2020	1,187	124	264	1,575
Additions	<u>—</u>	<u>—</u>	<u>2</u>	<u>2</u>
At 30 September 2020	<u>1,187</u>	<u>124</u>	<u>266</u>	<u>1,577</u>
Accumulated depreciation				
At 1 January 2020	(660)	(30)	(173)	(863)
Charge for the period	<u>(201)</u>	<u>(18)</u>	<u>(63)</u>	<u>(282)</u>
At 30 September 2020	<u>(861)</u>	<u>(48)</u>	<u>(236)</u>	<u>(1,145)</u>
Carrying values				
At 30 September 2020	<u><u>326</u></u>	<u><u>76</u></u>	<u><u>30</u></u>	<u><u>432</u></u>

	Motor vehicles <i>RMB'000</i>	Furniture, fitting and equipment <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Total <i>RMB'000</i>
(Unaudited)				
At 1 January 2019	1,187	121	264	1,572
Additions	—	2	—	2
At 30 September 2019	1,187	123	264	1,574
Accumulated depreciation				
At 1 January 2019	(391)	(6)	(85)	(482)
Charge for the period	(201)	(18)	(66)	(285)
At 30 September 2019	(592)	(24)	(151)	(767)
Carrying values				
At 30 September 2019	595	99	113	807

Depreciation charge was capitalised or expensed in the following categories:

	As at 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Inventory of properties	—	43	27	27	9
Selling and marketing costs	—	9	11	9	42
Administrative expenses	131	301	343	249	231
	131	353	381	285	282

16 DEFERRED INCOME TAX

The following are the major deferred tax assets recognised and movements thereon during the years/period:

	Tax losses <i>RMB'000</i>	Loss allowance <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2017	–	–	–	–
Recognised in profit or loss	8,605	16	–	8,621
At 31 December 2017	<u>8,605</u>	<u>16</u>	<u>–</u>	<u>8,621</u>
At 31 December 2017	8,605	16	–	8,621
Change in accounting policies (Note 3(b))	–	5,685	–	5,685
At 1 January 2018	8,605	5,701	–	14,306
Recognised in profit or loss	425	298	204	927
At 31 December 2018	<u>9,030</u>	<u>5,999</u>	<u>204</u>	<u>15,233</u>
At 1 January 2019	9,030	5,999	204	15,233
Recognised in profit or loss	3,937	(1,257)	1,030	3,710
At 31 December 2019	<u>12,967</u>	<u>4,742</u>	<u>1,234</u>	<u>18,943</u>
At 1 January 2020	12,967	4,742	1,234	18,943
Recognised in profit or loss	1,463	2,869	293	4,625
At 30 September 2020	<u>14,430</u>	<u>7,611</u>	<u>1,527</u>	<u>23,568</u>
(Unaudited)				
At 1 January 2019	9,030	5,999	204	15,233
Recognised in profit or loss	3,252	(1,663)	(1)	1,588
At 30 September 2019	<u>12,282</u>	<u>4,336</u>	<u>203</u>	<u>16,821</u>

There is no deferred tax liabilities recognised during the year/period.

As at 31 December 2017, 2018 and 2019 and 30 September 2020, deferred tax assets have been recognised in respect of tax losses of RMB34,420,000, RMB36,120,000, RMB51,868,000 and RMB57,720,000 respectively. There is no unrecognised tax losses.

17 INVENTORIES OF PROPERTIES

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At cost:				
Properties under development	239,923	2,032,322	4,639,699	5,464,388

The operating cycle of Lingshihuafu's property development projects generally ranges from two to three years.

Lingshihuafu's inventories of properties are all situated in the PRC.

Amounts of properties under development comprises as follows:

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
– Construction costs including depreciation and staff cost capitalised	6,208	112,594	1,294,763	1,727,490
– Land use rights	202,161	1,677,501	2,626,928	2,627,061
– Borrowing costs capitalised	31,554	242,227	718,008	1,109,837
	239,923	2,032,322	4,639,699	5,464,388

The capitalisation rate used to capitalise interest on general borrowings for the year ended 31 December 2017 was 12.78%. For the years ended 31 December 2018 and 2019 and the nine months ended 30 September 2020, only specific borrowing costs have been capitalised for qualifying assets.

Details of assets pledged as collateral for Lingshihuafu's bank and other borrowings are disclosed in note 25.

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

18 PREPAYMENTS AND OTHER RECEIVABLES

		As at 31 December			As at 30 September 2020
	Note	2017	2018	2019	
		RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	(a)	150,651	18,138	73,795	109,100
Other receivables	(b)	2,386,129	2,057,693	2,462,721	2,969,136
Less: loss allowance		(63)	(23,997)	(18,967)	(30,445)
		<u>2,386,066</u>	<u>2,033,696</u>	<u>2,443,754</u>	<u>2,938,691</u>
Total prepayments and other receivables		2,536,717	2,051,834	2,517,549	3,047,791
Less: Non-current portion of prepayments and other receivables		—	(37,901)	(20,086)	(11,214)
Current portion of prepayments and other receivables		<u>2,536,717</u>	<u>2,013,933</u>	<u>2,497,463</u>	<u>3,036,577</u>

(a) Prepayments mainly represented prepayments for land use rights, construction costs, and business and other taxes.

(b) Details of other receivables are as follows:

		As at 31 December			As at 30 September 2020
	Note	2017	2018	2019	
		RMB'000	RMB'000	RMB'000	RMB'000
Deposits for trust financing arrangements	(i)	—	37,901	32,137	32,588
Advances to related parties	29(c)	1,031	1,316,639	1,967,394	1,294,586
Deposits for construction services	(ii)	2,385,098	703,153	463,190	463,162
Deposits placed with financial companies	(iii)	—	—	—	1,178,800
		<u>2,386,129</u>	<u>2,057,693</u>	<u>2,462,721</u>	<u>2,969,136</u>
Less: allowance for impairment		(63)	(23,997)	(18,967)	(30,445)
Other receivables – net		<u>2,386,066</u>	<u>2,033,696</u>	<u>2,443,754</u>	<u>2,938,691</u>
Less: Non-current portion of deposits for trust financing arrangements		—	(37,901)	(20,086)	(11,214)
Current portion – net		<u>2,386,066</u>	<u>1,995,795</u>	<u>2,423,668</u>	<u>2,927,477</u>

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

- (i) The amounts are deposited in trust financing companies for raising trust loans to Lingshihuaifu. The deposits carried interest at rates ranging from 1.5% to 2.1% per annum and will be refunded to Lingshihuaifu upon repayments of the trust loans.
- (ii) The deposits paid to contractors for construction carried interest at a rate of 15% during the years 2017 and 2018.
- (iii) Amounts represented temporary deposits placed with financial companies for settlement of borrowings.

19 RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and on hand	100,253	1,035	126,811	204,389
Less: Restricted bank deposits	—	—	(103,710)	(158,278)
Cash and cash equivalents	<u>100,253</u>	<u>1,035</u>	<u>23,101</u>	<u>46,111</u>

- (a) Restricted bank deposits represent pre-sale deposits placed in bank accounts in accordance with the applicable government regulations. These bank balances can only be applied in designated property development projects, and they carry prevailing interest at the rate of 0.30% per annum as at 31 December 2019 and 30 September 2020.
- (b) Cash at banks and deposits held at call carry prevailing market interest rates at 0.30%, 0.30% and ranging from 0.25% to 0.30% and 0.25% to 0.35% per annum as at 31 December 2017, 2018 and 2019 and 30 September 2020 respectively.
- (c) As at 31 December 2017, 2018 and 2019 and 30 September 2020, all of the cash at banks are denominated in RMB.

20 TRADE AND OTHER PAYABLES

		As at 31 December			As at 30 September
	Note	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	(a)	—	18,550	914,771	1,004,084
Deposits related to sales of properties		—	—	26,772	7,130
Advances from related parties	29(c)	2,877,873	1,995,039	23,692	24,933
Payroll payable		447	2,596	4,234	3,371
Other taxes payable		11,700	27,788	27,788	29,467
Other deposits received	(b)	—	1,200	2,950	2,550
Other payables		<u>124</u>	<u>31,923</u>	<u>45,672</u>	<u>519</u>
Total		<u>2,890,144</u>	<u>2,077,096</u>	<u>1,045,879</u>	<u>1,072,054</u>

- (a) Trade payables comprise construction costs and other project-related expenses which are due for payment based on project progress measured by Lingshihuafu.

The following is an aging analysis of trade payables, presented based on the invoice date, at the end of the reporting period:

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
0-60 days	–	18,480	907,645	998,114
61-180 days	–	50	4,303	3,288
181-365 days	–	20	2,823	972
Over 1 year	–	–	–	1,710
	<u>–</u>	<u>18,550</u>	<u>914,771</u>	<u>1,004,084</u>

- (b) Other deposits mainly represented various deposits received from contractors in relation to tendering and execution of construction contracts.

21 PRE-SALE DEPOSITS RECEIVED

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities related to sales of properties	–	–	931,645	2,187,588
Value-added tax payable	–	–	83,848	196,883
	<u>–</u>	<u>–</u>	<u>1,015,493</u>	<u>2,384,471</u>

There was no revenue recognised during the Track Record Period which related to carried-forward contract liabilities.

Lingshihuafu receives 30%-100% of the contract value as deposits from customers when they sign the sale and purchase agreement. The deposits and advance payment schemes result in contract liabilities being recognised throughout the property construction period until the sale of the completed property is recognised.

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

22 BANK AND OTHER BORROWINGS

		As at 31 December			As at
	Note	2017	2018	2019	30 September
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Bank loans					
– secured and guaranteed	(i)	–	295,160	2,196,309	1,913,551
Trust loans	(ii)				
– secured and guaranteed	(i)	–	1,752,734	3,119,785	3,215,791
Other loans	(iii)				
– secured and guaranteed	(i)	–	–	–	295,013
Total bank and other borrowings		–	2,047,894	5,316,094	5,424,355
Less: Amounts due within one year or on demand shown under current liabilities		–	–	(1,120,664)	(2,719,615)
Amounts shown under non-current liabilities		–	2,047,894	4,195,430	2,704,740

(i) The collaterals of secured loans are set out in Note 25. These loans are guaranteed by Mr. Shum and/or the entities controlled by Mr. Shum and shareholders of Lingshihuaufu.

(ii) These borrowings are in the form of trust arrangement with trust financing companies. The conventional loan arrangements are loan agreements entered into between Lingshihuaufu and trust financing companies.

(iii) Other loans mainly represent secured loans obtained from financing companies.

The effective interest rates at the end of each reporting year/period are as follows:

		As at 31 December			As at
		2017	2018	2019	30 September
		RMB'000	RMB'000	RMB'000	2020
					RMB'000
Bank loans	–	6.50%	6.50%-6.65%	5.65%-6.50%	
Trust loans	–	11.45%-11.47%	12.09%-12.21%	12.09%-12.21%	
Other loans	–	–	–	12.84%-12.91%	

23 PAID-IN CAPITAL

Lingshihuaufu was incorporated in the PRC on 31 May 2006 with paid-in capital of RMB27,000,000.

