**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in Huajun Holdings Limited (the "Company"), you should at once hand this circular to the purchaser or transferee, or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



**HUAJUN HOLDINGS LIMITED**
**華君控股有限公司***
*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 377)**

# MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET EQUITY INTEREST OF THE TARGET COMPANY

* *For identification purpose only*

14 August 2015

# CONTENTS

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

| | |
|---|---|
| "Acquisition" | the acquisition in relation to the Target Equity Interest of the Target Company pursuant to the terms and conditions of the Sale and Purchase Agreement; |
| "Beijing Hengyu" | Beijing Hengyu Jinxin Investment Development Co., Ltd* (北京恒昱金鑫投資發展有限公司), a limited liability company established in the PRC; |
| "Board" | the board of Directors; |
| "Business Days" | a day (other than a Saturday or a Sunday at any time between 9:00 a.m. to 5:00 p.m.) on which licensed banks in the PRC are open for general banking business throughout their normal business hours; |
| "Company" | Huajun Holdings Limited (Stock Code: 377), a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange; |
| "Completion" | the completion of the Acquisition pursuant to the terms and conditions of the Sale and Purchase Agreement; |
| "Completion Date" | 5 Business Days immediately following the date that the completion of the Registration, subject to all of the Conditions having been satisfied or waived (if applicable) but not later than the Conditions Fulfillment Date; |
| "Condition(s)" | the conditions precedent of the Completion, details of which are set out in the sub-heading of the "Conditions Precedent" in the letter from the board of this circular; |
| "Conditions Fulfillment Date" | 31 December 2015 or such later date as the parties to the Sale and Purchase Agreement may agree in writing; |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules; |

| | |
|---|---|
| "Consideration" | the consideration payable by the Purchaser to the Vendor for the Target Equity Interest of the Target Company, being RMB60 million (equivalent to approximately HK$75 million); |
| "Convertible Bonds" | convertible bonds of an aggregate principal amount of HK$500 million issued by the Company on 11 June 2015. The details of the issuance of the Convertible Bonds are disclosed in the circular of the Company dated 7 May 2015; |
| "Director(s)" | the director(s) of the Company; |
| "Enlarged Group" | the Group as enlarged by the Acquisition; |
| "Group" | the Company and its subsidiaries; |
| "Harbin Hezhong" | Harbin He Zhong Hui Li Economic and Trading Co., Ltd* (哈爾濱合眾匯利經貿有限公司), a limited liability company established in the PRC; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC; |
| "Huajun International" | Huajun International Limited, a company incorporated in the British Virgin Islands, a substantial shareholder of the Company, which was wholly-owned by Mr. Meng, chairman of the Board and an executive Director. Mr. Meng was the sole director of Huajun International Limited; |
| "Independent Third Party(ies)" | the independent third party who is, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, independent of and not connected with the Company and the connected person(s) (as defined in the Listing Rules) of the Company; |
| "Land Property" | the land parcels in Dalian City, Liaoning Province, the PRC of 1,575,300 square meters under the land consolidation carried out by Lugang Logistics; |
| "Latest Practicable Date" | 12 August 2015, being the latest practicable date before the printing of this circular for the purpose of ascertaining the information contained in this circular； |

| | |
|---|---|
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange; |
| "Lugang Logistics" | Dalian Lugang Logistics Company Limited* (大連陸港物流基地有限公司), a limited liability company established in the PRC; |
| "Mr. Guo" | Mr. Guo Song (郭頌), the deputy chief executive officer and an executive Director of the Company; |
| "Mr. Meng" | Mr. Meng Guang Bao (孟廣寶), the chairman, an executive Director and a substantial shareholder of the Company; |
| "Mr. Wu" | Mr. Wu Jiwei (吳繼偉), the chief executive officer and an executive Director of the Company; |
| "PRC" | the People's Republic of China and for the sole purpose of this circular shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan; |
| "Purchaser" | B&H Properties Management (China) Limited* (保華置業管理(中國)有限公司), an indirect wholly-owned subsidiary of the Company; |
| "Sale and Purchase Agreement" | the conditional sale and purchase agreement dated 12 June 2015, including its amendments or replacement, entered into between the Vendor and the Purchaser in relation to the Acquisition; |
| "SFO" | Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong); |
| "SGM" | the special general meeting of the Company, to be held if necessary, to consider and approve the Acquisition; |
| "Shareholder(s)" | the holder(s) of share(s) of the Company; |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |

| | |
|---|---|
| "Target Company" | Dalian Bao Xing Da Industrial Co., Ltd.* (大連保興達實業有限公司), a limited liability company established in the PRC; |
| "Target Equity Interest" | the 60% equity interest in the Target Company; |
| "Target Group" | the Target Company and its subsidiary, namely Lugang Logistics; |
| "Vendor" | Mr. Zhang Yu* (張玉), who is a PRC citizen; |
| "%" | per cent; |
| "HK$" | Hong Kong Dollar, the lawful currency of Hong Kong; |
| "RMB" | Renminbi, the lawful currency of the PRC: and |
| "US$" | United States Dollar, the lawful currency of the United States. |

* *For identification purposes only*

*For the purposes of illustration only, any amount denominated in RMB and US$ in this circular was translated into HK$ at the rate of RMB1 = HK$1.25 and the rate of US$1 = HK$7.78 respectively. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be, converted at any particular rate at all.*

*If there is any inconsistency in this circular between the Chinese and English versions, the English version shall prevail.*

**HUAJUN HOLDINGS LIMITED**
**華君控股有限公司***
*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 377)**

*Executive Directors:*
Mr. Meng Guang Bao *(Chairman)*
Mr. Wu Jiwei *(Chief Executive Officer)*
Mr. Guo Song *(Deputy Chief Executive Officer)*

*Independent Non-Executive Directors:*
Mr. Zheng Bailin
Mr. Shen Ruolei
Mr. Pun Chi Ping

*Registered office:*
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

*Head office and principal place of business in Hong Kong:*
36/F, Citibank Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

14 August 2015

*To the Shareholders and for information only,*

Dear Sir/Madam,

## MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF THE TARGET EQUITY INTEREST OF THE TARGET COMPANY

### INTRODUCTION

Reference is made to the announcement of the Company dated 12 June 2015 in relation to the acquisition of the Target Equity Interest of the Target Company by the Group.

On 12 June 2015 (after trading hours of the Stock Exchange), the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Target Equity Interest of the Target Company at a total consideration of RMB60 million (equivalent to approximately HK$75 million) in cash.

* *For identification purpose only*

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) the financial information of the Target Group; and (iii) other general information of the Company.

**SALE AND PURCHASE AGREEMENT**

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

| | |
|---|---|
| **Date:** | 12 June 2015 |
| **Parties:** | |
| **Purchaser:** | B&H Properties Management (China) Limited* (保華置業管理(中國)有限公司), as the Purchaser |
| **Vendor:** | Mr. Zhang Yu* (張玉), as the Vendor |

As at the date of this circular, the Purchaser is an indirect wholly-owned subsidiary of the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor is an Independent Third Party.

**Assets to be acquired**

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Target Equity Interest of the Target Company.

**Consideration**

The Consideration of the Acquisition is RMB60 million (equivalent to approximately HK$75 million) in cash, which is payable on the Completion Date.

The Consideration was arrived at after arm's length negotiations between the Purchaser and the Vendor taking into account (i) the registered capital of the Target Company; (ii) the consolidated net asset value of the Target Company; (iii) the preliminary valuation of the Land Property of approximately RMB1,900 million (equivalent to approximately HK$2,375 million) using market approach as at 30 June 2015.

About RMB59.76 million (equivalent to approximately HK$74.7 million) out of the Consideration will be financed by the net proceeds from the issuance of Convertible Bonds as stated in the circular by the Company dated 7 May 2015. The remaining about RMB0.24 million (equivalent to approximately HK$0.3 million) of the Consideration will be funded by internal resources of the Company.

Based on the aforesaid, the Directors (including the independent non-executive Directors) are of the view that the Consideration is fair and reasonable and on normal commercial terms and that entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

**Conditions Precedent**

Completion of the Acquisition is conditional upon the fulfillment (or waiver, where applicable) of the following Conditions on or before the Conditions Fulfillment Date:

(a) the Vendor is the legal and beneficial owner of the Target Equity Interest, and the Target Equity Interest is not subject to any encumbrances and third parties' rights;

(b) the Company having obtained the Shareholders' approval in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder at the SGM or having obtained the relevant waiver from the Stock Exchange;

(c) the Purchaser having been satisfied with the result of the due diligence review of the Target Group (including but not limited to the review on the indebtedness of the Target Group);

(d) the Purchaser having received (and be satisfied with) the documents proving that the Target Company is the sole legal and beneficial owner of the entire equity interest of Lugang Logistics;

(e) the Purchaser having received (and be satisfied with) the documents proving that the Target Equity Interest has been transferred to the Purchaser and/or its nominee in accordance with the applicable laws and the said documents having been registered (and be satisfied by the Purchaser and the PRC legal adviser of the Purchaser) with the relevant Administration of Industry and Commerce Bureau* (工商行政管理局);

(f) the Purchaser having received (and be satisfied with) the documents proving that the respective directors, shareholders and legal representatives of Target Group have been duly changed according to the applicable laws and the said documents having been registered (and be satisfied by the Purchaser and the PRC legal adviser of the Purchaser) with the relevant Administration of Industry and Commerce Bureau* (工商行政管理局);

(g) the management of Target Group shall not have done any act which may have negative impact on the businesses, assets, properties, financial conditions, operations and future prospects of the Target Group on or prior to Completion; and all warranties shall be accurate and true in all respects as at the Completion Date;

(h) the Purchaser having obtained all necessary third party consents, approvals, authorisations, waivers, permission and certifications in relation to the transactions contemplated under the Sale and Purchase Agreement and other relevant matters; and

(i) the representations, warranties and undertakings given by the Vendor (the "**Warranties**") having remained true, accurate and not misleading in all material respects and there having been no breach of any of the Warranties in any respect by the Vendor.

Save for Conditions (a) and (b), the Purchaser, based on the rights as provided in the Agreement, shall have the right to waive any of the other Conditions at its discretion. However, the Company as at the Latest Practicable Date does not have any intention to waive any of the conditions namely, conditions (c), (e) to (i). If any of the Conditions have not been fulfilled or waived (as the case may be) by the Conditions Fulfillment Date, the Sale and Purchase Agreement shall lapse and have no further effect. The Vendor shall refund all amounts (if any) previously received from the Purchaser without interest to the Purchaser forthwith. Upon the due receipt of the said payment by the Purchaser, none of the parties shall make any claims against the other party pursuant to the terms and conditions of the Sale and Purchase Agreement. As at the Latest Practicable Date, conditions (a), (b) and (d) have been completed whereas conditions (e), (f), (g) and (i) shall be completed on Completion Date.