24 CASH FLOW INFORMATION

(a) Cash generated from operations:

		Year ended 31 December			Nine months ended 30 September	
	Note	2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Loss before taxation		(35,114)	(3,970)	(15,028)	(6,527)	(18,585)
Adjustments for:						
Interest income on bank deposits	9	(16)	(114)	(266)	(142)	(253)
Interest income on trust financing arrangements	9	–	(401)	(358)	(180)	(450)
Interest income on deposits paid	9	(183,300)	(252,038)	–	–	–
Finance costs	12	216,544	245,004	1,653	1,236	1,241
Net impairment reversal/(losses) on financial assets		63	(21,546)	(5,030)	(6,652)	11,478
Depreciation of property and equipment		131	353	381	285	282
Losses on disposal of property and equipment		10	–	–	–	–
Operating cash flows before movements in working capital		(1,682)	(32,712)	(18,648)	(11,980)	(6,287)
Increase in inventories of properties		(207,684)	(1,441,726)	(2,131,595)	(1,143,184)	(432,859)
Deposits for acquisition of land use rights		(140,000)	–	–	–	–
Decrease/(increase) in prepayments and other receivables		(1,991,978)	1,949,236	184,305	(36,281)	(1,214,077)
Increase/(decrease) in trade and other payables		(187,646)	69,786	940,130	(30,352)	24,934
Increase in contract acquisition costs		–	–	(2,900)	(1,212)	(4,944)
Increase in pre-sale deposits received		–	–	1,015,493	781,989	1,368,978
Cash (used in)/generated from operations		(2,528,990)	544,584	(13,215)	(441,020)	(264,255)

APPENDIX IIB FINANCIAL INFORMATION OF LINGSHIHUAFU

(b) Reconciliation of liabilities arising from financing activities

	Bank and other borrowings RMB'000	Advances from related parties RMB'000	Total RMB'000
At 1 January 2017	–	–	–
Cash flows			
– Net cash flows from financing activities	–	2,877,819	2,877,819
– Interest paid	–	(248,044)	(248,044)
Non-cash flows			
– Interest expenses	–	248,098	248,098
At 31 December 2017	–	2,877,873	2,877,873
At 1 January 2018	–	2,877,873	2,877,873
Cash flows			
– Net cash flows from financing activities	2,050,000	(532,784)	1,517,216
– Interest paid	(212,779)	(245,054)	(457,833)
Non-cash flows			
– Interest expenses	210,673	245,004	455,677
– Offset by other receivables	–	(350,000)	(350,000)
At 31 December 2018	2,047,894	1,995,039	4,042,933
At 1 January 2019	2,047,894	1,995,039	4,042,933
Cash flows			
– Net cash flows from financing activities	3,345,430	(2,323,000)	1,022,430
– Interest paid	(553,011)	–	(553,011)
Non-cash flows			
– Interest expenses	475,781	1,653	477,434
– Offset by other receivables	–	350,000	350,000
At 31 December 2019	5,316,094	23,692	5,339,786
At 1 January 2020	5,316,094	23,692	5,339,786
Cash flows			
– Net cash flows from financing activities	8,110	–	8,110
– Interest paid	(291,679)	–	(291,679)
Non-cash flows			
– Interest expenses	391,830	1,241	393,071
At 30 September 2020	5,424,355	24,933	5,449,288
At 1 January 2019	2,047,894	1,995,039	4,042,933
Cash flows			
– Net cash flows from financing activities	2,274,020	(1,105,307)	1,168,713
– Interest paid	(275,920)	–	(275,920)
Non-cash flows			
– Interest expenses	375,326	1,236	376,562
– Offset by other receivables	–	(254,693)	(254,693)
At 30 September 2019 (unaudited)	4,421,320	636,275	5,057,595

25 PLEDGE OF ASSETS

The following assets were pledged to secure the mortgage guarantees provided to customers and certain banking and other facilities granted to Lingshihuafu at the end of the reporting year/period:

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Inventories of properties	<u>–</u>	<u>2,032,322</u>	<u>1,902,139</u>	<u>2,148,839</u>

As at 31 December 2018, 100% equity interest of Zhuhai Xihuafu and 70% equity interest of Lingshihuafu have been pledged to secure various borrowings of Lingshihuafu. As at 31 December 2019 and 30 September 2020, 90% equity interest of Zhuhai Xihuafu and 70% equity interest of Lingshihuafu have been pledged to secure various borrowings of Lingshihuafu.

26 COMMITMENTS

At the end of each reporting period, Lingshihuafu had no material capital commitments.

27 GUARANTEES

	As at 31 December			As at 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Mortgage guarantees	<u>–</u>	<u>–</u>	<u>124,810</u>	<u>371,510</u>

Lingshihuafu provided guarantees in respect of mortgage bank loans granted to purchasers of Lingshihuafu's properties. Guarantees are given to banks with respect of loans procured by the purchasers of Lingshihuafu's properties. Such guarantees will be released by banks upon the purchasers obtaining the relevant ownership certificate and completion of the relevant mortgage registration.

In the opinion of the directors of Lingshihuafu, the fair values of these financial guarantee contracts of Lingshihuafu are insignificant at initial recognition and at relevant reporting dates and accordingly, no value has been recognised at the inception of the guarantee contracts and as at 31 December 2017, 2018, 2019 and as at 30 September 2020.

28 CONTINGENT LIABILITIES

Lingshihuafu has no material contingent liabilities outstanding as at 31 December, 2017, 2018 and 2019 and 30 September 2020.

29 RELATED PARTY TRANSACTIONS AND BALANCES

Before being acquired by Shencheng Group as mentioned in Note 1, Lingshihuaifu was ultimately controlled by Mr. Shum. After the acquisition by Shencheng Group, Lingshihuaifu became a joint venture of companies controlled by Mr. Shum.

(a) Related party transactions

Apart from those related party transactions disclosed above, the following transactions were carried out with related parties.

	As at 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Entities controlled by Mr. Shum and the close family members of Mr. Shum					
Procurement of architectural design fee	–	1,319	–	–	92
Procurement of intelligent system equipment	–	1,121	2,430	–	–
Procurement of property management services	–	–	2,067	1,467	2,340
Interest expense	248,098	245,004	1,654	1,236	1,241

The prices for the above transactions were determined in accordance with the terms of the underlying agreements.

(b) Key management compensation

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Short term benefits	219	285	221	107	228
Post-employment benefits	10	10	10	7	7
	229	295	231	114	235

The remuneration of key management is determined with reference to performance of individuals and market trends.

(c) Related party balances

At the end of the reporting period, Lingshihuafu has the following significant balances with related parties:

	As at 31 December			As at
	2017	2018	2019	30 September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2020</i>
				<i>RMB'000</i>
(i) Entities controlled by Mr. Shum				
Trading nature and included in:				
– Trade payables	–	1,350	2,703	1,791
Non-trading nature and included in:				
– Prepayments and other receivables	–	1,315,608	1,966,363	1,293,555
– Other payables	2,877,873	1,995,039	23,692	24,933
(ii) Non-controlling Shareholder				
Non-trading nature and included in:				
– Prepayments and other receivables	1,031	1,031	1,031	–
(iii) Other joint venture party				
Non-trading nature and included in:				
– Prepayments and other receivables	–	–	–	1,031

Included in trade and other payables were advances from entities controlled by Mr. Shum of RMB2,300,000,000 as at 31 December 2017 and RMB350,000,000 as at 31 December 2018, which bore interest at a rate of 12.0% per annum and with fixed repayment term within one year, and RMB22,035,000 as at 31 December 2018, 31 December 2019 and 30 September 2020, which bore interest at a rate of 7.5% per annum and with fixed repayment term within one year.

Other balances due from/to related parties are interest free, unsecured and to be settled on demand.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lingshihuafu in respect of any period subsequent to 30 September 2020. No dividend distribution has been declared or made by Lingshihuafu in respect of any period subsequent to 30 September 2020.

*Set out below is the management discussion and analysis of the Target Group for the financial years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020 (the “**Relevant Periods**”). The following financial information is based on the Accountant’s Report on the Combined Group and Lingshihuaafu as set out in Appendix IIA and Appendix IIB to this circular.*

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

General information

The Target Company is a company incorporated in the BVI with limited liability and wholly-owned by Mr. Shum. The Target Company will be the holding company of the Combined Group and a shareholder of Lingshihuaafu upon completion of the Reorganisation. The Target Group will own equity interests in all of the Property Development Project Companies upon completion of the Reorganisation.

After completion of the Reorganisation, the Target Group will hold the Qingdao Projects and the Weihai Project. The Qingdao Projects mainly consist of large-scale residential complex projects, as well as wholesale and retail, information technology research and commercial offices developments. The Weihai Project is a residential complex project with shopping arcades and other supporting facilities.

Business and financial review

The Target Group is principally engaged in the development and sale properties in the PRC. No segment analysis was presented other than the combined disclosure.

Set out below is the audited combined financial performance of the Combined Group for the Relevant Periods as extracted from the Accountant’s Report of the Combined Group as set out in Appendix IIA to this circular.

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	–	–	–	795,317
(Loss)/Profit before tax	(978)	(26,749)	(6,006)	253,772
(Loss)/profit and total comprehensive (loss)/income for the year/period	<u>(752)</u>	<u>(20,105)</u>	<u>(5,112)</u>	<u>135,475</u>

Set out below is the audited financial performance of the Lingshihuafu for the Relevant Periods as extracted from the Accountant's Report of the Lingshihuafu as set out in Appendix IIB to this circular.

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	–	–	–	–
Loss before tax	(35,114)	(3,970)	(15,028)	(18,585)
Loss and total comprehensive loss for the year/(period)	<u>(26,493)</u>	<u>(3,043)</u>	<u>(11,318)</u>	<u>(13,960)</u>

Revenue

The Combined Group recorded nil revenue for the years ended 31 December 2017, 2018 and 2019. For the nine months ended 30 September 2020, the Combined Group commenced delivery of properties and recorded revenue of approximately RMB795 million. The increase in revenue was due to the revenue generated from Jiayuan Mingcheng* (佳源名城) owned by Weihai Xiangyuan. Weihai Xiangyuan has two property development projects, which are (i) Jiayuan Mingcheng*, which included five residential buildings and three commercial buildings, all of which were completed and delivered in January 2020 and contributed to the revenue of the nine months ended 30 September 2020; and (ii) Jiayuan Haitangfu* (佳源海棠府), which includes residential buildings, the development of which has commenced in December 2020, and the construction is expected to be completed in October 2022 and delivered in December 2022.

Lingshihuafu was under construction stage and recorded nil revenue for the years ended 31 December 2017, 2018 and 2019 and for the nine months ended 30 September 2020.

Profit and total comprehensive income for the year

For the years ended 31 December 2017, 2018 and 2019, the Combined Group generated loss after tax of approximately RMB1 million, RMB20 million, RMB5 million, respectively. For the nine months ended 30 September 2020, the Combined Group generated profit after tax of approximately RMB136 million, such gains was mainly due to the delivery of Jiayuan Mingcheng* owned by Weihai Xiangyuan. The major expense items of the Combined Group for the year 2017, 2018 and 2019 are administrative expenses. Since the Combined Group was loss-making for the years ended 2017, 2018 and 2019, it has incurred income tax credit of approximately RMB0.2 million, RMB7 million, and RMB0.9 million for the same years, respectively. For the nine months ended 30 September 2020, the Combined Group has a profit of approximately RMB254 million before taxation, which has incurred income tax expense of approximately RMB118 million.

For the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020, Lingshihuaifu generated loss after tax of approximately RMB26 million, RMB3 million, RMB11 million, and RMB14 million, respectively. Such loss was recorded mainly because the project is still under development and will be delivered to the buyers once completed. The major expenses items of Lingshihuaifu for the years 2017 and 2018 were finance costs on the interest on advances from related parties and bank and other borrowings as the property development projects are still in early stage of the project life cycle.

Due to commencement of Lingshihuaifu property development project phase I in December 2018, financial expenses have been capitalised for the year ended 31 December 2019, and such expenses have decreased significantly since then.

Assets and liabilities

Set out below is the combined financial position of the Combined Group at the end of each of the Relevant Periods as extracted from the Accountant's Report as set out in Appendix IIA to this circular.