**Registration and Completion**

Pursuant to the Sale and Purchase Agreement, the Vendor shall conduct and complete any registrations (the "**Registration**") in respect of the change of ownership of the Target Equity Interest to the Purchaser within 30 Business Days immediately after signing of the Sale and Purchase Agreement.

Completion of the Acquisition shall take place within 5 Business Days immediately following the completion of the Registration, subject to all of the Conditions having been satisfied (or waived, as the case may be) on or before the Conditions Fulfillment Date.

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

**INFORMATION OF THE VENDOR AND TARGET COMPANY**

As advised by the Vendor, the Vendor, Mr. Zhang Yu* (張玉), is a businessman and a citizen in the PRC.

The Target Company is a limited company established in the PRC on 2 April 2015 with a registered share capital of RMB100 million (equivalent to approximately HK$125 million) which has not yet been paid up by its shareholders. The equity interest of the Target Company is owned as to 70%, 10% and 20% by the Vendor, Harbin Hezhong and Beijing Hengyu respectively. The principal activity of the Target Company is investment holding. In April 2015, the Target Company has acquired the entire equity interests of Lugang Logistics and Lugang Logistics has become a wholly-owned subsidiary of the Target Company since then.

Harbin Hezhong is a substantial shareholder of Yingkou Wanhe Industrial Co. Ltd* (營口萬合實業有限公司) and Shenzhen Huajun Financial Leasing Limited* (深圳市華君融資租賃有限公司), which both are indirect non-wholly owned subsidiaries of the Company.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Beijing Hengyu is an Independent Third Party.

Lugang Logistics is a limited company established in the PRC on 7 July 2003 with a registered share capital of RMB440 million (equivalent to approximately HK$550 million) which has been fully paid by its shareholders. Lugang Logistics is principally engaged in land consolidation, parking services and lease of land.

As informed by the Vendor, land consolidation is a planned readjustment and rearrangement of land parcels, including the liaising with the land users for relocation arrangement and construction of the basic facilities for the acquired land parcels. Lugang Logistics carries out the land consolidation by (i) acquiring the land parcels in Dalian City, Liaoning Province, the PRC from the land users on behalf of the PRC government as principal and (ii) liaising with the land users for their relocation arrangement. Lugang Logistics is also responsible for the basic facilities construction for the acquired land parcels. As informed by the Vendor, the area of the Land Property of Lugang Logistics covers 1,575,300 square meters. Based on the key assumptions set out in note 5 of the Accountant's Report, appendix II to this circular, on the Target Group, the value of the Land Property is estimated to be approximately RMB1,900 million (equivalent to approximately HK$2,375 million) using market approach as at 30 June 2015.

The Land Property is located at Qian Guan Village and Hou Yan Village, Da Lian Wan Town, Gan Jing Zi District, Dalian City, Liaoning Province, the PRC, which comprises parcels of lands with a total site area of 1,575,300 sq.m. (16,956,529 sq.ft.). Portion of the Land Property with total site area of approximately 1,239,000 sq.m. has been planned mainly for residential and commercial uses while the remaining portion has been planned for industrial and storage uses. As advised by the Vendor, the Target Group acquired the Land Property as principal.

To the best knowledge of the Company, the Target Group has not entered or proposed to enter into any agreement, arrangement or understanding in any form with the relevant government in relation to the sale of land. However, to the best knowledge of the Company, the Target Group maintains close working relationship with the relevant departments in the government and communicates regularly regarding the status of the land consolidation in order to facilitate smooth process in the sale of the Land Property to the government upon completion of land consolidation. In the event that such sale to the government did not materialize, the Company will consider the other means of disposal. It is estimated that costs at around RMB488 million will be required for the completion of land consolidation prior to sales of the Land Property to the government. The Directors have taken the estimated amounts into account when assessing the cost of the Acquisition and to their best knowledge consider that the Acquisition will eventually be profitable, taken into account of the Consideration and the said further costs, when the sale of the Land Property occurs in the future.

As advised by the Vendor, except for loan agreement signed with a third party for borrowing of RMB2 billion in relation to the finance of expense incurred for land consolidation. To the best knowledge of the Company, the Target Group has not signed any agreements in relation to its land consolidation business.

The Land Property is expected to be sold to the government by 2016 once the land consolidation is properly completed. The Company is not aware of any outstanding condition precedent. The Company intends to continue the land consolidation business of the Target Group and work towards sale of the Land Property and other lands to the government. The Company believes revenue will be generated once land consolidation is completed and the Land Property is sold to the government, which is expected to be occurred by 2016.

**Key assumptions**

The value of the Land Property was based on several assumptions:

*Fair value and development plan of the land development for sale*

Based on the legal opinion from the PRC legal adviser, the government will acquire the lands from Target Group at the current valuation of the land based on the redevelopment usage, not the valuation based on the current usage of the lands. Such purchase price will be reduced by stipulated fees payable to the government which has included a charge for the change of the land use purposes. The development plan obtained from the government in 2013 is still valid and effective. As at 30 April 2015, all lands are ready to be sold to the government under the pricing mechanism described above.

The fair values of the land development for sale at the date of acquisition of the subsidiary have been arrived at based on the confirmation received from the PRC lawyer on the matters set out above. Accordingly the fair values were calculated based on the expected redevelopment usage of the lands referencing the plot ratios set out by the local government under redevelopment plan advised by the PRC lawyer. Only a nominal fee for change of land use purpose from their current land use right of non-residential and non-commercial land, such as industrial land, to the expected residential and commercial land use and no charge for extending the land use right period has been accounted for in arriving at the fair values of the land development for sale, on the basis of the confirmation from the PRC legal adviser set out above.

*Ownership to land*

As part of the land consolidation, the Target Group entered into sales and purchase agreements with respective land users to purchase the land parcels from them. However, the title of these lands were not yet transferred to the Target Group at the end of the reporting period as it is the plan of the management to arrange the titles' transfer once all the land consolidations were completed. In 2007, one of the land users went into lawsuit with the Lugang Logistics, claiming the sales and purchase agreement signed between them is ineffective. During the year ended 31 December 2014, the court made an adjudication that the sales and purchase agreement signed between this land user and the Lugang Logistics is ineffective and correspondingly the land parcel should be returned to the land user.

Based on the result of lawsuit, the management has assessed whether the same legal exposure of the lawsuit mentioned above exist on remaining land parcels they held and which are recognized as land development for sale and they conclude, based on the legal opinion from a PRC legal adviser, such exposure is remote because:

1. Target Group lost the case mainly due to the ineffective sales and purchase agreement of this standalone case. The PRC legal adviser has reviewed all the sales and purchase agreements on the land parcels and satisfied all of them are effective and provide legitimate ground for Target Group to claim the land titles.

2. There is no pledge or security over all the land use rights or land parcels.

3. There are no other parties who have any rights over the land use rights or land parcels.

4. There are no further involvements of existing owners required to transfer the land use rights or land parcels to the government or other buyers.

5. Some of the original companies holding the land had been deregistered.

6. For other land users, Target Group has maintained an ongoing relationship with them and there have been no dispute on the land title.

Based on such legal opinion, the sole director of Target Company considers that the risk of losing ownership of remaining land is remote.

The Directors consider such assumption is fair and reasonable as the assumption of ownership of the Land Property is supported by legal opinion issued by the Company's PRC legal adviser, Liaoning Huajun Law Firm, and approval of land usage for planned development of the Land Property has been obtained from the government. The Directors rely on the expertise of the valuer on the fair and reasonable of the valuation.

The Directors consider the Consideration, in light with the assumptions set out in note 5 of the Accountant's Report, appendix II to this circular, to be fair and reasonable after taking into account the amount of the registered capital of the Target Company, the consolidated net liabilities position of the Target Group, and potential profit of the land consolidation business based on preliminary valuation of the Land Property.

## FINANCIAL INFORMATION OF THE TARGET GROUP

The audited consolidated financial information of the Target Group for the period from 2 April 2015 (its date of establishment) to 30 April 2015 is summarized as follows:

| | **For the period from 2 April 2015 to 30 April 2015** *(RMB'000)* |
|---|---|
| Net loss before taxation | (328,527) |
| Net loss after taxation | (328,527) |

| | **As at 30 April 2015** *(RMB'000)* |
|---|---|
| Net liabilities | (328,527) |

The audited financial information of Lugang Logistics for the financial years ended 31 December 2013, 2014 and the four months ended 30 April 2015 respectively, are summarized as follows:

| | **For the four months ended 30 April 2015** *(RMB' 000)* | **For the year ended 31 December 2014** *(RMB' 000)* | **For the year ended 31 December 2013** *(RMB' 000)* |
|---|---|---|---|
| Net profit/(loss) before taxation | 41,810 | (197,201) | (114,618) |
| Net profit/(loss) after taxation | 20,140 | (197,201) | (114,618) |

| | **As at 30 April 2015** *(RMB'000)* | **As at 31 December 2014** *(RMB'000)* | **As at 31 December 2013** *(RMB'000)* |
|---|---|---|---|
| Net liabilities | (862,122) | (882,262) | (725,061) |

## REASONS FOR AND BENEFITS OF THE ACQUISITION

The principal business activity of the Company is investment holding. The Group is principally engaged in (i) the sale and manufacture of high quality multi-colour packaging products, carton boxes, books, brochures and other paper products; (ii) provision of finance; (iii) securities investments; (iv) property investments; (v) financial leasing; (vi) trading; and (vii) medical management.

The Company is of the view that land consolidation and lease of land are stable businesses with great potential for profit. As such, the entering into of the Sale and Purchase Agreement will allow the Company to diversify the Group's business portfolio and also provide a new source of income for the Group.

Having considered the above, the Directors believe that entering into of the Sale and Purchase Agreement will provide a great opportunity to the Group to generate a stable long-term investment income, thus potentially greater return for the Shareholders. In this regard, the Company has recruited highly experienced land consolidation and development staff members as senior management team of Lugang Logistics to carry out the business of the Target Group. The Company will continue to retain such staff.