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	310	7,140	8,258	26,567
Current assets	198,012	911,208	1,352,244	4,868,653
Total assets	198,322	918,348	1,360,502	4,895,220
Current liabilities	179,704	919,205	972,062	1,017,358
Non-current liabilities	–	–	249,000	900,000
Total liabilities	179,074	919,205	1,221,062	1,917,358
Net assets/(deficit)	19,248	(857)	139,440	2,977,862

(i) As at 31 December 2018

As stated above, the total assets of the Combined Group as at 31 December 2018 amounted to approximately RMB918 million and is an aggregate value of (i) non-current assets of approximately RMB7 million; and (ii) current assets of approximately RMB911 million. The increase in total assets of the Combined Group as at 31 December 2018 as compared to that of 31 December 2017 (i.e. approximately RMB198 million) by approximately RMB720 million was mainly due to the increase of prepayments and other

receivables, inventories of properties, restricted bank deposits and prepaid income tax. On the other hand, the total liabilities of the Combined Group increased by approximately RMB740 million from approximately RMB179 million as at 31 December 2017 to approximately RMB919 million as at 31 December 2018. Such increase was mainly due to the increase of pre-sale deposits received and bank and other borrowings, and the decrease of the trade and other payables. As a result of the above, the net deficit of the Combined Group as at 31 December 2018 was approximately RMB1 million.

(ii) As at 31 December 2019

As stated above, the total assets of the Combined Group as at 31 December 2019 amounted to approximately RMB1,360 million and is an aggregate value of (i) non-current assets of approximately RMB8 million; and (ii) current assets of approximately RMB1,352 million. The increase in total assets of the Combined Group as at 31 December 2019 as compared to that of 31 December 2018 (i.e. approximately RMB918 million) by approximately RMB442 million was mainly due to the increase of repayments and other receivables, right to acquire land use rights, and inventories of properties. On the other hand, the total liabilities of the Combined Group increased by approximately RMB302 million from approximately RMB919 million as at 31 December 2018 to approximately RMB1,221 million as at 31 December 2019. Such increase was mainly due to the increase of pre-sale deposits received and bank and other borrowings. As a result of the above, the net assets of the Combined Group as at 31 December 2019 was approximately RMB139 million.

(iii) As at 30 September 2020

As stated above, the total assets of the Combined Group as at 30 September 2020 amounted to approximately RMB4,895 million and is an aggregate value of (i) non-current assets of approximately RMB27 million; and (ii) current assets of approximately RMB4,868 million. The increase in total assets of the Combined Group as at 30 September 2020 as compared to that of 31 December 2019 (i.e. approximately RMB1,360 million) by approximately RMB3,535 million was mainly due to the increase of repayments and other receivables and inventories of properties. On the other hand, the total liabilities of the Combined Group increased by approximately RMB696 million from approximately RMB1,221 million as at 31 December 2019 to approximately RMB1,917 million as at 30 September 2020. Such increase was mainly due to the increase of trade and other payables and bank and other borrowings and the decrease of pre-sale deposits received. As a result of the above, the net assets of the Combined Group as at 30 September 2020 was approximately RMB2,978 million.

Set out below is the financial position of the Lingshihuaifu at the end of each of the Relevant Periods as extracted from the Accountant's Report as set out in Appendix IIB to this circular.

	Year ended 31 December			Nine months ended
	2017	2018	2019	30 September 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	9,873	54,224	39,741	35,214
Current assets	2,876,893	4,047,290	7,302,931	8,796,912
Total assets	2,886,766	4,101,514	7,342,672	8,832,126
Current liabilities	2,890,144	2,077,096	3,182,036	6,176,140
Non-current liabilities	–	2,047,894	4,195,430	2,704,740
Total liabilities	2,890,144	4,124,990	7,377,466	8,880,880
Net deficit	(3,378)	(23,476)	(34,794)	(48,754)

(i) *As at 31 December 2018*

As stated above, the total assets of the Lingshihuaifu as at 31 December 2018 amounted to approximately RMB4,101 million and is an aggregate value of (i) non-current assets of approximately RMB54 million; and (ii) current assets of approximately RMB4,047 million. The increase in total assets of the Lingshihuaifu as at 31 December 2018 as compared to that of 31 December 2017 (i.e. approximately RMB2,886 million) by approximately RMB1,215 million was mainly due to the increase of inventories of properties. On the other hand, the total liabilities of the Lingshihuaifu increased by approximately RMB1,235 million from approximately RMB2,890 million as at 31 December 2017 to approximately RMB4,125 million as at 31 December 2018. Such increase was mainly due to the increase of bank and other borrowings. As a result of the above, the net deficit of the Lingshihuaifu as at 31 December 2018 was approximately RMB23 million.

(ii) *As at 31 December 2019*

As stated above, the total assets of the Lingshihuaifu as at 31 December 2019 amounted to approximately RMB7,343 million and is an aggregate value of (i) non-current assets of approximately RMB40 million; and (ii) current assets of approximately RMB7,303 million. The increase in total assets of the Lingshihuaifu as at 31 December 2019 as compared to that of 31 December 2018 (i.e. approximately RMB4,101 million) by approximately RMB3,242 million was mainly due to the increase of inventories of properties, prepayments and other

receivables, restricted bank deposits and prepaid income tax. On the other hand, the total liabilities of the Lingshihuaifu increased by approximately RMB3,252 million from approximately RMB4,125 million as at 31 December 2018 to approximately RMB7,377 million as at 31 December 2019. Such increase was mainly due to the increase of pre-sale deposits received and bank and other borrowings and decrease of trade and other payables. As a result of the above, the net deficit of the Lingshihuaifu as at 31 December 2019 was approximately RMB35 million.

(iii) As at 30 September 2020

As stated above, the total assets of the Lingshihuaifu as at 30 September 2020 amounted to approximately RMB8,832 million and is an aggregate value of (i) non-current assets of approximately RMB35 million; and (ii) current assets of approximately RMB8,797 million. The increase in total assets of the Lingshihuaifu as at 30 September 2020 as compared to that of 31 December 2019 (i.e. approximately RMB7,343 million) by approximately RMB1,454 million was mainly due to the increase of inventories of properties, prepayments and other receivables, restricted bank deposits and prepaid income tax. On the other hand, the total liabilities of the Lingshihuaifu increased by approximately RMB1,503 million from approximately RMB7,377 million as at 31 December 2019 to approximately RMB8,880 million as at 30 September 2020. Such increase was mainly due to the increase of pre-sale deposits received. As a result of the above, the net deficit of Lingshihuaifu as at 30 September 2020 was approximately RMB49 million.

Gearing ratio

As at 31 December 2017, 2018 and 2019 and 30 September 2020 the gearing ratio of the Combined Group was N/A, N/A, 179%, and 30%.

The property development projects of the Combined Group have not been placed into operation and have no bank and other borrowings in the year 2017. Thus, no gearing ratio was recorded.

No gearing ratio was recorded for the year 2018 due to the deficit position of the property development projects of the Combined Group given the significant capital expenditure incurred in the early stage of the project life cycle. The increase in the gearing ratio for the year 2019 was due to the increase in bank and other borrowings, as well as the increase in net debt from RMB40 million for the year ended 31 December 2018 to RMB250 million for the year ended 31 December 2019 due to the capital expenditure incurred in the early stage of the project life cycle.

The significant reduction in the gearing ratio for the nine months ended 30 September 2020 was due to the acquisition of land use rights by Zhongwei (Qingdao) Real Estate Development Co., Ltd. pursuant to the State-owned Land Use Rights Grant Contract dated 24 March 2020, which has significantly increased the total equity of the Combined Group. Thus, its gearing ratio reduced significantly.

Capital structure

The Combined Group had bank and other borrowings of nil, approximately RMB131 million, RMB275 million and RMB901 million for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively. Apart from the bank and other borrowings mentioned above, the Combined Group did not have any interest-bearing loan as at 30 September 2020 and it has not used any derivatives or other instruments for managing its interest rate risk and currency risk, or for hedging purposes during the Relevant Periods.

Lingshihuaifu had bank and other borrowings of nil, approximately RMB2,048 million, RMB5,316 million and RMB5,424 million for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively. Apart from the bank and other borrowings mentioned above, and amount due to entities controlled by Mr. Shum of approximately RMB22 million, Lingshihuaifu did not have any interest-bearing loan as at 30 September 2020 and it has not used any derivatives or other instruments for managing its interest rate risk and currency risk, or for hedging purposes during the Relevant Periods.

The Target Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Group may issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

Segment information

The Target Group has determined that it has (i) one operating segment which is the development, sales and investment of properties and (ii) one geographical segment as its revenue is primarily derived from and its assets are mainly located in the PRC.

Pledge of assets

The following assets were pledged to secure the mortgage guarantees provided to customers and certain banking and other facilities granted to the Combined Group during the Relevant Periods:

Combined Group

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Inventories of properties	<u>–</u>	<u>471,240</u>	<u>349,897</u>	<u>1,970,228</u>

As at 31 December 2018, 100% equity interest of Weihai Xiangyuan has been pledged to secure various borrowings of the Combined Group.

Lingshihuaifu

	Year ended 31 December			Nine months ended 30 September
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Inventories of properties	<u>–</u>	<u>2,032,322</u>	<u>1,902,139</u>	<u>2,148,839</u>

As at 31 December 2018, 100% equity interest of Zhuhai Xihuafuli and 70% equity interest of Lingshihuaifu have been pledged to secure various borrowings of Lingshihuaifu. As at 31 December 2019 and 30 September 2020, 90% equity interest of Zhuhai Xihuafuli and 70% equity interest of Lingshihuaifu have been pledged to secure various borrowings of Lingshihuaifu.

Contingent liabilities

During the Relevant Periods, both the Combined Group and Lingshihuaifu did not have any outstanding material contingent liabilities.

Capital commitments

During the Relevant Periods, both the Combined Group and Lingshihuaifu had no material capital commitments.

Foreign exchange exposure

During the Relevant Periods, the Target Group operated in the PRC with most of their transactions denominated and settled in RMB. In this respect, there is no significant currency mismatch in their operational cashflows and the Target Group is not exposed to any significant foreign currency exchange risk in its operations. The Target Group did not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities during the Relevant Periods.

Employees and remuneration policies

The Combined Group employed 23, 25, 48 and 124 members of permanent staff in the PRC for the years ended 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively. Staff costs for the years ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020 were approximately RMB1.0 million, approximately RMB4.8 million, approximately RMB5.7 million and approximately RMB10.6 million, respectively. The Combined Group reviews staff remuneration once a year, or as its management consider appropriate. Employee remuneration was determined by reference to market terms and the performance, qualification and experience of individual employee. The increase in the staff remuneration amount was mainly attributable to recruitment of personnel to support the newly incorporated and acquired subsidiaries of the Combined Group.

Lingshihuaifu employed 24, 53, 65, 57 members of permanent staff in the PRC for the years ended 2017, 2018 and 2019 and the nine months ended 30 September 2020, respectively. Staff costs for the year ended 31 December 2017, 2018 and 2019 and the nine months ended 30 September 2020 were approximately RMB1.4 million, approximately RMB7.9 million, approximately RMB13.8 million and approximately RMB9.1 million, respectively. Lingshihuaifu reviews staff remuneration once a year, or as its management consider appropriate. Employee remuneration was determined by reference to market terms and the performance, qualification and experience of individual employee. The increase in the staff remuneration amount was mainly attributable to recruitment of additional administrative and sales personnel to support the business growth of Lingshihuaifu.