The Directors further believe that entering into of the Sale and Purchase Agreement will not change the nature of the Group's principal business of printing and manufacturing but will diversify the Group's business portfolio. In view of the above, the Directors consider that the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and that entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

**FINANCIAL EFFECTS OF THE ACQUISITION**

Upon Completion, members of the Target Group will become indirect non wholly-owned subsidiaries of the Company. The results, assets and liabilities will be consolidated with those of the Group.

**Net Assets**

Set out in Appendix V to this circular is the unaudited pro forma statement of assets and liabilities of the Enlarged Group which illustrates the financial effects of the Acquisition assuming Completion had taken place on 31 March 2015. Based on the unaudited pro forma financial information of the Enlarged Group, the total assets of the Group would increase approximately 62.1% from approximately HK$3,718.7 million to approximately HK$6,027.0 million and its total liabilities would increase approximately 117.9% from approximately HK$2,371.2 million to approximately HK$5,166.8 million.

**Earnings**

According to the accountants' report on the Target Group as set out in Appendix II to this circular, the Target Group recorded a net loss attributable to owners of the company of approximately RMB328.5 million for the period from 2 April 2015 to 30 April 2015. The Acquisition would lead to a decrease on the Group's earnings if there is any recognition of goodwill impairment.

## RISK FACTORS ASSOCIATED WITH THE LAND CONSOLIDATION

### The Target Group may not have enough fund for land consolidation

Land consolidation is a capital-intensive activity, which may involve a large amount of debt financing. Most of the fund necessary for land consolidation is mainly funded by the Target Group through loans from financial institutions. There is no assurance that the land consolidation will not be imposed any restrictions by any newly amended laws and regulations of the PRC. Any such restrictions may delay the capital recovery time of the Target Group, and the Group may be forced to seek other financing methods to complete the relevant investment project, and thus the cash flow, operation and financial positions could be materially adversely affected. There is no assurance that the Group could be able to raise sufficient funds, or at all, on acceptable terms to meet the financing requirements in the future (especially when the land market is depressed).

### Risks relating to the delivery of land and the progress of demolition and resettlement of the land consolidation

The timing and cost of the delivery of land and the progress of demolition and resettlement works of the land consolidation are affected by a number of factors, which pose risks to the Target Group. As the systems for demolition and resettlement works are becoming more comprehensive, the related works are becoming more difficult to handle and higher costs may be incurred. The risks involved in the possible changes in the progress of demolition and resettlement and thus may affect the operating results of the Target Group and the future earnings of the Group. After the Completion, the Directors will try to ensure the Target Group to allocate more resources to minimize the risk.

### Risk relating to disruption of operations and impairment to progress of land consolidation by natural disasters or bad weather

If there happens any natural disasters or bad weather in Dalian City, Liaoning Province, the PRC, the land consolidation might be interrupted, which may adversely affect the operating results of the Group. This is an unavoidable risk.

## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Acquisition calculated exceed 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

Under Rule 14.44 of the Listing Rules, Shareholders' approval for the Acquisition may be obtained by way of written Shareholders' approval in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting in the event that a general meeting is convened for the approval of the transactions; and (b) written Shareholders' approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at that general meeting to approve the Acquisition.

Since (i) no Shareholder is required to abstain from voting on the resolution to be proposed at the SGM (if necessary) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder; and (ii) on 12 June 2015, the Company received written shareholder's approval, approving the Acquisition from Huajun International, being the Shareholder holding 1,669,061,000 Shares, representing approximately 52.18% of the entire issued share capital of the Company, no general meeting is required to be convened for the approval of the Acquisition pursuant to Rule 14.44 of the Listing Rules.

## ADDITIONAL INFORMATION

Your attention is also drawn to the additional information contained in the appendices to this circular.

By Order of the Board
**Meng Guang Bao**
*Chairman and Executive Director*

## 1. THREE-YEAR AUDITED FINANCIAL INFORMATION

Details of the financial information of the Group for each of the three years ended 31 March 2013, 2014 and 2015 are disclosed in the annual reports of the Company for the financial years ended 31 March 2013 (pages 27 to 93), 31 March 2014 (pages 28 to 99), and 31 March 2015 (pages 27 to 107), respectively, and are incorporated by reference into this circular.

The said annual reports of the Company are available on the Company's website at http://www.huajunholdings.com and the website of the Stock Exchange at www.hkexnews.hk.

## 2. INDEBTEDNESS OF THE GROUP

As at the close of business on 30 June 2015, being the latest practicable date for the purpose of this indebtedness statement, the Group had the following liabilities:

### (a) Borrowings

As at the close of business on 30 June 2015 (being the latest practicable date for the purpose of this indebtedness statement), the Group had outstanding borrowings of approximately HK$2,089.1 million, comprising secured bank borrowings of approximately HK$2,054.2 million, unsecured bank borrowings of approximately HK$5.7 million and unsecured borrowings from immediate holding company of HK$29.2 million.

### (b) Debt securities

As at the close of business on 30 June 2015, the carrying amount of the debt component of the convertible bonds with an aggregate principal value of HK$500.0 million issued by the Company was approximately HK$357.7 million.

### (c) Pledge of assets

As at the close of business on 30 June 2015, the Group's property, plant and equipment, prepaid lease payments, investment properties, finance lease receivables, trade receivables and pledged bank deposits with carrying amounts of approximately HK$178.1 million, HK$16.9 million, HK$633.7 million, HK$437.5 million, HK$32.7 million and HK$1,047.2 million respectively were pledged to secure certain banking and credit facilities of the Group.

### (d) Guarantees

As at the close of business on 30 June 2015, the Company had provided corporate guarantees to the extent of approximately HK$158.3 million to secure general banking facilities granted to its subsidiaries. As at 30 June 2015, the amount drawn against the banking facilities amounted to approximately HK$60.7 million.

Save as aforesaid or otherwise mentioned in this circular, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, the Group did not have any other outstanding indebtedness at the close of business on 30 June 2015 or any loan capital issued and outstanding or agreed to be issued, bank overdrafts or loans, or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

## 3. 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 March 2015, being the date to which the latest audited consolidated financial statements of the Group were made up.

## 4. WORKING CAPITAL

As at the Latest Practicable Date, after due and careful enquiry, the Directors are of the opinion that, after taking into account the Enlarged Group's business prospects, the net assets position of the Enlarged Group, the internal financial resources available to the Enlarged Group in particular, the ample cash and bank balances of the Enlarged Group, the existing banking facilities available to the Group and the Acquisition, the Enlarged Group has sufficient working capital for its present operating requirements, that is for at least the next twelve months from the date of this circular, in the absence of any unforeseeable circumstances.

## 5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group will remain its focus in its seven core business segments, namely (i) the sale and manufacture of high quality multi-color packaging products, carton boxes, books, brochures and other paper products; (ii) provision of finance; (iii) securities investments; (iv) property investments; (v) financial leasing; (vi) trading; and (vii) medical management, and will continue to optimize its assets structure to ensure balanced growth with enhanced rate of return on investments.

In respect of the printing business, the Group will continue to invest in machinery and automation of production process to enhance the production efficiency. Regarding the segment of provision of financing services, the Group, through its subsidiary with money lender's license, intends to provide finances to prospective customers who would provide securities for the performance of their respective obligations to repay the Group. The Group is exploring other investment opportunities in the core business segments.

The Group always endorses a prudent philosophy of good governance, stresses in term of risk management, and attends to maintain excellent assets quality, stability and financial resources. At the same time, the Group has been proactively seeking for core business returns and exploring new business opportunities carefully.

The Directors are optimistic about the future development of the Group. The Directors expect that the Group would have sufficient funds for the existing requirement of the Group. The Group will also continue proactively and prudently to seek new investment opportunities under the right circumstances, with a view to increasing value for the Shareholders.

*The following is the full text of a report, prepared for the sole purpose of inclusion in this circular, received from the Company's auditors, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong addressed to the Directors.*

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

**Deloitte Touche Tohmatsu**
35/F, One Pacific Place
88 Queensway
Hong Kong

14 August 2015

The Directors
Huajun Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Dalian Bao Xing Da Industrial Co., Ltd. ("Bao Xing Da") and its subsidiary (hereinafter collectively referred to as the "Bao Xing Da Group") for the period from 2 April 2015 (date of establishment) to 30 April 2015 (the "Relevant Period") for inclusion in the circular of Huajun Holdings Limited (the "Company") dated 14 August 2015 (the "Circular") in connection with the proposed acquisition of 60% equity interest in the Bao Xing Da Group (the "Acquisition") constituting a major transaction under the Rules Governing the listing of Securities on the Main Board of The Stock Exchange of Hong Kong limited (the "Stock Exchange") (the "Listing Rules").

Bao Xing Da was established on 2 April 2015 in the People's Republic of China (the "PRC") with limited liability and is an investment holding company. As at 30 April 2015 and the date of this report, it has a wholly-owned subsidiary named Dalian Lugang Logistics Company Limited ("Dalian Lugang") which was established on 7 July 2003 in the PRC with limited liability and principally engaged in lands consolidation and sales of lands. As at 30 April 2015 and the date of this report, Dalian Lugang has paid-in capital of RMB440,000,000.

Bao Xing Da has adopted 31 December as its financial year end date. No statutory financial statements have been prepared for Bao Xing Da since the date of establishment as there is no statutory requirements in the PRC.

For the purpose of this report, the sole director of Bao Xing Da has prepared the consolidated financial statements of the Bao Xing Da Group for the Relevant Period in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Bao Xing Da Group for the Relevant Period set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to the Underlying Financial Statements in the preparation of this report for inclusion in the Circular.

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

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Bao Xing Da Group and Bao Xing Da as at 30 April 2015 and of the financial performance and cash flows of the Bao Xing Da Group for the Relevant Period.