Material acquisition or disposal of subsidiary or associated company

During the Relevant Periods, the Target Group acquired (i) 63% equity interest of Qingdao Lingshihuafu Property Co., Ltd.* (青島領世華府地產有限公司) on 25 September 2020; (ii) 58.5% equity interest and 10.0% equity interest of Qingdao Shuiqingmuhua Creative Development Co., Ltd.* (青島水清木華創意發展有限公司) on 15 December 2019 and 11 January 2021, respectively. Apart from the abovementioned there was neither material acquisition nor disposal of subsidiaries or associated company by the Target Group.

Significant investment held

During the Relevant Periods, save for the acquisition of the entire interest in the Property, there was no significant investments by the Target Group.

Future plans for material investments and capital assets

As at the date of this circular, the Target Group did not have any future plans for material investments and capital assets.

Future prospect***Prospects***

Principally engaged in the property development, sales and property investment businesses in Shandong, the PRC, the Target Group owned nine subsidiaries as at 30 November 2020, and currently has five properties under the development and a developed area of over 1.6 million sq.m. The annual sale is approximately RMB6.0 billion for the year ended 31 December 2020.

In the future, the Target Group will focus on residential development, followed by commercial real estate development, concentrating in Qingdao, Weihai and other key cities. By rapidly promoting development, recouping the costs and creating cash flows, the Target Group will be able to form its brand influence in target cities and undergo efficient expansion.

Disclosure required under the listing rules

As required under Rule 5.07 of the Listing Rules, the statement below sets forth the reconciliation of the aggregate value of certain properties as reflected in the consolidated financial statements as at 30 September 2020 as set out in Appendix IIA to this circular with the valuation of these property interests as at 30 November 2020 as set out in Appendix IV this circular.

Combined Group*RMB'000*

Net book value of Property Development Projects as at 30 September 2020 included in the Valuation Report Aggregated Amount (Inventories of properties as set out in Appendix IIA)	2,150,476
Movement in net book value from 30 September 2020 to 30 November 2020	
Movement in construction cost	228,753
Net book value as at 30 November 2020	2,379,229
Valuation surplus	255,771
Valuation as at 30 November 2020 as per Appendix IV	2,635,000

Lingshihuaifu*RMB'000*

Net book value of Property Development Projects as at 30 September 2020 included in the Valuation Report Aggregated Amount (Inventories of properties as set out in Appendix IIB)	5,464,388
Movement in net book value from 30 September 2020 to 30 November 2020	
Movement in construction cost	194,614
Net book value as at 30 November 2020	5,659,002
Add: the original investment cost	4,232,804
Valuation surplus	4,038,194
Valuation as at 30 November 2020 as per Appendix IV	13,930,000

The information set out in this Appendix does not form part of the Accountant's Reports on the Combined Group and Lingshihuafu issued by PricewaterhouseCoopers, the Company's reporting accountant, as set out in Appendix IIA and Appendix IIB to this circular respectively and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with Appendix IIA and Appendix IIB to this circular.

The following unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2020 (the “**Unaudited Pro Forma Financial Information**”) has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect on the financial position of the Group as if the Acquisition had been completed on 30 June 2020.

The Unaudited Pro Forma Financial Information has been prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 which has been extracted from the Group's published interim report for the six months ended 30 June 2020; (ii) audited combined statement of financial position of the Combined Group at 30 September 2020 which has been extracted from the Accountant's Report on Historical Financial Information of the Combined Group set out in Appendix IIA to this circular, and (iii) the audited statement of financial position of Lingshihuafu as at 30 September 2020 which has been extracted from the Accountant's Report on Historical Financial Information of Lingshihuafu set out in Appendix IIB to this circular, after making pro forma adjustments relating to the Acquisition.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purpose only, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group on the date of completion of the Acquisition. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the financial position of the Enlarged Group that would have been attained had the Acquisition been completed on the date indicated herein or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in this circular.

**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL
POSITION OF THE ENLARGED GROUP AS AT 30 JUNE 2020**

	Pro forma adjustments							Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at 30 June 2020 RMB'000
	The Group as at 30 June 2020 RMB'000 Note 1	The Combined Group as at 30 September 2020 RMB'000 Note 2	Investment in Lingshihuaifu RMB'000 Note 3	Revaluation of identifiable assets and liabilities of Lingshihuaifu RMB'000 Note 4 and 5	Consideration for the Acquisition RMB'000 Note 5	Acquisition costs RMB'000 Note 6	Subsequent acquisition of non-controlling interests in a subsidiary RMB'000 Note 7	
Non-current assets								
Investment properties	7,739,887	-	-	-	-	-	-	7,739,887
Property and equipment	122,611	1,740	-	-	-	-	-	124,351
Intangible assets	38,759	-	-	-	-	-	-	38,759
Right-of-use assets	12,054	-	-	-	-	-	-	12,054
Investments accounted for using the equity method	2,142,342	-	(30,715)	3,908,047	-	-	-	6,019,674
Financial assets at fair value through profit or loss	873,037	-	-	-	-	-	-	873,037
Deposits paid for acquisitions	1,151,728	-	-	-	-	-	-	1,151,728
Deferred tax assets	716,016	24,827	-	-	-	-	-	740,843
Trade and other receivables	88,781	-	-	-	-	-	-	88,781
	<u>12,885,215</u>	<u>26,567</u>	<u>(30,715)</u>	<u>3,908,047</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,789,114</u>
Current assets								
Inventories of properties	36,107,572	2,150,476	-	-	-	-	-	38,258,048
Trade and other receivables	7,398,634	2,710,010	-	-	-	-	(18,000)	10,090,644
Financial assets at fair value through profit or loss	147,461	-	-	-	-	-	-	147,461
Prepaid income tax	480,218	-	-	-	-	-	-	480,218
Restricted/pledged bank deposits	1,237,792	2,566	-	-	-	-	-	1,240,358
Cash and cash equivalents	7,889,020	5,601	-	-	(894,000)	(10,500)	-	6,990,121
	<u>53,260,697</u>	<u>4,868,653</u>	<u>-</u>	<u>-</u>	<u>(894,000)</u>	<u>(10,500)</u>	<u>(18,000)</u>	<u>57,206,850</u>
Total assets	<u>66,145,912</u>	<u>4,895,220</u>	<u>(30,715)</u>	<u>3,908,047</u>	<u>(894,000)</u>	<u>(10,500)</u>	<u>(18,000)</u>	<u>73,995,964</u>

APPENDIX III

UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP

	Pro forma adjustments							Unaudited pro forma consolidated statement of financial position of the Enlarged Group as at
	The Group as at 30 June 2020 RMB'000 Note 1	The Combined Group as at 30 September 2020 RMB'000 Note 2	Investment in Lingshihuafu RMB'000 Note 3	Revaluation of identifiable assets and liabilities of Lingshihuafu RMB'000 Note 4 and 5	Consideration for the Acquisition RMB'000 Note 5	Acquisition costs RMB'000 Note 6	Subsequent acquisition of non-controlling interests in a subsidiary RMB'000 Note 7	30 June 2020 RMB'000
Current liabilities								
Trade and other payables	7,163,151	900,175	-	-	-	-	-	8,063,326
Pre-sale deposits received	18,645,241	18,783	-	-	-	-	-	18,664,024
Lease liabilities	5,480	-	-	-	-	-	-	5,480
Current income tax liabilities	5,572,148	97,086	-	-	-	-	-	5,669,234
Bank and other borrowings	3,049,663	1,314	-	-	-	-	-	3,050,977
Derivative financial instruments	272,068	-	-	-	-	-	-	272,068
Senior notes	4,922,107	-	-	-	-	-	-	4,922,107
	39,629,858	1,017,358	-	-	-	-	-	40,647,216
Net current assets	13,630,839	3,851,295	-	-	(894,000)	(10,500)	(18,000)	16,559,634
Total assets less current liabilities	26,516,054	3,877,862	(30,715)	3,908,047	(894,000)	(10,500)	(18,000)	33,348,748
Non-current liabilities								
Bank and other borrowings	9,313,677	900,000	-	-	-	-	-	10,213,677
Derivative financial instruments	157,183	-	-	-	-	-	-	157,183
Lease liabilities	6,000	-	-	-	-	-	-	6,000
Pre-sale deposits received	531,293	-	-	-	-	-	-	531,293
Deferred tax liabilities	750,307	-	-	-	-	-	-	750,307
Senior notes	2,285,025	-	-	-	-	-	-	2,285,025
	13,043,485	900,000	-	-	-	-	-	13,943,485
Equity attributable to owners of the Company								
Share capital	33,870	-	-	-	7,118	-	-	40,988
Reserves	11,130,937	2,287,901	(30,715)	3,908,047	(901,118)	(10,500)	(1,745)	16,382,807
	11,164,807	2,287,901	(30,715)	3,908,047	(894,000)	(10,500)	(1,745)	16,423,795
Non-controlling interests	2,307,762	689,961	-	-	-	-	(16,255)	2,981,468
Total equity	13,472,569	2,977,862	(30,715)	3,908,047	(894,000)	(10,500)	(18,000)	19,405,263
Total equity and non-current liabilities	26,516,054	3,877,862	(30,715)	3,908,047	(894,000)	(10,500)	(18,000)	33,348,748

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group at 30 June 2020 as set out in the published interim report of the Group for the six months ended 30 June 2020.
2. The amounts are extracted from the combined statement of financial position of the Combined Group as at 30 September 2020 as set out in the Accountant's Report on Historical Financial Information of the Combined Group included in Appendix IIA to this circular.

As both of the Company and the Combined Group are under common control by Mr. Shum and the control is not transitory, 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 of the Combined Group.

3. Pursuant to the Reorganisation, the Target Company will acquire the 63% equity interest in Lingshihuafu. Upon the Completion, Lingshihuafu will become a joint venture of the Company and be accounted for under equity method of accounting in accordance with Hong Kong Accounting Standard 28 (2011) "Investments in Associates and Joint Ventures". The amount represented 63% share of the net deficit of Lingshihuafu as at 30 September 2020, which was extracted from the statement of financial position of Lingshihuafu as set out in the Accountant's Report on Historical Financial Information of Lingshihuafu in Appendix IIB to this circular.
4. This amount represents the net excess of fair values of identifiable assets and liabilities, mainly arising from inventories of the property development projects, as at 30 November 2020 of Lingshihuafu over their book values according to the management accounts of Lingshihuafu as at 30 November 2020, and after taking into account the ownership percentage in Lingshihuafu and deferred income tax impact.

The Directors determined the fair value of the inventories of Lingshihuafu as at 30 November 2020 was RMB13,930,000,000 with reference to the valuation prepared by an independent professional valuer as set out in the valuation report in Appendix IV to this circular.

5. The Initial Consideration is HK\$7,247,560,000 (equivalent to approximately RMB6,142,000,000) (subject to adjustment), which will be settled by (i) as to HK\$3,420,640,000 (equivalent to approximately RMB2,898,847,458) by way of issue of the Convertible Bonds; (ii) as to HK\$2,772,000,000 (equivalent to approximately RMB2,349,152,542) by way of issue and allotment of 840,000,000 Consideration Shares; and (iii) as to the remaining balance of HK\$1,054,920,000 (equivalent to approximately RMB894,000,000) by cash. The issues of Convertible Bonds and Consideration Share are treated as equity transactions in accordance with HKAS 32 "Financial Instruments: Presentation".

For the purpose of preparing the Unaudited Pro Forma Financial Information of the Enlarged Group, the fair value of net assets of the Combined Group and fair value of the net assets of Lingshihuafu as at 30 November 2020 were used to determine the allocation of the consideration for the Acquisition between the Combined Group and Lingshihuafu. The fair values of the identifiable assets and liabilities of Combined Group and Lingshihuafu as at the Completion date will be used to determine the final amount and allocation of purchase consideration and, if any, the amount of goodwill or bargain purchase gain arising from the Acquisition in respect of the investment in Lingshihuafu. Such final amount and allocation may be different from the amounts presented herein and the differences may be significant.

Both the Conversion Price and the Issue Price are determined at HK\$3.30 per share. The final consideration for the Acquisition, for the purpose of purchase price allocation, will be adjusted to reflect the fair value of shares to be issued by the Company.

6. The adjustment represented estimated costs incurred directly in connection with the Acquisition including financial advisors' fees, legal fees, printing costs, reporting accountant's fee, and other related expenses to be borne by the Group.

7. As part of the reorganisation of the Target Company, on 11 January 2021, a subsidiary of the Target Company entered into an agreement with a shareholder of Qingdao Shuiqingmuhua, Qingdao Mingjun Investment Management Co., Ltd. (“**Qingdao Mingjun**”), to purchase the 10% share of Qingdao Shuiqingmuhua held by Qingdao Mingjun. The consideration for the acquisition was RMB18,000,000 and settled by offsetting the receivable amounts due from Qingdao Mingjun. Upon completion of this acquisition, Qingdao Shuiqingmuhua became a 100% owned subsidiary of the Target Group. This acquisition is regarded as transaction with non-controlling interests.
8. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Group, the Combined Group and Lingshihuafu subsequent to 30 June 2020, except for the acquisition mentioned in Note 7 above.
9. The exchange rates between Hong Kong dollars and Renminbi at the Circular date and Completion date are assumed to be the same.

The following is the text of a report on the unaudited pro forma financial information of the Enlarged Group received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 (collectively the “**Group**”), and Luyuan Investment Holdings Limited (the “**Target**”) and its subsidiaries (the “**Target 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 combined statement of financial position as at 30 June 2020, and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out on pages III-1 to III-5 of the Company’s circular dated 26 February 2021 (the “**Circular**”), in connection with the proposed acquisition of the Target Group (the “**Acquisition**”) by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages III-1 to III-5 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Acquisition on the Group’s financial position as at 30 June 2020 as if the Acquisition had taken place at 30 June 2020. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s interim financial information for the six months ended 30 June 2020, on which a review report has been published.

Directors’ Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

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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 behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 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 Accountant's 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 accountant plans and performs 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 a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity 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 Acquisition at 30 June 2020 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 accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, 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 by the Directors 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.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong

26 February 2021

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 November 2020 of the property interests held by the Target Group.



仲量聯行

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26 February 2021

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

Dear Sirs,

Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**" or "**we**") is instructed by Jiayuan International Group Limited (the "**Company**") to provide valuation service on the properties in which Luyuan Investment Holdings Limited (the "**Target Company**") and its wholly-owned or partially-owned companies (hereinafter together referred to as the "**Target Group**") have interests in the People's Republic of China (the "**PRC**") for disclosure purpose.

As confirmed by the Company, the property interests of the Target Group are held by:

- (a) Qingdao Lingshihuafu Property Co., Ltd. ("**Qingdao Lingshihuafu**", a 63% owned joint venture of the Target Company);
- (b) Qingdao Shuiqingmuhua Creative Development Co., Ltd. ("**Qingdao Shuiqingmuhua**", a 68.5% owned subsidiary of the Target Company);
- (c) Zhongwei (Qingdao) Real Estate Development Co., Ltd. ("**Zhongwei Qingdao**", a 79.93% owned subsidiary of the Target Company); and
- (d) Weihai Xiangyuan Real Estate Development Co., Ltd. ("**Weihai Xiangyuan**", a wholly-owned subsidiary of the Target Company).

We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market values of the property interests as at 30 November 2020 (the "**valuation date**").

Our valuation is 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”.

In valuing the property interests in Group I which are held under development by the Target Group, we have assumed that they will be developed and completed in accordance with the latest development proposals provided to us by the Company and the Target Group. In arriving at our opinion of values, we have adopted the comparison approach by making reference to comparable sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the valuation date and the remainder of the cost and fees expected to be incurred for completing the development. We have relied on the accrued construction cost and professional fees information provided by the Company and the Target Group according to the different stages of construction of the properties as at the valuation date, and we did not find any material inconsistency from those of other similar developments.

For the purpose of our valuation, real estate developments under development are those for which the Construction Works Commencement Permit(s) has(have) been issued or the construction work has actually started while the Construction Works Completion and Inspection Certificate(s)/Table(s) of the building(s) have not been issued.

We have valued the property interests in Group II which are held for future development by the comparison approach assuming sale of the property interests in their existing states with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

For the purpose of our valuation, property developments for future development are those the Construction Work Commencement Permits are not issued while the State-owned Land Use Rights Certificates have been obtained.

For the property interests in Group III which are contracted to be acquired by the Target Group, the Target Group has entered into agreements with the relevant government authorities. Since the Target Group has not yet obtained the State-owned Land Use Rights Certificates/Real Estate Title Certificates and/or the payment of the land consideration has not yet been fully settled as at the valuation date, we have attributed no commercial value to the property interests.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation — Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Company and the Target Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of title documents including State-owned Land Use Rights Certificates, Real Estate Title Certificates and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC Legal Advisors – Jingtian & Gongcheng, concerning the validity of the property interests in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and the Target Group. We have also sought confirmation from the Company and the Target Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in December 2020 by Ms. Ivy Zheng who has 13 years' experience in the property valuation in the PRC and Ms. Blair Xiong who has 1 year's experience in the property valuation in the PRC.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on 11 March 2020 has caused much disruption to economic activities around the world. As of the report date, China's economy is experiencing gradual recovery and it is anticipated that disruption to business activities will steadily reduce. We also note that market activity and market sentiment in these particular market sectors remain stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of the properties under frequent review.

Our summary of values and valuation certificates are attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 27 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Abbreviation:

Group I: Properties held under development by the Target Group in the PRC

Group II: Properties held for future development by the Target Group in the PRC

Group III: Properties contracted to be acquired by the Target Group in the PRC

No.	Property	Market value in existing state as at the valuation date RMB	Market value in existing state as at the valuation date RMB	Market value in existing state as at the valuation date RMB	The total market value in existing state as at the valuation date RMB
		Group I:	Group II:	Group III:	
1.	Project Jiayuan Huaifu (佳源華府) located at the northern side of Xianxialing Road and the western side of Yunling Road Laoshan District Qingdao City Shandong Province The PRC	6,562,000,000	7,368,000,000	—	13,930,000,000
2.	Project Jiayuan Haiyuefu (佳源海玥府) located at the southern side of Haiwang Road and the eastern side of Huangdunshan Road Huangdao District Qingdao City Shandong Province The PRC	522,000,000	—	—	522,000,000
3.	Project Zhongchang Valley (青島中昌數創智慧谷) located at the western side of Baiguoshuhe Road and the southern side of Qianwangang Road Huangdao District Qingdao City Shandong Province The PRC	410,000,000	—	—	410,000,000

No.	Property	Market value in existing state as at the valuation date <i>RMB</i>	Market value in existing state as at the valuation date <i>RMB</i>	Market value in existing state as at the valuation date <i>RMB</i>	The total market value in existing state as at the valuation date <i>RMB</i>
		Group I:	Group II:	Group III:	
4.	Project Jiayuan Twin City (佳源雙子星城) located at the northern side of Nanling San Road and the Western side of Chongqing Zhong Road Licang District Qingdao City Shandong Province The PRC	1,567,000,000	–	No Commercial Value	1,567,000,000
5.	A parcel of land located at at the western side of Qingdao Road and the northern side of Zhuhai Road Huancui District Weihai City Shandong Province The PRC	–	136,000,000	–	136,000,000
Total:		9,061,000,000	7,504,000,000	Nil	16,565,000,000

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date RMB
1.	Project Jiayuan Huafu (佳源華府) located at the northern side of Xianxialing Road and the western side of Yunling Road Laoshan District Qingdao City Shandong Province The PRC	<p>Project Jiayuan Huafu is located at Yunling Road in Zhujiawa Community of Laoshan District. The locality is well served by public transportation network and supporting facilities.</p> <p>The property occupies 3 parcels of land with a total site area of approximately 128,960.45 sq.m. and will be developed into a residential and commercial complex in three phases. Phase I is currently under construction and scheduled to be completed in May 2022, and the construction works of Phases II and III had not been commenced as at the valuation date.</p> <p>Phases I and II of the property have a total planned gross floor area (“GFA”) of approximately 714,959.39 sq.m., details of which are set out in note 7. The total plot ratio accountable GFA of Phases II and III of the property is 393,540.81 sq.m.</p> <p>As advised by the Company and Qingdao Lingshihuafu, the total construction cost of Phase I is estimated to be approximately RMB3,337,000,000, of which approximately RMB2,359,000,000 had been incurred up to the valuation date.</p> <p>The land use rights of the property have been granted for terms expiring on 6 June 2088 for residential use and 6 June 2058 for commercial use.</p>	As at the valuation date, Phase I was under construction, while Phases II and III were bare land for future development.	13,930,000,000

Notes:

1. Pursuant to 3 State-owned Land Use Rights Grant Contracts and 2 supplemental agreements dated 8 June 2018, 2 November 2018 and 4 December 2020, the land use rights of 3 parcels of land with a total site area of approximately 128,960.45 sq.m. were contracted to be granted to Qingdao Lingshihuafu for terms of 70 years for residential use and 40 years for commercial use. The individual plot ratio of the 3 parcels of land is 3.79, 4.53 and 2. The total land consideration was RMB2,634,114,637.73. As advised by the Company and Qingdao Lingshihuafu, the land consideration has not been fully paid.
2. Pursuant to 3 Real Estate Title Certificates (for land) – Lu (2018) Qing Dao Shi Lao Shan Qu Bu Dong Chan Quan Di Nos. 0014533 and 0014534 and Lu (2019) Qing Dao Shi Lao Shan Qu Bu Dong Chan Quan Di No. 0002375, the land use rights of 3 parcels of land with a total site area of approximately 128,960.45 sq.m. have been granted to Qingdao Lingshihuafu for terms expiring on 6 June 2088 for residential use and 6 June 2058 for commercial use.
3. Pursuant to 3 Construction Work Planning Permits – Jian Zi Di 370200201815110, 370200201815111 and 370200201914105 in favour of Qingdao Lingshihuafu, Phase I of Project Jiayuan Huafu with a total planned GFA of approximately 190,265.38 sq.m. has been approved for construction.
4. Pursuant to 3 Construction Work Commencement Permits – Nos. 370212201812270101, 370212201904020101 and 370212201906120101 in favour of Qingdao Lingshihuafu, permission by the relevant local authority was given to commence the construction of Phase I of Project Jiayuan Huafu with a total planned GFA of approximately 190,634.34 sq.m.
5. Pursuant to 2 Pre-sale Permits – Qing Fang Zhu Zi (Lao 2019) Di Nos. 005 and 012, Qingdao Lingshihuafu is entitled to sell portions of Phase I of Project Jiayuan Huafu (representing a total GFA of approximately 125,317.39 sq.m.) to purchasers.
6. Pursuant to a mortgage contract dated 20 March 2019 entered into between Qingdao Rural Commercial Bank Co., Ltd. Maidao Branch and Qingdao Lingshihuafu, and a mortgage contract dated 8 August 2019 entered into between Zhongrong International Trust Co. Ltd. and Qingdao Lingshihuafu, the land use rights of the property with a total site area of approximately 128,960.45 sq.m. were subject to two mortgages for a total loan amount of RMB5,666,000,000 expiring on 19 March 2022 and 7 August 2022 respectively.
7. According to the information provided by the Company and Qingdao Lingshihuafu, the planned GFA of Phases I and II of the property is set out as below:

Part	Usage	Planned GFA (sq.m.)	No. of Car Parking Space
Phase I	Residential	125,369.01	
	Office	11,759.52	
	Retail	587.59	
	Ancillary	1,683.88	
	Underground car parking space	50,865.38	1,371
	Sub-total:	190,265.38	
Phase II	Residential	217,120.50	
	Commercial	149,637.32	
	Ancillary	7,936.19	
	Underground car parking space	150,000.00	3,392
	Sub-total:	524,694.01	
	Grand total:	714,959.39	4,763

8. Pursuant to 2 Agreements - Zhujiawa Community Village Reconstruction Project Development and Construction Agreement (朱家窪社區村莊改造項目開發建設協議書) and Zhujiawa Community Reconstruction Project Cooperative Development and Construction Agreement (朱家窪社區改造項目合作開發建設協議書), Qingdao Lingshihuafu should: (1) be responsible for all costs involved in the relocation and resettlement compensation for the village reconstruction project of Zhujiawa Community (comprising Project Jiayuan Huafu and the adjacent land on which the village reconstruction project is located); (2) be responsible for the construction work of 140,000 sq.m. of residential resettlement houses and 100,000 sq.m. of commercial houses (including office, retail and ancillary uses) for Zhujiawa Community, with the underground floor area not less than 70,000 sq.m.; and (3) undertake to pay the school construction cost of RMB55,000,000 for the village reconstruction project of Zhujiawa Community.