## A. FINANCIAL INFORMATION

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### THE BAO XING DA GROUP

| | *Notes* | **From 2 April 2015 to 30 April 2015** *RMB'000* |
|---|---|---|
| Finance costs | 7 | (9,810) |
| Impairment loss on goodwill | 15 | (278,842) |
| Depreciation of plant and equipment | | (2) |
| Other expenses | | (39,873) |
| Loss and total comprehensive expenses for the period | 9 | (328,527) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## THE BAO XING DA GROUP

| | Notes | 30 April 2015 RMB'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Plant and equipment | 14 | 99 |
| Goodwill | 15 | – |
| Land development for sale | 16 | 1,900,000 |
| | | 1,900,099 |
| CURRENT ASSETS | | |
| Other receivables | 17 | 7,849 |
| Bank balances and cash | 18 | 76 |
| | | 7,925 |
| CURRENT LIABILITIES | | |
| Trade and other payables | 19 | 8,173 |
| Tax payables | | 21,670 |
| | | 29,843 |
| NET CURRENT LIABILITIES | | (21,918) |
| TOTAL ASSET LESS CURRENT LIABILITIES | | 1,878,181 |
| NON-CURRENT LIABILITIES | | |
| Long term payable | 19 | 15,047 |
| Borrowing from a third party | 20 | 2,069,099 |
| Deferred tax liabilities | 21 | 122,562 |
| | | 2,206,708 |
| NET LIABILITIES | | (328,527) |
| CAPITAL AND RESERVES | | |
| Paid-in capital | 22 | – |
| Accumulated loss | | (328,527) |
| DEFICIT ON SHAREHOLDERS' EQUITY | | (328,527) |

**STATEMENT OF FINANCIAL POSITION**

**BAO XING DA**

| | *Notes* | **30 April 2015** *RMB'000* |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investment in a subsidiary | *23* | – |
| Amount due from a subsidiary | *24* | – |
| | | – |
| CURRENT LIABILITIES | | |
| Interests payable | *19* | 5,932 |
| NET CURRENT LIABILITIES | | (5,932) |
| TOTAL ASSET LESS CURRENT LIABILITIES | | (5,932) |
| NON-CURRENT LIABILITIES | | |
| Borrowing from a third party | *20* | 2,069,099 |
| NET LIABILITIES | | (2,075,031) |
| CAPITAL AND RESERVE | | |
| Paid-in capital | *22* | – |
| Accumulated loss | *28* | (2,075,031) |
| DEFICIT ON SHAREHOLDERS' EQUITY | | (2,075,031) |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | **Attributable to owners of Bao Xing Da** | | |
|---|---|---|---|
| | **Paid-in capital** | **Accumulated loss** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 2 April 2015 (date of establishment) | – | – | – |
| Loss and total comprehensive expenses for the period | – | (328,527) | (328,527) |
| At 30 April 2015 | – | (328,527) | (328,527) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | From 2 April 2015 to 30 April 2015 |
|---|---|---|
| | *Note* | *RMB'000* |
| **OPERATING ACTIVITIES** | | |
| Loss before tax | | (328,527) |
| Adjustments for: | | |
| Impairment of goodwill | | 278,842 |
| Finance costs | | 9,810 |
| Depreciation of plant and equipment | | 2 |
| Operating cash flows before movements in working capital | | (39,873) |
| Increase in other receivables | | (27) |
| Decrease in trade and other payables | | (20,821) |
| **NET CASH USED IN OPERATING ACTIVITIES** | | (60,721) |
| **INVESTING ACTIVITIES** | | |
| Acquisition of a subsidiary | 25 | (871,526) |
| Advance to a third party | | (1,132,897) |
| **CASH USED IN INVESTING ACTIVITIES** | | (2,004,423) |
| **FINANCING ACTIVITIES** | | |
| Interest paid | | (3,879) |
| Borrowing from a third party | | 2,069,099 |
| **NET CASH FROM FINANCING ACTIVITIES** | | 2,065,220 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS AT END OF PERIOD,** representing bank balances and cash | | 76 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL

Bao Xing Da is a private limited company established in the People's Republic of China (the "PRC"), which is owned as to 70%, 10%, 20% by Zhang Yu, Harbin HeZhong Hui Li Economic and Trading Co., Ltd and Beijing Hengyu Jinxin Investment Development Co., Ltd, respectively. The address of the registered office and principal place of business of Bao Xing Da is No. 3, 4/F, 41 Zili Street, Zhongshan District, Dalian City, Liaoning Province.

Bao Xing Da acts as an investment holding company. The principal business activities of its subsidiary, Dalian Lugang, are as follows: 1) Land consolidation by entering into sale and purchase agreements to acquire the land parcels in Dalian, the PRC from the land users and liaising with the land users for their relocation arrangement; 2) basic facilities construction for the land parcels; and 3) upon the completion of the land consolidation and obtaining the relevant government approvals, the consolidated land will be sold to the government.

Dalian Lugang has not acquired any land parcels since 2010 and has remained inactive throughout the Relevant Period.

The functional currency of Bao Xing Da is Renminbi ("RMB") as the primary economic environment in which Bao Xing Da and Dalian Lugang operate are in the PRC.

### 2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information has been prepared on a going concern basis. The Bao Xing Da Group's total liabilities exceeded its total assets by approximately RMB328,527,000 as at 30 April 2015. In preparing the Financial Information, the sole director of Bao Xing Da has reviewed the Bao Xing Da Group's financial and liquidity position, and taken into consideration the following factors:

– if the Bao Xing Da Group becomes a subsidiary of Huajun Holdings Limited, Huajun Holdings Limited will make available to the Bao Xing Da Group whatever financial support is required to enable the Bao Xing Da Group to meet in full its financial obligations as they fall due for a period of twelve months from the date of this financial information; and

– cost control measures; and

– possible additional external funding.

The sole director of Bao Xing Da believes that, taking into account the above factors, the Bao Xing Da Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, and accordingly, have prepared the Financial Information on a going concern basis.

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Period, the Bao Xing Da Group has applied HKFRSs, Hong Kong Accounting Standards ("HKAS"), amendments and interpretations issued by the HKICPA which are effective for annual accounting periods beginning on 1 January 2015.

At the date of this report, the following new and revised HKFRSs have been issued but are not yet effective. The Bao Xing Da Group has not early applied these standards, amendments and interpretations in preparation of the Financial Information:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 14 | Regulatory Deferral Accounts[2] |
| HKFRS 15 | Revenue from Contracts with Customers[3] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[4] |
| Amendments to HKAS 1 | Disclosure Initiative[4] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[4] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[4] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[4] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[4] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012 – 2014 Cycle[4] |

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

**HKFRS 9** ***Financial Instruments***

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors do not anticipate that the application of the other new and revised HKFRSs will have a material effect on the Financial information.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with accounting policies which conform with HKFRSs. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Hong Kong Companies Ordinance.

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

The principal accounting policies are set out below.

**Basis of consolidation**

The Financial Information incorporates the financial statements of Bao Xing Da and the entity controlled by Bao Xing Da. Control is achieved when Bao Xing Da:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

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

When necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with the Bao Xing Da Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Bao Xing Da Group are eliminated in full on consolidation.

**Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Bao Xing Da Group, liabilities incurred by the Bao Xing Da Group to the former owners of the acquiree and the equity interests issued by the Bao Xing Da 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.

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

**Investment in a subsidiary**

Investment in a subsidiary is included in Bao Xing Da's statement of financial position at cost, less any identified impairment loss. The results of subsidiary is accounted for by Bao Xing Da on the basis of dividend received or receivable during the period.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Bao Xing Da Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or by the end of the year when acquisition take place or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Revenue recognition**

*Sale of land parcels*

Revenue from the sales of land parcels is recognised depending on the timing of sales of related land parcels to the local government authority. Upon the sales of related land parcels to the local government authority, the attributable amounts of cost of the land parcels was recognised and recorded as cost of sales. Accordingly, revenue is recognised at the time of the delivery of land parcels and proceeds are entitled to be received from the local government authorities by the Bao Xing Da Group are recognised as revenue.

*Interest income*

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

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

**Taxation**

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

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

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

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

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

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

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

Current and deferred tax is recognised in profit or loss.

**Plant and equipment**

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

**Land development for sale**

Land development for sale is carried at cost less accumulated impairment losses. The cost of land development for sale comprises the payment made to land users under the terms of sale and purchase agreements for acquisition of the land, aggregate cost of development, materials and supplies, capitalised staff costs, capitalised borrowing costs on related borrowing funds during the period of construction and other costs directly attributable to such Land development for sale.

**Impairment of tangible assets**

At the end of each reporting period, the Bao Xing Da Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Bao Xing Da Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

**Financial instruments**

Financial assets and financial liabilities are recognised when the Bao Xing Da Group and Bao Xing Da become a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

The Bao Xing Da Group's and Bao Xing Da's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

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

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

*Loans and receivables*

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

*Impairment of financial assets*

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

Objective evidence of impairment could include:

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

Other receivables and amount due from a subsidiary are assessed for impairment individually. Objective evidence of impairment includes the Bao Xing Da Group's past experience of collecting payments.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity instruments***

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

*Equity instrument*

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

*Effective interest method*

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

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

*Financial liabilities*

The Bao Xing Da Group's and Bao Xing Da's financial liabilities including trade and other payables, interest payable, borrowing from a third party and long term payables are measured at amortised cost, using the effective interest rate method subsequent to initial recognition.

***Derecognition***

The Bao Xing Da Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of the ownership of the assets to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable are recognised in profit or loss.

The Bao Xing Da Group derecognises financial liabilities when, and only when, Bao Xing Da's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Bao Xing Da Group's accounting policies, which are described in note 4, the sole director of Bao Xing Da is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

**Estimated impairment of land development for sale**

Land development for sale is carried at cost less accumulated impairment losses. It is assessed for indicators of impairment at the end of each reporting period and is considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the land development for sale, the estimated future cash flows of the assets have been affected. As at 30 April 2015, the carrying amount of land development for sale for sale is approximately RMB1,900,000,000.

**Fair value and development plan of the land development for sale**

Based on the legal opinion from the PRC lawyer, the government will acquire the lands from Bao Xing Da Group at the current valuation of the land based on the redevelopment usage, not the valuation based on the current usage of the lands. Such purchase price will be reduced by stipulated fees payable to the government which has included a charge for the change of the land use purposes. The development plan obtained from the government in 2013 is still valid and effective. As at 30 April 2015, all lands are ready to be sold to the government under the pricing mechanism described above.

The fair values of the land development for sale at the date of acquisition of the subsidiary have been arrived at based on the confirmation received from the PRC lawyer on the matters set out above. Accordingly the fair values were calculated based on the expected redevelopment usage of the lands referencing the plot ratios set out by the local government under a redevelopment plan which the PRC lawyer have advised the Company is still valid and effective. In the opinion of the PRC lawyer, only a nominal fee will be charged by the PRC government for change of land use purpose from their current land use right of non-residential and non-commercial land, such as industrial land, to the expected residential and commercial land use and no charge will be charged by the PRC government for extending the land use right period. Accordingly, these matters have been accounted for in arriving at the fair values of the land development for sale, on the basis of the confirmation from the PRC lawyer set out above.

**Ownership to land**

As part of the land consolidation, the Bao Xing Da Group entered into sales and purchase agreements ("S&P agreement") with respective land users to purchase the land parcels from them. However, the title of these lands were not yet transferred to the Bao Xing Da Group at the end of the reporting period as it is the plan of the management to arrange the titles' transfer once all the land consolidations were completed. In 2007, one of the land users went into lawsuit with the Dalian Lugang, claiming the S&P agreement signed between them is ineffective. During the year ended 31 December 2014, the court made an adjudication that the S&P agreement signed between this land user and the Dalian Lugang is ineffective and correspondingly the land parcel should be returned to the land user.

Based on the result of lawsuit, the management has assessed whether the same legal exposure of the lawsuit mentioned above exist on remaining land parcels they held and which are recognised as land development for sale and they conclude, based on the legal opinion from a PRC lawyer, such exposure is remote because:

1. The Bao Xing Da Group lost the case mainly due to the ineffective S & P agreement of this standalone case. The PRC lawyer has reviewed all the S & P agreements on the land parcels and satisfied all of them are effective and provide legitimate ground for the Bao Xing Da Group to claim the land titles.

2. There is no pledge or security over all the land use rights or land parcels.

3. There are no other parties who have any rights over the land use rights or land parcels.

4. There are no further involvements of existing owners required to transfer the land use rights or land parcels to the government or other buyers.

5. Some of the original companies holding the land had been deregistered.

6. For other land users, the Bao Xing Da Group has maintained an ongoing relationship with them and there have been no dispute on the land title.

Based on such legal opinion, the sole director of Bao Xing Da considers that the risk of losing ownership of remaining land is remote.

## 6. REVENUE AND SEGMENT INFORMATION

**Segment revenue and results**

The Bao Xing Da Group operates as a single operating segment. The single operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocation resources and assessing performance of the operating segment, has been identified as the sole director that makes strategic decisions.

The Bao Xing Da Group's business is lands consolidation and sales of lands. Since the Bao Xing Da Group is still in the process of land consolidation in the Relevant Period, there is no revenue generated. The non-current assets are physically located in the PRC for the Relevant Period.

## 7. FINANCE COSTS

**The Bao Xing Da Group**

| | **From 2 April 2015 to 30 April 2015** *RMB'000* |
|---|---|
| Interest on borrowings from a third party wholly repayable within five years | 9,810 |

## 8. INCOME TAX EXPENSE

The Bao Xing Da Group is subject to PRC Enterprise Income Tax at 25% for the Relevant Period.

No tax is payable for the Relevant Period since there is no assessable profit.

The income tax expense for the period can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

**The Bao Xing Da Group**

| | **From 2 April 2015 to 30 April 2015** *RMB'000* |
|---|---|
| Loss before tax | (328,527) |
| Tax benefit at the domestic rate of 25% | 82,132 |
| Tax effect of expenses not deductible | (82,132) |
| | – |

At 30 April 2015, the Bao Xing Da Group has unused tax losses of RMB3,025,000 available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses will expire in 5 years.

## 9. LOSS FOR THE PERIOD

**The Bao Xing Da Group**

| | **From 2 April 2015 to 30 April 2015** |
|---|---|
| | *RMB'000* |
| Loss for the period has been arrived at after charging: | |
| Auditor's remuneration | – |
| Acquisition related costs | 39,868 |
| Staff costs (including directors' emolument) | |
| – salaries and wages | – |
| – retirement benefits scheme contributions | – |
| | – |

## 10. DIRECTOR'S AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

**Director's emoluments**

The following table sets forth certain information in respect of the sole director of Bao Xing Da during the Relevant Period:

| **Name** | **Position** | **Date of appointment as director/ chairman/president** | **Date of resignation** |
|---|---|---|---|
| Zhang Yu | Executive director and chief executive | 2 April 2015 | N/A |

The sole director of Bao Xing Da did not waive any emoluments during the Relevant Period.

During the Relevant Period, these are no significant director's emoluments and employee's remuneration paid or payable.

During the Relevant Period, no emoluments were paid by the Bao Xing Da Group to the sole director of Bao Xing Da or the five highest paid individual of the Bao Xing Da Group as an inducement to join or upon joining the Bao Xing Da Group or as compensation for loss of office.

## 11. RETIREMENT BENEFITS PLANS

The employees of the Bao Xing Da Group in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The only obligation of the Bao Xing Da Group with respect to the retirement benefit scheme is to make the specified contributions. There are no significant costs charged to the profit or loss for the Relevant Period representing retirement benefit contributions paid or payable to this scheme by the Bao Xing Da Group.

**12. LOSS PER SHARE**

No loss per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

**13. DIVIDEND**

No dividend was declared or proposed during the Relevant Period.

**14. PLANT AND EQUIPMENT**

**The Bao Xing Da Group**

| | **Vehicles** *RMB'000* | **Equipment and others** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| **COST** | | | |
| At 2 April 2015 (date of establishment) | – | – | – |
| Acquired on acquisition of a subsidiary *(note 25)* | 41 | 60 | 101 |
| At 30 April 2015 | 41 | 60 | 101 |
| **DEPRECIATION** | | | |
| At 2 April 2015 (date of establishment) | – | – | – |
| Provided for the period | – | 2 | 2 |
| At 30 April 2015 | – | 2 | 2 |
| **CARRYING VALUES** | | | |
| At 30 April 2015 | 41 | 58 | 99 |

The plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account their residual value as follows:

| | |
|---|---|
| Vehicles | 5 years |
| Equipment and others | 5 years |

**15. GOODWILL**

| | *RMB'000* |
|---|---|
| **COST** | |
| At 2 April 2015 | – |
| Arising on acquisition of a subsidiary *(note 25)* | 278,842 |
| At 30 April 2015 | 278,842 |
| **IMPAIRMENT** | |
| At 2 April 2015 | – |
| Impairment losses recognised during the period | (278,842) |
| At 30 April 2015 | (278,842) |
| **CARRYING VALUES** | |
| At 30 April 2015 | – |

The goodwill is recognised from the acquisition of a subsidiary during the period. Details of such acquisition is set out in note 25. During the period, the management of the Bao Xing Da Group determines that the goodwill, amounting to RMB278,842,000, shall be fully impaired as the subsidiary's assets mainly comprise land parcels for sale, which are already stated at fair value, as such it is considered that there is no further value-in-use to support the carrying amount of the goodwill, so the goodwill was fully impaired immediately upon the acquisition.

## 16. LAND DEVELOPMENT FOR SALE

Land development for sale represents mainly the fair value as at the date of acquisition of the subsidiary (see note 25) of land parcels within the areas of the development project in which the Bao Xing Da Group runs its land development businesses. Land development for sale is expected to be realised over twelve months thus it is classified as non-current assets. The accounting policy of revenue recognition on sale of land parcels and the key sources of estimation uncertainty on ownership of the land parcels are set out in notes 4 and 5, respectively.

The key assumptions for the fair value measurement of the land development for sale as at the acquisition date are stated as below:

1. The government will acquire the lands from the Bao Xing Da Group at the current valuation of the land based on the redevelopment usage, not the valuation based on the current usage of the lands. Such purchase price will be reduced by stipulated fees payable to the government which has included a charge for the change of the land use purposes.

2. As at 30 April 2015, all lands are ready to be sold to the government under the pricing mechanism described above.

3. The fair values were calculated based on the expected redevelopment usage of the lands referencing the plot ratios set out by the local government under redevelopment plan advised by the PRC lawyer.

4. The redevelopment plan obtained from the government in 2013 is still valid and effective.

5. Only a nominal fee for change of land use purpose and no charge for extending the land use right period has been accounted for in arriving at the fair values of the land development for sale.

The land use right certificates for the land parcels are not in the name of the Bao Xing Da Group at 30 April 2015.

## 17. OTHER RECEIVABLES

**The Bao Xing Da Group**

| | **At 30 April 2015** |
|---|---|
| | *RMB'000* |
| Other receivables | 7,790 |
| Deposits and prepayments | 59 |
| | 7,849 |

As set out in note 5, the Bao Xing Da Group can claim back from this land user the proceed they paid for the land parcel, amounting to approximately RMB7,790,000.

In order to minimise credit risk, the Bao Xing Da Group reviews the recoverable amount of each individuals debt at the end of reporting period to ensure that impairment loss are made for irrecoverable amounts. Accordingly, the sole director of Bao Xing Da considers that no allowance for bad and doubtful debts is required.

## 18. BANK BALANCES AND CASH

**The Bao Xing Da Group**

Bank balances carry prevailing bank interest rates at 0.35% per annum as at 30 April 2015.

**19. TRADE AND OTHER PAYABLES**

**The Bao Xing Da Group**

| | **At 30 April 2015** |
|---|---|
| | *RMB'000* |
| Long term payable *(note)* | 15,047 |
| Interest payable | 5,932 |
| Accrued other operating expenses | 2,241 |
| Other payables | 8,173 |

*Note:* The long term payable represent the outstanding balances to be paid for acquiring the land development for sale. These trade payables are aged, based on the invoice date, over one year, and due for payment only after the relevant land certificate is obtained by Bao Xing Da Group.

**Bao Xing Da**

| | **At 30 April 2015** |
|---|---|
| | *RMB'000* |
| Interests payable to borrowing from a third party | 5,932 |

**20. BORROWING FROM A THIRD PARTY**

**The Bao Xing Da Group**

Borrowing from a third party is unsecured, bearing fixed interest at 12% per annum. It is classified as non-current liability as it is repayable on 19 October 2016 which is repayable over one year but less than two year from the end of the reporting period.

**21. DEFERRED TAX LIABILITY**

| | *RMB'000* |
|---|---|
| At 2 April 2015 | – |
| Arising on acquisition of a subsidiary *(note 25)* | 122,562 |
| At 30 April 2015 | 122,562 |

The deferred tax liability is recognised because of the temporary difference between the fair value of land development for sale and its tax base.

**22. PAID IN CAPITAL**

**The Bao Xing Da Group and Bao Xing Da**

The capital had not been paid in by the shareholder as at 30 April 2015.

**23. INVESTMENT IN A SUBSIDIARY**

**Bao Xing Da**

The investment in a subsidiary represents 100% shareholding in Dalian Lugang which was established in PRC and engaged in lands consolidation and sales of land. As at 30 April 2015, the investment in a subsidiary was fully impaired as a result of the unsatisfactory assessment of the current financial position and business prospects of the subsidiary by the management.