As advised by Qingdao Lingshihuafu, except for 35,496 sq.m. of commercial properties located on the land of Phase II of the property, the above resettlement houses and schools are all located on the above mentioned land adjacent to Project Jiayuan Huafu.

9. As advised by Qingdao Lingshihuafu, various residential units with a total GFA of approximately 67,085.27 sq.m. of Phase I of the property have been pre-sold to various third parties at a total consideration of RMB3,125,754,712. Such portions of the property have not been legally and virtually transferred and therefore we have included the units in our valuation. In arriving at our opinion on the market value of the property, we have taken into account the contracted prices of such portions of the property.
10. Our valuation has been made on the following basis and analysis:
- we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB45,000 to RMB58,000 per sq.m. for residential units, RMB40,000 to RMB60,000 per sq.m. for ground floor retail units, RMB22,000 to RMB26,000 per sq.m. for office units and RMB250,000 to RMB350,000 per space for car parking spaces. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at the assumed unit rate for the property;
 - we have also made reference to sales prices of land within the locality which have the similar characteristics as to the property. The accommodation value of these comparable land sites ranges from about RMB12,000 to RMB20,000 per sq.m. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at our assumed accommodation value; and
 - we have taken into account the items and conditions of the 2 Agreements as mentioned in note 8 in our valuation.
11. The market value of Phase I of the property as if completed as at the valuation date, according to the development proposal as described above and which can be freely transferred in the market, would be RMB8,089,000,000.
12. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:
- Qingdao Lingshihuafu has legally obtained the land use rights of the property. Qingdao Lingshihuafu is entitled to occupy and use the land parcels of the property, and upon consent from the mortgagee to transfer, lease, re-mortgage or otherwise dispose of the land use rights of the property;
 - Qingdao Lingshihuafu has obtained the requisite approvals in respect of the actual development stage;
 - Qingdao Lingshihuafu has the rights to pre-sell portions of the property based on the Pre-sale Permits mentioned in note 5;
 - Pursuant to a supplemental agreement dated 26 January 2021, the payment deadline for the unpaid land consideration of RMB32,585,840 for this property has been extended to 31 March 2021; and
 - Qingdao Lingshihuafu has the risk of being charged of liquidated damages by relevant government authorities due to the delayed construction of Phases II and III of the property.

13. A summary of major certificates/approvals is shown as follows:

a.	State-owned Land Use Rights Grant Contract	Yes
b.	Real Estate Title Certificate (for land)	Yes
c.	Construction Work Planning Permit	Portion
d.	Construction Work Commencement Permit	Portion
e.	Pre-sale Permit	Portion
f.	Construction Work Completion and Inspection Certificate/Table/Report	N/A
g.	Real Estate Title Certificate (for building)	N/A

14. For the purpose of this report, the property is classified into the following groups according to the purpose for which it is held, we are of the opinion that the market value of each group as at the valuation date in its existing state is set out as below:

Group	Market value in existing state as at the valuation date (RMB)
Group I - Held under development by the Target Group	6,562,000,000
Group II - Held for future development by the Target Group	7,368,000,000
Total:	13,930,000,000

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date RMB
2.	Project Jiayuan Haiyuefu (佳源海玥府) located at the southern side of Haiwang Road and the eastern side of Huangdunshan Road Huangdao District Qingdao City Shandong Province The PRC	<p>Project Jiayuan Haiyuefu is located at the junction of Haiwang Road and Huangdunshan Road of Huangdao District where there are some residential developments nearby. Besides, the public transportation network and supporting facilities are under further improvement.</p> <p>The property occupies 2 parcels of land with a total site area of approximately 56,132 sq.m., and will be developed into a residential and retail complex. It is currently under construction and scheduled to be completed in May 2022. The property has a planned gross floor area (“GFA”) of approximately 107,165.50 sq.m., details of which are set out in note 7.</p> <p>As advised by the Company and Qingdao Shuiqingmuhua, the total construction cost of the property is estimated to be approximately RMB383,000,000, of which approximately RMB56,000,000 had been incurred up to the valuation date.</p> <p>The land use rights of the property have been granted for terms expiring on 14 May 2089 for residential use and 14 May 2059 for commercial use.</p>	As at the valuation date, the property was under construction.	522,000,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 29 April 2019, the land use rights of a parcel of land with a site area of approximately 56,132 sq.m. were contracted to be granted to Qingdao Shuiqingmuhua for terms of 70 years for residential use and 40 years for commercial use. The plot ratio of the property is 1.2. The total land consideration was RMB315,372,029. As advised by the Company and Qingdao Shuiqingmuhua, the land consideration has been fully paid.
2. Pursuant to 2 Real Estate Title Certificates (for land) – Lu (2020) Qing Dao Shi Huang Dao Qu Bu Dong Chan Quan Di Nos. 0104566 and 0104589, the land use rights of 2 parcels of land with a total site area of approximately 56,132 sq.m. have been granted to Qingdao Shuiqingmuhua for terms expiring on 14 May 2089 for residential use and 14 May 2059 for commercial use.
3. Pursuant to a Construction Work Planning Permit – Jian Zi Di No. 370205202017020 in favour of Qingdao Shuiqingmuhua, Project Jiayuan Haiyuefu with a planned GFA of approximately 107,165.50 sq.m. has been approved for construction.
4. Pursuant to a Construction Work Commencement Permit – No. 370211202009040201HG in favour of Qingdao Shuiqingmuhua, permission by the relevant local authority was given to commence the construction of Project Jiayuan Haiyuefu with a planned GFA of approximately 107,165.50 sq.m.
5. Pursuant to 2 Pre-sale Permits – Qing Fang Zhu Zi (Qing Huang 20) Di Nos. 264 and 342, Qingdao Shuiqingmuhua is entitled to sell portions of Project Jiayuan Haiyuefu (representing a total GFA of approximately 53,624.62 sq.m.) to purchasers.
6. Pursuant to a mortgage contract dated 20 March 2020 entered into between China Orient Asset Management Co., LTD. Shanghai Branch and Qingdao Shuiqingmuhua, the land use rights of this property and property no. 3 with a total site area of approximately 174,368 sq.m. were subject to a mortgage for a total loan amount of RMB481,241,000 expiring on 19 March 2023.
7. According to the information provided by the Company and Qingdao Shuiqingmuhua, the planned GFA of the property is set out as below:

Usage	Planned GFA (sq.m.)	No. of Car Parking Space
Residential	59,660.55	
Retail	6,741.68	
Underground Car parking space	22,759.57	657
Ancillary	18,003.70	
Total:	107,165.50	657

8. As advised by Qingdao Shuiqingmuhua, various residential units with a total GFA of approximately 30,309.92 sq.m. of the property have been pre-sold to various third parties at a total consideration of RMB584,505,062. Such portions of the property have not been legally and virtually transferred and therefore we have included the units in our valuation. In arriving at our opinion on the market value of the property, we have taken into account the contracted prices of such portions of the property.

9. Our valuation has been made on the following basis and analysis:
- a. we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB16,000 to RMB23,000 per sq.m. for residential units, RMB18,000 to RMB25,000 per sq.m. for ground floor retail units and RMB40,000 to RMB60,000 per space for car parking spaces. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at the assumed unit rate for the property; and
 - b. we have also made reference to sales prices of land within the locality which have the similar characteristics as to the property. The accommodation value of these comparable land sites ranges from about RMB4,400 to RMB5,200 per sq.m. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at our assumed accommodation value.
10. The market value of the property as if completed as at the valuation date, according to the development proposal as described above and which can be freely transferred in the market, would be RMB1,214,000,000.
11. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:
- a. Qingdao Shuiqingmuhua has legally obtained the land use rights of the property. Qingdao Shuiqingmuhua is entitled to occupy and use the land parcels of the property, and upon consent from the mortgagee to transfer, lease, re-mortgage or otherwise dispose of the land use rights of the property;
 - b. Qingdao Shuiqingmuhua has obtained the requisite approvals in respect of the actual development stage; and
 - c. Qingdao Shuiqingmuhua has the rights to pre-sell portions of the property based on the Pre-sale Permits mentioned in note 5.
12. A summary of major certificates/approvals is shown as follows:
- | | | |
|----|--|---------|
| a. | State-owned Land Use Rights Grant Contract | Yes |
| b. | Real Estate Title Certificate (for land) | Yes |
| c. | Construction Work Planning Permit | Yes |
| d. | Construction Work Commencement Permit | Yes |
| e. | Pre-sale Permit | Portion |
| f. | Construction Work Completion and Inspection Certificate/Table/Report | N/A |
| g. | Real Estate Title Certificate (for building) | N/A |
13. For the purpose of this report, the property is classified in Group I according to the purpose for which it is held, we are of the opinion that the market value of such group as at the valuation date in its existing state is set out as below:

Group	Market value in existing state as at the valuation date (RMB)
Group I - Held under development by the Target Group	522,000,000

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date RMB
3.	Project Zhongchang Valley (青島中昌數創智 慧谷) located at the western side of Baiguoshuhe Road and the southern side of Qianwangang Road Huangdao District Qingdao City Shandong Province The PRC	<p>Project Zhongchang Valley is located at the junction of Baiguoshuhe Road and Qianwangang Road of Huangdao District where there are some residential developments nearby. The locality is well served by public transportation network and supporting facilities.</p> <p>The property occupies 2 parcels of land with a total site area of approximately 118,236 sq.m., and will be developed into an office park including business offices and industrial offices. It is currently under construction and scheduled to be completed in May 2023.</p> <p>The property has a planned gross floor area (“GFA”) of approximately 237,670.75 sq.m., details of which are set out in note 6.</p> <p>As advised by the Company and Qingdao Shuiqingmuhua, the total construction cost of the property is estimated to be approximately RMB1,015,000,000, of which approximately RMB82,000,000 had been incurred up to the valuation date.</p> <p>The land use rights of the property have been granted for terms expiring on 14 May 2059 for commercial and financial uses and 14 May 2069 for science and research uses.</p>	As at the valuation date, the property was under construction.	410,000,000

Notes:

1. Pursuant to 3 State-owned Land Use Rights Grant Contracts dated 29 April 2019 and 18 December 2019, the land use rights of 3 parcels of land with a total site area of approximately 118,236 sq.m. were contracted to be granted to Qingdao Shuiqingmuhua for terms of 40 years for commercial and financial uses and 50 years for science and research uses. The plot ratio of the property is 1.5. The total land consideration was RMB212,542,302. As advised by the Company and Qingdao Shuiqingmuhua, the land consideration has been fully paid.
2. Pursuant to 2 Real Estate Title Certificates (for land) – Lu (2020) Qing Dao Shi Huang Dao Qu Bu Dong Chan Quan Di Nos. 0120298 and 0120299, the land use rights of 2 parcels of land with a total site area of approximately 118,236 sq.m. have been granted to Qingdao Shuiqingmuhua for terms expiring on 14 May 2059 for commercial and financial uses and 14 May 2069 for science and research uses.
3. Pursuant to a Construction Work Planning Permit – Jian Zi Di No. 370200202017192 in favour of Qingdao Shuiqingmuhua, the property with a total planned GFA of approximately 237,670.75 sq.m. has been approved for construction.
4. We have not been provided with the Construction Work Commencement Permit of the property.
5. Pursuant to a mortgage contract dated 20 March 2020 entered into between China Orient Asset Management Co., LTD. Shanghai Branch and Qingdao Shuiqingmuhua, the land use rights of this property and property no. 2 with a total site area of approximately 174,368 sq.m. were subject to a mortgage for a total loan amount of RMB481,241,000 expiring on 19 March 2023.
6. According to the information provided by the Company and Qingdao Shuiqingmuhua, the planned GFA of the property is set out as below:

Usage	Planned GFA (sq.m.)	No. of Car Parking Space
Industrial office	114,579.53	
Business office	61,581.98	
Underground car parking space	57,818.50	999
Ancillary	3,690.74	
Total:	237,670.75	999

7. Our valuation has been made on the following basis and analysis:
 - a. we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB9,000 to RMB12,000 per sq.m. for business office units, RMB8,000 to RMB10,000 per sq.m. for industrial office units and RMB140,000 to RMB180,000 per space for car parking spaces. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at the assumed unit rate for the property; and
 - b. we have also made reference to sales prices of land within the locality which have the similar characteristics as to the property. The accommodation value of these comparable land sites ranges from about RMB1,300 to RMB1,900 per sq.m. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at our assumed accommodation value.
8. The market value of the property as if completed as at the valuation date, according to the development proposal as described above and which can be freely transferred in the market, would be RMB1,549,000,000.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:
- Qingdao Shuiqingmuhua has legally obtained the land use rights of the property. Qingdao Shuiqingmuhua is entitled to occupy and use the land parcels of the property, and upon consent from the mortgagee to transfer, lease, re-mortgage or otherwise dispose of the land use rights of the property;
 - Qingdao Shuiqingmuhua might be subject to penalty for starting construction without Construction Work Commencement Permit; and
 - except for Construction Work Commencement Permit mentioned above, Qingdao Shuiqingmuhua has obtained the requisite approvals in respect of the actual development stage.
10. A summary of major certificates/approvals is shown as follows:
- | | | |
|----|--|-----|
| a. | State-owned Land Use Rights Grant Contract | Yes |
| b. | Real Estate Title Certificate (for land) | Yes |
| c. | Construction Work Planning Permit | Yes |
| d. | Construction Work Commencement Permit | No |
| e. | Pre-sale Permit | N/A |
| f. | Construction Work Completion and Inspection Certificate/Table/Report | N/A |
| g. | Real Estate Title Certificate (for building) | N/A |
11. For the purpose of this report, the property is classified in Group I according to the purpose for which it is held, we are of the opinion that the market value of such group as at the valuation date in its existing state is set out as below:

Group	Market value in existing state as at the valuation date (RMB)
Group I - Held under development by the Target Group	410,000,000

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date RMB
4.	Project Jiayuan Twin City (佳源雙子星城) located at the northern side of Nanling San Road and the Western side of Chongqing Zhong Road Licang District Qingdao City Shandong Province The PRC	<p>Project Jiayuan Twin City is located at the junction of Nanling San Road and Chongqing Zhong Road of Licang District where there are some residential developments nearby. Besides, the public transportation network and supporting facilities are under further improvement.</p> <p>The property occupies 5 parcels of land with a total site area of approximately 168,827.60 sq.m. and will be developed into a residential, retail and office complex in two phases. Phase I is currently under construction and scheduled to be completed in May 2023, and the construction works of Phase II had not been commenced as at the valuation date.</p> <p>Phase I of the property has a planned gross floor area (“GFA”) of approximately 203,734.74 sq.m., details of which are set out in note 9. The plot ratio accountable GFA of Phase II of the property is 217,228 sq.m.</p> <p>As advised by the Company and Zhongwei Qingdao, the total construction cost of Phase I is estimated to be approximately RMB773,000,000, of which approximately RMB218,000,000 had been incurred up to the valuation date.</p> <p>The land use rights of the property have been granted for terms expiring on 30 May 2090 for residential use and 30 May 2060 for commercial and financial uses.</p>	As at the valuation date, Phase I was under construction, while Phase II was bare land for future development.	1,567,000,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract dated 24 March 2020, the land use rights of a parcel of land with a site area of approximately 60,213.60 sq.m. (on which Phase I of the property is located) were contracted to be granted to Zhongwei Qingdao for terms of 70 years for residential use and 40 years for commercial and financial uses. The plot ratio of Phase I of the property is 2.5. The total land consideration was RMB1,219,325,400. As advised by the Company and Zhongwei Qingdao, the land consideration has been fully paid.
2. Pursuant to 4 Real Estate Title Certificates (for land) – Lu (2020) Qing Dao Shi Bu Dong Chan Quan Di Nos. 0033509, 0033510, 0033513 and 0033515, the land use rights of 4 parcels of land with a total site area of approximately 60,213.60 sq.m. (on which Phase I of the property is located) have been granted to Zhongwei Qingdao for terms expiring on 30 May 2090 for residential use and 30 May 2060 for commercial and financial uses.
3. Pursuant to a State-owned Land Use Rights Grant Contract dated 3 April 2020, the land use rights of another parcel of land with a site area of approximately 108,614 sq.m. (on which Phase II of the property is located) were contracted to be granted to Zhongwei Qingdao for terms of 70 years for residential use and 40 years for commercial and financial uses. The plot ratio of Phase II of the property is 2. The total land consideration was RMB1,927,528,000. As advised by Zhongwei Qingdao, the land consideration has not been fully paid.
4. As advised by Zhongwei Qingdao, the title certificate for the parcel of land with a site area of approximately 108,614 sq.m. (on which Phase II of the property is located) had not been obtained.
5. Pursuant to 2 Construction Work Planning Permits – Jian Zi Di Nos. 370200202013046 and 370200202013047 in favour of Zhongwei Qingdao, Phase I of Project Jiayuan Twin City with a total planned GFA of approximately 203,734.74 sq.m. has been approved for construction.
6. Pursuant to 2 Construction Work Commencement Permits – Nos. 370200202007240101 and 370200202007240201 in favour of Zhongwei Qingdao, permission by the relevant local authority was given to commence the construction of Phase I of Project Jiayuan Twin City with a total planned GFA of approximately 203,734.74 sq.m.
7. Pursuant to a Pre-sale Permit – Qing Fang Zhu Zi 2020 Di No. 070, Zhongwei Qingdao is entitled to sell portions of Phase I of Project Jiayuan Twin City (representing a total GFA of approximately 38,656.18 sq.m.) to purchasers.
8. Pursuant to a mortgage contract dated 28 July 2020 entered into between Rural Commercial Bank of Shandong and Zhongwei Qingdao, the land use rights of Phase I of the property with a site area of approximately 60,213.60 sq.m. were subject to a mortgage for a loan amount of RMB900,000,000 expiring on 27 July 2023.
9. According to the information provided by the Company and Zhongwei Qingdao, the planned GFA of Phase I of the property is set out as below:

Part	Usage	Planned GFA (sq.m.)	No. of Car Parking Space
Phase I	Residential	86,391.76	
	Retail	19,569.95	
	Office	40,640.69	
	Ancillary	3,932.00	
	Underground Car parking space	53,200.34	1,699
Total:		203,734.74	1,699

10. As advised by Zhongwei Qingdao, various residential units with a total GFA of approximately 20,297.71 sq.m. of Phase I of the property have been pre-sold to various third parties at a total consideration of RMB387,117,116. Such portions of the property have not been legally and virtually transferred and therefore we have included the units in our valuation. In arriving at our opinion on the market value of the property, we have taken into account the contracted prices of such portions of the property.
11. Our valuation has been made on the following basis and analysis:
 - a. we have identified and analyzed various relevant sales evidence in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB17,000 to RMB21,000 per sq.m. with free car parking space for residential units, RMB25,000 to RMB33,000 per sq.m. for ground floor retail units, and RMB12,000 to RMB19,000 per sq.m. for office units. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at the assumed unit rate for the property; and
 - b. we have also made reference to sales prices of land within the locality which have the similar characteristics as to the property. The accommodation value of these comparable land sites ranges from about RMB8,000 to RMB10,000 per sq.m. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at our assumed accommodation value.
12. The market value of Phase I of the property as if completed as at the valuation date, according to the development proposal as described above and which can be freely transferred in the market, would be RMB2,615,000,000.
13. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:
 - a. Zhongwei Qingdao has legally obtained the land use rights of Phase I of the property. Zhongwei Qingdao is entitled to occupy and use the land parcels of Phase I of the property, and upon consent from the mortgagee to transfer, lease, re-mortgage or otherwise dispose of the land use rights of Phase I of the property;
 - b. Zhongwei Qingdao has obtained the requisite approvals for Phase I of the property in respect of the actual development stage;
 - c. Zhongwei Qingdao has the rights to pre-sell portions of the property based on the Pre-sale Permit mentioned in note 7; and
 - d. As the land consideration of Phase II of the property has not been fully paid and the construction of Phase II of the property is delayed on schedule, Zhongwei Qingdao has the risk of being charged liquidated damages by the relevant government authorities.
14. In the valuation of this property, we have relied on the aforesaid legal opinion and attributed no commercial value to Phase II of the property as the title certificate of Phase II had not been obtained. However, for reference purpose, we are of the opinion that the market value of Phase II of the property on clear and vacant site status as at the valuation date would be RMB1,987,000,000 assuming all relevant title certificate has been obtained and Phase II of the property could be freely transferred as a clear and vacant site.