**24. AMOUNT DUE FROM A SUBSIDIARY**

**Bao Xing Da**

The amount due from a subsidiary amounting to RMB1,160,953,000 is unsecured, carried fixed interest of 12% per annum. It is classified as non-current asset as it is repayable on 19 October 2016 which is over the following 12 months from the end of the reporting period. As at 30 April 2015, the amount was fully impaired due to the reason set out in note 23.

**25. ACQUISITION OF A SUBSIDIARY**

On 20 April 2015, Bao Xing Da acquired 100% equity interest of Dalian Lugang, for a consideration of RMB871,630,000. This acquisition has been accounted for using the acquisition method. Dalian Lugang is engaged in lands consolidation and sales of lands. The sole director considers that land consolidation and sales of lands is a stable business with great potential for profit. The acquisition will allow Bao Xing Da to diversify its business portfolio and generate a stable long-term investment income.

Consideration transferred:

| | *RMB'000* |
|---|---|
| Cash | 871,630 |

Acquisition-related costs amounting to RMB39,868,000 have been excluded from the consideration transferred and have been recognised as an expense in the period, within the 'other expenses' line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition, 20 April 2015, are as follows:

| | *RMB'000* |
|---|---|
| Plant and equipment | 101 |
| Land development for sale | 1,900,000 |
| Other receivables | 7,822 |
| Bank balances and cash | 104 |
| Trade and other payables | (23,063) |
| Tax payables | (21,670) |
| Borrowings from a third party | (1,132,897) |
| Long term payable | (15,047) |
| Deferred tax liabilities | (122,562) |
| | 592,788 |

Goodwill arising on acquisition:

| | *RMB'000* |
|---|---|
| Consideration transferred | 871,630 |
| Less: Net assets acquired | (592,788) |
| Goodwill arising on acquisition *(note 15)* | 278,842 |

Net cash outflow on acquisition of Dalian Lugang:

| | *RMB'000* |
|---|---|
| Cash consideration paid | 871,630 |
| Less: Cash and cash equivalent balances acquired | (104) |
| | 871,526 |

The other receivables acquired in the transaction are carried at fair value of RMB7,822,000. The gross contractual amounts of those receivables acquired amounted to RMB7,822,000 at the date of acquisition. None of the contractual cash flows are not expected to be collected at acquisition date.

The borrowings from a third party, represented amounts borrowed from Bao Xing Da prior to the date of acquisition. Accordingly such amounts have been eliminated on consolidation in consolidated financial statement of Bao Xing Da after the acquisition date.

Dalian Lugang contributed no significant revenue or profit or loss for the period from the date of acquisition to 30 April 2015.

If the acquisition has been completed on 2 April 2015 (date of establishment), total revenue of the Bao Xing Da Group and loss for the period from 2 April 2015 to 30 April 2015 would have been zero and RMB14,198,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 2 April 2015, nor is it intended to be a projection of future results.

## 26. CAPITAL RISK MANAGEMENT

The Bao Xing Da Group manages its capital to ensure that entities in the Bao Xing Da 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 capital structure of the Bao Xing Da Group consists of debt, which includes borrowings from a third party, as disclosed in note 20, net of bank balances and cash and equity attributable to owners of Bao Xing Da, comprising paid-in capital and accumulated loss.

The sole director of Bao Xing Da reviews the capital structure from time to time. As a part of this review, the sole director considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the sole director, the Bao Xing Da Group will balance its overall capital structure through the raising of new capital, new debt or the redemption of existing debt.

## 27. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

**The Baoxing Da Group**

| | **At 30 April 2015** *RMB'000* |
|---|---|
| **Financial assets** | |
| Loans and receivables (including cash and cash equivalents) | 7,866 |
| **Financial liabilities** | |
| Financial liabilities at amortised cost | 2,092,319 |

**Bao Xing Da**

| | **At 30 April 2015** *RMB'000* |
|---|---|
| **Financial assets** | |
| Loans and receivables | – |
| **Financial liabilities** | |
| Financial liabilities at amortised cost | 2,075,031 |

### b. Financial risk management objectives and policies

The Bao Xing Da Group's major financial instruments include other receivables, bank balances and cash, trade and other payables, long term payable and borrowing from a third party. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk) and liquidity risk. The sole director of the Bao Xing Da Group considered that the credit risk is insignificant and therefore they are excluded from the financial risk analysis. 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.

***Market risk***

The Bao Xing Da Group's activities expose it primarily to the financial risk of changes in interest rates.

Details of market risk are described as follows:

*(i) Interest rate risk management*

The Bao Xing Da Group is mainly exposed to fair value interest rate risk in relation to fixed-rate borrowing from a third party. The Bao Xing Da Group currently does not have any instruments to hedge against the fair value interest rate risk.

The sole director of the Bao Xing Da Group considered that cash flow interest rate risk in bank balances is insignificant and therefore no sensitivity analysis is presented.

***Liquidity risk***

In the management of the liquidity risk, the Bao Xing Da Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and long term.

The following tables detail the Bao Xing Da Group's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bao Xing Da Group can be required to pay. The tables include both interest and principal cash flows.

**The Bao Xing Da Group**

| | Weighted average effective interest rate | Repayable on demand or less than 1 year | 1 year to 2 year | Over 2 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 30 April 2015 | | | | | | |
| Trade and other payables | – | 8,173 | – | – | 8,173 | 8,173 |
| Long term payable | – | – | – | 15,047 | 15,047 | 15,047 |
| Borrowing from a third party | 12% | – | 2,441,537 | – | 2,441,537 | 2,069,099 |
| | | 8,173 | 2,441,537 | 15,047 | 2,464,757 | 2,092,319 |

**Bao Xing Da**

| | Weighted average effective interest rate | Repayable on demand or less than 1 year | 1 year to 2 year | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 30 April 2015 | | | | | |
| Interest payable | – | 5,932 | – | 5,932 | 5,932 |
| Borrowing from a third party | 12% | – | 2,441,537 | 2,441,537 | 2,069,099 |
| | | 5,932 | 2,441,537 | 2,447,469 | 2,075,031 |

c. **Fair value measurements**

Fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 inputs are inputs that are not based on observable market data (unobservable inputs).

The sole director of Bao Xing Da considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statements of financial position approximate their respective fair values at the end of the reporting period.

**28. ACCUMULATED LOSS**

**Bao Xing Da**

| | *RMB'000* |
|---|---|
| At 2 April 2015 | – |
| Loss for the period | (2,075,031) |
| At 30 April 2015 | (2,075,031) |

## B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Bao Xing Da or its subsidiary have been prepared in respect of any period subsequent to 30 April 2015.

Yours faithfully

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The following is the full text of a report, prepared for the sole purpose of inclusion in this circular, received from the Company's auditors, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong addressed to the Directors.*

**Deloitte.**
**德勤**

14 August 2015

The Directors
Huajun Holdings Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Dalian Lugang Logistics Company Limited ("Dalian Lugang") for each of the three years ended 31 December 2014 and for the four months ended 30 April 2015 (the "Relevant Period") for inclusion in the circular of Huajun Holdings Limited (the "Company") dated 14 August 2015 (the "Circular") in connection with the proposed acquisition of 60% equity interest in Dalian Lugang through acquiring its parent company, Dalian Bao Xing Da Industrial Co., Ltd. (the "Acquisition") constituting a major transaction under the Rules Governing the listing of Securities on the Main Board of The Stock Exchange of Hong Kong limited (the "Stock Exchange") (the "Listing Rules").

Dalian Lugang was established on 7 July 2003 in the People's Republic of China (the "PRC") with limited liability and principally engaged in lands consolidation and sales of lands.

Dalian Lugang has adopted 31 December as its financial year end date. No statutory financial statements have been prepared for Dalian Lugang since the date of establishment as there is no statutory requirements for Dalian Lugang in the PRC.

For the purpose of this report, the directors of Dalian Lugang have prepared the financial statements of Dalian Lugang for the Relevant Period in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have carried out an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of Dalian Lugang for the Relevant Period set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to the Underlying Financial Statements in the preparation of this report for inclusion in the Circular.

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

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of Dalian Lugang as at 31 December 2012, 2013, 2014 and 30 April 2015 and of the financial performance and cash flows of Dalian Lugang for the Relevant Period.

The comparative statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of Dalian Lugang for the four months ended 30 April 2014 together with the notes thereon have been extracted from Dalian Lugang's unaudited financial information for the same period (the "April 2014 financial information") which was prepared by the directors of Dalian Lugang solely for the purpose of this report. We conducted our review on the April 2014 financial information in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the HKICPA. Our review of the April 2014 financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the April 2014 financial information. Based on our review, nothing has come to our attention that causes us to believe that the April 2014 financial information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with HKFRSs.

## A. FINANCIAL INFORMATION

### STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|---|
| | *Notes* | **2012** | **2013** | **2014** | **2014** | **2015** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | | (unaudited) | |
| Other income and gain | *7* | 1,041 | 40,669 | 6,356 | 133 | 113,666 |
| Staff costs | | (564) | (138) | (1,106) | (74) | (375) |
| Depreciation of property, plant and equipment | | (91) | (60) | (48) | (19) | (8) |
| Finance costs | *8* | (174,509) | (154,389) | (176,582) | (53,407) | (71,357) |
| Write off of land development for sale | *17* | – | – | (20,742) | – | – |
| Other expenses | | (530) | (700) | (5,079) | (1,853) | (116) |
| (Loss) profit before tax | | (174,653) | (114,618) | (197,201) | (55,220) | 41,810 |
| Income tax expenses | *9* | – | – | – | – | (21,670) |
| (Loss) profit and total comprehensive (expense) income for the year/period | *10* | (174,653) | (114,618) | (197,201) | (55,220) | 20,140 |

## STATEMENTS OF FINANCIAL POSITION

| | Notes | At 31 December 2012 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | At 30 April 2015 RMB'000 |
|---|---|---|---|---|---|
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 15 | 307 | 253 | 107 | 99 |
| Intangible assets | 16 | 7 | 3 | – | – |
| Land development for sale | 17 | 375,146 | 385,092 | 364,495 | 329,764 |
| | | 375,460 | 385,348 | 364,602 | 329,863 |
| CURRENT ASSETS | | | | | |
| Other receivables | 18 | 152 | 146 | 7,861 | 7,849 |
| Bank balances and cash | 19 | 3,206 | 4,028 | 198 | 76 |
| | | 3,358 | 4,174 | 8,059 | 7,925 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 20 | 13,124 | 19,906 | 5,010 | 5,592 |
| Tax payable | | – | – | – | 21,670 |
| Borrowings from third parties | 21 | 697,190 | – | 369,813 | – |
| Borrowings from shareholders | 22 | 126,700 | – | – | – |
| Borrowings from financial institutions – due within one year | 23 | 87,200 | 250,000 | 865,053 | – |
| | | 924,214 | 269,906 | 1,239,876 | 27,262 |
| NET CURRENT LIABILITIES | | (920,856) | (265,732) | (1,231,817) | (19,337) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | (545,396) | 119,616 | (867,215) | 310,526 |

| | | At 31 December | | | At 30 April |
|---|---|---|---|---|---|
| | *Notes* | **2012** | **2013** | **2014** | **2015** |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| NON-CURRENT LIABILITIES | | | | | |
| Long term payable | *20* | 15,047 | 15,047 | 15,047 | 15,047 |
| Borrowings from financial institutions – due after one year | *23* | 250,000 | 829,630 | – | – |
| Borrowings from holding company | *22* | – | – | – | 1,157,601 |
| | | 265,047 | 844,677 | 15,047 | 1,172,648 |
| NET LIABILITIES | | (810,443) | (725,061) | (882,262) | (862,122) |
| CAPITAL AND RESERVES | | | | | |
| Paid-in capital | *24* | 200,000 | 400,000 | 440,000 | 440,000 |
| Other reserves | | 22,741 | 22,741 | 22,741 | 22,741 |
| Accumulated losses | | (1,033,184) | (1,147,802) | (1,345,003) | (1,324,863) |
| DEFICIT OF SHAREHOLDERS' EQUITY | | (810,443) | (725,061) | (882,262) | (862,122) |

## STATEMENTS OF CHANGES IN EQUITY

| | Attributable to owners of Dalian Lugang | | | |
|---|---|---|---|---|
| | **Paid-in capital** | **Other reserve** | **Accumulated losses** | **Total** |
| | *RMB'000* | *RMB'000* *(note)* | *RMB'000* | *RMB'000* |
| At 1 January 2012 | 200,000 | 22,741 | (858,531) | (635,790) |
| Loss and total comprehensive expense for the year | – | – | (174,653) | (174,653) |
| At 31 December 2012 | 200,000 | 22,741 | (1,033,184) | (810,443) |
| Loss and total comprehensive expense for the year | – | – | (114,618) | (114,618) |
| Capital injection | 200,000 | – | – | 200,000 |
| At 31 December 2013 | 400,000 | 22,741 | (1,147,802) | (725,061) |
| Loss and total comprehensive expense for the year | – | – | (197,201) | (197,201) |
| Capital injection | 40,000 | – | – | 40,000 |
| At 31 December 2014 | 440,000 | 22,741 | (1,345,003) | (882,262) |
| Profit and total comprehensive income for the period | – | – | 20,140 | 20,140 |
| At 30 April 2015 | 440,000 | 22,741 | (1,324,863) | (862,122) |
| (Unaudited) | | | | |
| At 1 January 2014 | 400,000 | 22,741 | (1,147,802) | (725,061) |
| Loss and total comprehensive expense for the period | – | – | (55,220) | (55,220) |
| At 30 April 2014 | 400,000 | 22,741 | (1,203,022) | (780,281) |

*Note:* Other reserve represented the amount that the shareholder paid more than subscribed capital in 2007.

**STATEMENTS OF CASH FLOWS**

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| OPERATING ACTIVITIES | | | | | |
| (Loss) profit before tax | (174,653) | (114,618) | (197,201) | (55,220) | 41,810 |
| Adjustments for: | | | | | |
| Amortisation of intangible assets | 4 | 4 | 3 | 1 | – |
| Depreciation of property, plant and equipment | 91 | 60 | 48 | 19 | 8 |
| Write off of land development for sale | – | – | 20,742 | – | – |
| Finance costs | 174,509 | 154,389 | 176,582 | 53,407 | 71,357 |
| Interest income | (14) | (37) | (33) | (11) | – |
| Loss on disposal of property, plant and equipment | – | – | 1 | – | – |
| Land compensation from the government | – | – | (5,185) | – | (113,569) |
| Recovery on a deposit impaired in previous year | – | (40,000) | – | – | – |
| Operating cash flows before movements in working capital | (63) | (202) | (5,043) | (1,804) | (394) |
| (Increase) decrease increase in Land development for sale | (24,328) | (9,946) | (7,935) | (2,159) | (2,700) |
| Decrease in other receivables | 71 | 6 | 75 | 27 | 12 |
| Increase (decrease) in trade and other payables | 11,301 | (11,332) | 1,435 | 16,382 | (987) |
| CASH (USED IN) GENERATED FROM OPERATION | (13,019) | (21,474) | (11,468) | 12,446 | (4,069) |
| Receipt of previously impaired deposit | – | 40,000 | – | – | – |
| Land compensation received from the government | – | – | 5,185 | – | 151,000 |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (13,019) | 18,526 | (6,283) | 12,446 | 146,931 |

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| INVESTING ACTIVITIES | | | | | |
| Interest received | 14 | 37 | 33 | 11 | – |
| Proceeds from disposal of property, plant and equipment | – | – | 97 | – | – |
| Purchase of property, plant and equipment | (33) | (6) | – | – | – |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | (19) | 31 | 130 | 11 | – |
| FINANCING ACTIVITIES | | | | | |
| Interest paid | (174,509) | (136,275) | (177,860) | (49,302) | (34,137) |
| New borrowings from financial institutions | 300,000 | 1,926,510 | 417,740 | 33,000 | – |
| Repayment of borrowings from financial institutions | (937,000) | (1,184,080) | (621,370) | – | (876,000) |
| Advances from third parties | 697,190 | – | 369,813 | 26,895 | 1,132,897 |
| Repayments to third parties | – | (697,190) | – | – | (369,813) |
| Advances from shareholders | 126,700 | – | – | – | – |
| Repayments to shareholders | – | (126,700) | – | – | – |
| Loan arrangement fee | – | – | (26,000) | (26,000) | – |
| Capital injection | – | 200,000 | 40,000 | – | – |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | 12,381 | (17,735) | 2,323 | (15,407) | (147,053) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (657) | 822 | (3,830) | (2,950) | (122) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD | 3,863 | 3,206 | 4,028 | 4,028 | 198 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD, representing bank balances and cash | 3,206 | 4,028 | 198 | 1,078 | 76 |

## NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL

Dalian Lugang is a private limited company established in the People's Republic of China (the "PRC"). Its parent and ultimate holding company is Dalian Bao Xing Da Industrial Co., Ltd. (established in the PRC) as at 30 April 2015. Its ultimate controlling party is Zhang Yu as at 30 April 2015. The address of its registered office and its principal place of business is Houyan Village, Dalian Bay Town, Ganjingzi District, Dalian City, Liaoning Province.

The following table summarizes the shareholding of Dalian Lugang during the Relevant Period:

| **Year/ period end date** | **Shareholders (% of equity in Dalian Lugang)** | | | | |
|---|---|---|---|---|---|
| December 31, 2012 | Dalian Huaxin Xinda Industrial Development Company Limited (19.5%) | Dalian Furuida Investment Company Limited (23%) | Beijing Wanlian Tongchuang Internet Technology Company Limited (19.5%) | Dalian Changming Information Technology Company Limited (19%) | Shengyang Kaiming Industrial Company Limited (19%) |
| December 31, 2013 | Dalian Huaxin Xinda Industrial Development Company Limited (9.75%) | Dalian Furuida Investment Company Limited (11.5%) | Dalian Xingcheng Industrial Company Limited (25%) | Dalian Changrong Industrial Company Limited (25%) | |
| | Beijing Wanlian Tongchuang Internet Technology Company Limited (9.75%) | Dalian Changming Information Technology Company Limited (9.50%) | Shengyang Kaiming Industrial Company Limited (9.50%) | | |
| December 31, 2014 | Dalian Huaxin Xinda Industrial Development Company Limited (8.86%) | Huaxin Trust Company Limited (9.09%) | Dalian Ronghuida Industrial Development Company Limited (41.82%) | Dalian Ronghai Xinda Industrial Development Company Limited (40.23%) | |
| April 30, 2015 | Dalian Bao Xing Da Industrial Co., Ltd. (100%) | | | | |

The principal business activities of Dalian Lugang are as follows: 1) Land consolidation by entering into sale and purchase agreements to acquire the land parcels in Dalian, the PRC from the land users and liaising with the land users for their relocation arrangement; 2) basic facilities construction for the land parcels; 3) upon the completion of the land consolidation and obtaining the relevant government approvals, the consolidated land will be sold to the government.

The functional currency of Dalian Lugang is Renminbi ("RMB") as the primary economic environment in which it operates in the PRC.

Dalian Lugang has not acquired any land parcels since 2010 and has remained inactive throughout the Relevant Period.

## 2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Financial Information has been prepared on a going concern basis. Dalian Lugang's total liabilities exceeded its total assets by approximately RMB862,122,000 as at 30 April 2015. In preparing the Financial Information, the directors of Dalian Lugang have reviewed Dalian Lugang's financial and liquidity position, and taken into consideration the following factors:

- ongoing financial support from the holding company of Dalian Lugang, for a period of twelve months from the date of approving the Financial Information by the directors; and
- cost control measures; and
- possible additional external funding.

The directors of Dalian Lugang believe that, taking into account the above factors, Dalian Lugang will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, and accordingly, have prepared the Financial Information on a going concern basis.

## 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Period, Dalian Lugang has applied HKFRSs, Hong Kong Accounting Standards ("HKAS"), amendments and interpretations issued by the HKICPA which are effective for annual accounting periods beginning on 1 January 2015.

At the date of this report, the following new and revised HKFRSs have been issued but are not yet effective. Dalian Lugang has not early applied these standards, amendments and interpretations in preparation of the Financial Information:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 14 | Regulatory Deferral Accounts[2] |
| HKFRS 15 | Revenue from Contracts with Customers[3] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[4] |
| Amendments to HKAS 1 | Disclosure Initiative[4] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[4] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[4] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[4] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment Entities: Applying the Consolidation Exception[4] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012–2014 Cycle[4] |

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

**HKFRS 9** ***Financial Instruments***

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of Dalian Lugang are of the view that the expected credit loss model may result in early provision of credit losses which are not yet incurred. However, it is not practicable to provide a reasonable estimate of the effect from using an expected credit loss model in respect of its financial assets until a detailed review has been completed.

The directors do not anticipate that the application of the other new and revised HKFRSs will have a material effect on the Financial information.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with accounting policies which conform with HKFRSs. In addition, the Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Hong Kong Companies Ordinance.

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

The principal accounting policies are set out below.