15. A summary of major certificates/approvals is shown as follows:

a.	State-owned Land Use Rights Grant Contract	Yes
b.	Real Estate Title Certificate (for land)	Portion
c.	Construction Work Planning Permit	Portion
d.	Construction Work Commencement Permit	Portion
e.	Pre-sale Permit	Portion
f.	Construction Work Completion and Inspection Certificate/Table/Report	N/A
g.	Real Estate Title Certificate (for building)	N/A

16. For the purpose of this report, the property is classified into the following groups according to the purpose for which it is held, we are of the opinion that the market value of each group as at the valuation date in its existing state is set out as below:

Group	Market value in existing state as at the valuation date (RMB)
Group I - Held under development by the Target Group	1,567,000,000
Group III - Contracted to be acquired by the Target Group	No Commercial Value ⁽¹⁾
	<hr/>
Total:	1,567,000,000
	<hr/> <hr/>

⁽¹⁾ please refer to note 14

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date RMB
5.	A parcel of land located at the western side of Qingdao Road and the northern side of Zhuhai Road Huancui District Weihai City Shandong Province The PRC	<p>The property is located at the Economic and Technological Development Zone of Weihai City. The locality is well served by public transportation network and supporting facilities.</p> <p>The property comprises a parcel of land with a site area of approximately 16,300 sq.m. The property was bare land as at the valuation date and we are advised that the construction work was started in December 2020.</p> <p>The property has a planned gross floor area (“GFA”) of approximately 35,511.10 sq.m., details of which are set out in note 5.</p> <p>The land use rights of the property have been granted for terms expiring on 17 September 2090 for residential use, 17 September 2060 for commercial use and 17 September 2070 for public facilities use.</p>	As at the valuation date, the property was bare land for future development.	136,000,000

Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract dated 18 September 2020, the land use rights of a parcel of land with a site area of approximately 16,300 sq.m. were contracted to be granted to Weihai Xiangyuan for terms of 70 years for residential use, 40 years for commercial use and 50 years for public facilities use. The plot ratio of the property is 1.5. The total land consideration was RMB130,132,500. As advised by the Company and Weihai Xiangyuan, the land consideration has been fully paid.
- Pursuant to a Real Estate Title Certificate (for land) dated 23 December 2020 – Lu (2020) Wei Hai Shi Bu Dong Chan Quan Di No. 0081989, the land use rights of a parcel of land with a site area of approximately 16,300 sq.m. have been granted to Weihai Xiangyuan for terms expiring on 17 September 2090 for residential use, 17 September 2060 for commercial use and 17 September 2070 for public facilities use.
- Pursuant to a Construction Work Planning Permit dated 8 December 2020 – Jian Zi Di No. 3710012020 (Jing) 042 in favour of Weihai Xiangyuan, the property with a planned GFA of approximately 35,511.10 sq.m. has been approved for construction.
- Pursuant to a Construction Work Commencement Permit dated 23 December 2020 – No. 371007202012230101 in favour of Weihai Xiangyuan, permission by the relevant local authority was given to commence the construction of the property with a planned GFA of approximately 35,511.10 sq.m.

5. According to the information provided by the Company and Weihai Xiangyuan, the planned GFA of the property is set out as below:

Usage	Planned GFA (sq.m.)	No. of Car Parking Space
Residential	24,098.67	
Ancillary	721.66	
Underground Car parking space	10,690.77	218
Total:	35,511.10	218

6. In our valuation, we have made reference to sales prices of land within the locality which have the similar characteristics as to the property. The accommodation value of these comparable land sites ranges from about RMB4,500 to RMB6,600 per sq.m. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at our assumed accommodation value.

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisors, which contains, inter alia, the following:

- a. Weihai Xiangyuan has legally obtained the land use rights of the property, and is entitled to occupy, use, lease, transfer or otherwise dispose of the land use rights of the property; and
- b. Weihai Xiangyuan has obtained the requisite approvals in respect of the actual development stage.

8. A summary of major certificates/approvals is shown as follows:

a.	State-owned Land Use Rights Grant Contract	Yes
b.	Real Estate Title Certificate (for land)	Yes
c.	Construction Work Planning Permit	Yes
d.	Construction Work Commencement Permit	Yes
e.	Pre-sale Permit	N/A
f.	Construction Work Completion and Inspection Certificate/Table/Report	N/A
g.	Real Estate Title Certificate (for building)	N/A

9. For the purpose of this report, the property is classified in Group II according to the purpose for which it is held, we are of the opinion that the market value of such group as at the valuation date in its existing state is set out as below:

Group	Market value in existing state as at the valuation date (RMB)
Group II - held for future development by the Target Group	136,000,000

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 authorised and issued share capital of the Company (i) as at the Latest Practicable Date; and (ii) 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:

(i) 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>4,055,734,623</u>	Shares of HK\$0.01 each	<u>40,557,346.23</u>

(ii) 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>4,055,734,623</u>	Shares of HK\$0.01 each	<u>40,557,346.23</u>
840,000,000	Consideration Shares to be allotted and issued	8,400,000.00
<u><u>4,895,734,623</u></u>	Total	<u><u>48,957,346.23</u></u>

- (iii) **Immediately after the allotment and issue of the Consideration Shares and the Conversion Shares upon the exercise in full of the conversion rights attached to the Convertible Bonds (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>		
4,055,734,623	Shares of HK\$0.01 each	40,557,346.23
840,000,000	Consideration Shares to be allotted and issued	8,400,000.00
1,036,557,575	Conversion Shares to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Bonds in full	10,365,575.75
<u>5,932,292,198</u>	Total	<u>59,322,921.98</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 and the Conversion 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 and the Conversion 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 the Conversion 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:

(i) 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	2,756,308,418 ⁽²⁾ (L)	67.96%
	Beneficial owner	912,001,718 ⁽³⁾ (L)	22.49%
	Interest of a controlled corporation	410,000,000 ⁽⁴⁾ (S)	10.11%

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 2,756,308,418 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.
- The disclosed interest represents interest in (a) 840,000,000 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) 72,001,718 shares wholly owned by Mr. Shum as a beneficial owner.
- On 31 December 2019, Mingyuan Investment entered into a share mortgage agreement with CCB International Overseas Limited, pursuant to which, Mingyuan Investment agreed to pledge 500,000,000 shares of the Company held by it in favour of CCB International Overseas Limited as one of the collaterals for a loan issued to the Company. On 31 December 2020, Mingyuan Investment entered into a release agreement with CCB International Overseas Limited, pursuant to which, CCB International Overseas Limited agreed to discharge and release 90,000,000 shares out of the 500,000,000 pledged shares in favour of CCB International Overseas Limited as one of the collaterals for a loan issued to the Company.

5. The percentage shareholding in the Company is calculated on the basis of 4,055,734,623 Shares in issue as at the Latest Practicable Date.

(ii) Interest in shares of Mingyuan Investment

Name of Director	Nature of interest	Total number of Shares ⁽¹⁾	Approximate percentage of total shareholding
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.

(iii) 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.

4. 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).

5. DIRECTORS’ INTERESTS IN CONTRACTS 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.

6. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, save for 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 2019, being the date to which the latest published audited accounts of the Company were made up.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

- (i) an indenture dated 2 May 2019 entered into among the Company as the issuer, Mr. Shum, Jiayuan Investment Management Limited, Guo Xiang Property Co., Limited and Hong Kong Jia Yuan Holdings Limited, all being wholly-owned subsidiaries of the Company as the guarantors, for the issue of the US\$225,000,000 aggregate principal amount of the Company's 11.375% senior secured notes due in 2022;
- (ii) the sale and purchase agreement dated 26 April 2019 entered into between the Company as the purchaser and Mr. Shum as the vendor, pursuant to which the Company has conditionally agreed to acquire and Mr. Shum has conditionally agreed to sell the entire issued share capital of Huiyuan Investment Holdings Limited (徽源投資控股有限公司) at an initial consideration of RMB4,055,891,237, details of which are set out in the announcement of the Company dated 26 April 2019 and the circular of the Company dated 25 June 2019;
- (iii) the supplemental agreement to the sale and purchase agreement dated 24 June 2019 entered into between the Company and Mr. Shum to make certain amendments to the sale and purchase agreement, including but not limited to, the Initial Consideration has been adjusted and resulting in an increase to RMB4,155,168,787 (equivalent to HK\$4,840,771,637) from RMB4,055,891,237 (equivalent to HK\$4,725,113,291) and increase the number of consideration shares to 1,377,959,475 from 1,345,036,518;
- (iv) the Sale and Purchase Agreement; and
- (v) the Supplemental Agreement.

* For identification purpose only

8. 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.

9. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Shum is the non-executive Director and the Chairman of the Company, as well as the ultimate beneficial 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.

Further, Mr. Shum is fully aware of, and has been discharging, his fiduciary duties to the Company and has acted and will continue to act in the best interests 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.

10. 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
Maxa 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
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountant Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent valuer
Jingtian & Gongcheng	PRC legal advisor

- (i) 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.
- (ii) 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 2019 (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.
- (iii) 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.
- (iv) 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.

11. GENERAL

- (i) Unless otherwise stated, the English text of this circular shall prevail over the Chinese text in case of inconsistency.
- (ii) The joint company secretaries of the Company are Ms. Cheuk Hiu Nam (“**Ms. Cheuk**”) and Ms. Lau Yee Wa (“**Ms. Lau**”). Ms. Cheuk graduated from Pace University (New York) and obtained a master’s degree of science in June 2001. She graduated from University of London and obtained a master’s degree of science in December 1997. Previously, she graduated from The Chinese University of Hong Kong and obtained a bachelor’s degree in Business Administration in May 1995. Ms. Lau holds a bachelor’s degree in business administrative management from University of South Australia and has over 20 years of experience in the corporate secretarial field and has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Lau is a Chartered Secretary, a Chartered Governance Professional and an Associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (iii) The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (iv) The principal place of business of the Company in the PRC is situated at No. 59, Gu Jia Ying Road, Xuanwu District, Nanjing, PRC.
- (v) The headquarters is situated at Room 1403, 9 Queen’s Road Central, Hong Kong.

- (vi) 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.
- (vii) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

12. 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 memorandum and articles of association of the Company;
- (ii) the annual reports of the Company for the two years ended 31 December 2018 and 2019 and the interim report of the Company for the six months ended 30 June 2020;
- (iii) the letter from the Board, the text of which is set out in the section headed "*Letter from the Board*" of this circular;
- (iv) 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;
- (v) the letter from the Independent Financial Adviser, the text of which is set out in the section headed "*Letter from Maxa Capital*" of this circular;
- (vi) the Accountant's Report on the Combined Group and Lingshihuaifu, the text of which is set out in the Appendix II A and IIB to this circular respectively;
- (vii) 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;
- (viii) the valuation report on the market value of the property interests of the Target Company as at 30 November 2020 prepared by JLL, the text of which is set out in Appendix IV to this circular;
- (ix) the material contracts referred to in the paragraph headed "*Material Contracts*" in this Appendix;
- (x) the written consents referred to in the paragraph headed "*Experts and Consents*" in this Appendix; and
- (xi) 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 Room 1403, 9 Queen’s Road Central, Hong Kong on Friday, 16 April 2021 at 10:00 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 26 February 2021 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 (as subsequently amended and supplemented by the Supplemental 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 issuance of the Convertible Bonds (as defined in the Circular) by the Company of up to an aggregate principal amount of HK\$3,420,640,000 pursuant to the terms of the Sale and Purchase Agreement (as subsequently amended and supplemented by the Supplemental Agreement) be and is hereby approved;
- (C) the grant of the Specific Mandate for the allotment and issue of the 840,000,000 Consideration Shares and such number of Shares as may be required to be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds, subject to the terms and conditions set out in the Circular be and is hereby approved; and
- (D) 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 (as subsequently amended and supplemented by the Supplemental 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, 26 February 2021

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 54, 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 10:00 a.m. on Wednesday, 14 April 2021) 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, 12 April 2021. 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 12 April 2021.
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 Board comprises: (i) Mr. Shum Tin Ching, the Chairman and a Non-executive Director; (ii) Mr. Zhang Yi, a Vice Chairman and an Executive Director; (iii) Mr. Huang Fuqing, a Vice Chairman and an Executive Director; (iv) Ms. Cheuk Hiu Nam, an Executive Director; (v) Mr. Wang Jianfeng, an Executive Director; (vi) Mr. Tai Kwok Leung, Alexander, an Independent Non-executive Director; (vii) Dr. Cheung Wai Bun, Charles, JP, an Independent Non-executive Director; (viii) Mr. Gu Yunchang, an Independent Non-executive Director; and (ix) Mr. Shen Xiaodong, a Non-executive Director.