**Revenue recognition**

***Sale of land parcels***

Revenue from the sales of land parcels is recognised depending on the timing of sales of related land to the local government authority. Upon the sales of related land parcels to the local government authority, the attributable amounts of cost of the land parcels was recognised and recorded as cost of sales. Accordingly, revenue is recognised at the time of the delivery of land parcels and proceeds are entitled to be received from the local government authorities by Dalian Lugang.

***Interest income***

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

**Leasing**

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

***Dalian Lugang as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

**Borrowing costs**

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

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

**Retirement benefit costs**

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

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

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

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

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

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

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

Current and deferred tax is recognised in profit or loss.

**Property, plant and equipment**

Property, plant and equipment are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

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

**Land development for sale**

Land development for sale is carried at cost less accumulated impairment losses. The cost of land development for sale comprises the payments made to land users under the terms of sale and purchase agreements for acquisition of the land, aggregate cost of development, materials and supplies, and other costs directly attributable to such land development for sale.

**Impairment of tangible assets**

At the end of each reporting period, Dalian Lugang reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, Dalian Lugang estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

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

**Financial instruments**

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

***Financial assets***

Dalian Lugang's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Effective interest method*

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

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

*Loans and receivables*

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

*Impairment of financial assets*

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

Objective evidence of impairment could include:

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

Other receivables are assessed for impairment individually. Objective evidence of impairment includes Dalian Lugang's past experience of collecting payments.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity instruments***

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

*Equity instrument*

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

*Effective interest method*

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

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

*Financial liabilities*

Dalian Lugang's financial liabilities including trade and other payables, borrowings from third parties, borrowings from shareholders and borrowings from financial institutions are measured at amortised cost, using the effective interest rate method subsequent to initial recognition.

***Derecognition***

Dalian Lugang derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of the ownership of the assets to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the consideration received and receivable is recognised in profit or loss.

Dalian Lugang derecognises financial liabilities when, and only when, Dalian Lugang's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of Dalian Lugang's accounting policies, which are described in note 4, the directors of Dalian Lugang are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

**Estimated impairment of land development for sale**

Land development for sale is carried at cost less accumulated impairment losses. It is assessed for indicators of impairment at the end of each reporting period and is considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the land development for sale, the estimated future cash flows of the assets have been affected. As at 31 December 2012, 31 December 2013, 31 December 2014 and 30 April 2015, the carrying amounts of land development for sale are approximately RMB375,146,000, RMB385,092,000, RMB364,495,000 and RMB329,764,000 respectively.

**Ownership of land**

As part of the land consolidation, Dalian Lugang entered into sales and purchase agreements ("S&P agreement") with respective land users to purchase the land parcels from them. However, the title of these lands were not yet transferred to Dalian Lugang at the end of each of the reporting periods as it is the plan of the management to arrange the titles' transfer once all the land consolidation were completed. In 2007, one of the land users went into lawsuit with Dalian Lugang, claiming the S&P agreement signed between them is ineffective. During the year ended 31 December 2014, the court made an adjudication that the S&P agreement signed between this land user and Dalian Lugang is ineffective and correspondingly the land parcel should be returned to the land user. Dalian Lugang can claim back from this land user the proceed they paid for the land parcel, amounting to approximately RMB7,790,000. For the remaining costs, amounting to approximately RMB20,742,000 were written to profit or loss.

Based on the result of lawsuit, the management has assessed whether the same legal exposure of the lawsuit mentioned above exist on remaining land parcels they held and which are recognised as land development for sale and they conclude, based on the legal opinion from a PRC lawyer, such exposure is remote because:

1. Dalian Lugang lost the case mainly due to the ineffective S & P agreement of this standalone case. The PRC lawyer has reviewed all the S & P agreements on the land parcels and satisfied all of them are effective and provide legitimate ground for Dalian Lugang to claim the land titles.

2. There is no pledge or security over all the land use rights or land parcels.

3. There are no other parties who have any rights over the land use rights or land parcels.

4. There are no further involvements of existing owners required to transfer the land use rights or land parcels to the government or other buyers.

5. Some of the original companies holding the land had been deregistered.

6. For other land users, Dalian Lugang has maintained an ongoing relationship with them and there have been no dispute on the land title.

Based on such legal opinion, the directors of Dalian Lugang consider that the risk of losing ownership of remaining land is remote.

## 6. REVENUE AND SEGMENT INFORMATION

**Segment revenue and results**

Dalian Lugang operates as a single operating segment. The single operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocation resources and assessing performance of the operating segment, has been identified as the executive director that make strategic decisions.

Dalian Lugang's business is lands consolidation and sales of lands. Since Dalian Lugang is still in the process of land consolidation in the Relevant Period, there is no revenue generated. The non-current assets are physically located in the PRC for the Relevant Period.

## 7. OTHER INCOME AND GAIN

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Miscellaneous rental income | 1,027 | 632 | 1,138 | 122 | 97 |
| Interest income on bank deposits | 14 | 37 | 33 | 11 | – |
| Land compensations received from the government, net of cost *(note 1)* | – | – | 5,185 | – | 113,569 |
| Recovery on a deposit impaired in previous years *(note 2)* | – | 40,000 | – | – | – |
| | 1,041 | 40,669 | 6,356 | 133 | 113,666 |

*Note 1:* During the Relevant Period, certain land parcels owned by Dalian Lugang were expropriated by the PRC government for the construction of the Dalian Intercity Railway. These amounts represent the compensation received from the local government for the expropriation, net with the cost of those relevant lands.

*Note 2:* In 2007, Dalian Lugang had paid a deposit, amounting to RMB40,000,000, to an independent third party for acquiring a land parcel. The amount was considered to be irrecoverable in 2011, thus it was written off. During 2013, Dalian Lugang recovered and received the deposit, and therefore it was treated as a reversal of impairment.

## 8. FINANCE COSTS

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | | (unaudited) | |
| Interest on borrowings wholly repayable within five years | 174,509 | 154,389 | 161,529 | 49,302 | 60,410 |
| Loan arrangement fee *(note)* | – | – | 15,053 | 4,105 | 10,947 |
| | 174,509 | 154,389 | 176,582 | 53,407 | 71,357 |

*Note:* The loan arrangement fee represents guarantee fee and financing services fee to obtain a borrowing from a financial institution, third parties and shareholders. The corresponding borrowing was fully settled during the four months ended 30 April 2015.

## 9. INCOME TAX EXPENSE

The current tax of PRC Enterprise Income Tax is RMB21,670,000 for the four months ended 30 April 2015, while there are no tax provision for the years ended 31 December 2012, 2013 and 2014 and the four months ended 30 April 2014 because there was no assessable profit.

Dalian Lugang is subject to PRC Enterprise Income Tax at 25% for the years ended 31 December 2012, 2013 and 2014 and for the four months ended 30 April 2015.

The income tax expense for the year/period can be reconciled to the (loss) profit before tax per the statements of profit or loss and other comprehensive income as follows:

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| (Loss) profit before tax | (174,653) | (114,618) | (197,201) | (55,220) | 41,810 |
| Tax at the domestic rate of 25% | 43,664 | 28,655 | 49,300 | 13,805 | (10,453) |
| Tax effect of tax losses not recognised | (29) | (56) | (235) | – | – |
| Tax effect of income not taxable | – | 10,000 | – | – | – |
| Tax effect of expense not deductible | (43,635) | (38,599) | (49,065) | (13,805) | (11,217) |
| | – | – | – | – | (21,670) |

At 31 December 2012, 31 December 2013, 31 December 2014 and 30 April 2015, Dalian Lugang has unused tax losses of approximately RMB4,315,000, RMB3,157,000, RMB3,025,000 and RMB3,025,000 respectively available for offset against future profits that may be carried forward over five years from the year of origination. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

## 10. (LOSS) PROFIT FOR THE YEAR/PERIOD

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| (Loss) profit for the year/period has been arrived at after charging: | | | | | |
| Staff costs (including directors' emolument) | | | | | |
| – salaries and wages | 487 | 102 | 970 | 63 | 320 |
| – retirement benefits scheme contributions | 77 | 36 | 136 | 11 | 55 |
| | 564 | 138 | 1,106 | 74 | 375 |
| Auditor's remuneration | – | – | – | – | – |
| Amortisation of intangible assets | 4 | 4 | 3 | 1 | – |
| Loss on disposal of property, plant and equipment | – | – | 1 | – | – |

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND EMPLOYEES' REMUNERATION

**Directors' emoluments**

The following table sets forth certain information in respect of the directors of Dalian Lugang during the Relevant Period:

| Name | Position | Date of appointment as director | Date of resignation |
|---|---|---|---|
| Zhang Yanqing | Executive director | 22 December 2006 | 6 December 2013 |
| Liu Bin | Non-executive director | 22 December 2006 | 6 December 2013 |
| Zhou Yu | Non-executive director | 22 December 2006 | 6 December 2013 |
| Li Yuanjie | Executive director | 6 December 2013 | 15 April 2015 |
| Qu Yan | Non-executive director | 6 December 2013 | 15 April 2015 |
| Man Hong | Non-executive director | 6 December 2013 | 15 April 2015 |
| Zhang Yu | Executive director and chief executive | 15 April 2015 | N/A |

Neither the chief executive nor any of the directors of Dalian Lugang waived any emoluments during the Relevant Period.

Details of the emoluments paid or payable to the directors of Dalian Lugang during the Relevant Period are as follows:

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Salaries, allowances and benefits in kind | – | – | – | – | – |

**Employees' remuneration**

The five highest paid individuals who are not directors of Dalian Lugang for the Relevant Period are as follows:

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Salaries, allowances and benefits in kind | 194 | 98 | 234 | 58 | 200 |
| Contribution to retirement benefits schemes | 75 | 31 | 49 | 8 | 39 |
| | 269 | 129 | 283 | 66 | 239 |

Their emoluments were within the following bands:

| | No. of employees | | | |
|---|---|---|---|---|
| | Year ended 31 December | | | Four months ended 30 April |
| | 2012 | 2013 | 2014 | 2015 |
| Nil to HK$1,000,000 (Equivalent to Nil to RMB800,000) | 5 | 5 | 5 | 5 |

During the Relevant Period, no emoluments were paid by Dalian Lugang to any of the directors of Dalian Lugang or the five highest paid individual of Dalian Lugang as an inducement to join or upon joining Dalian Lugang or as compensation for loss of office.

**12. RETIREMENT BENEFITS PLANS**

The employees of Dalian Lugang in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The only obligation of Dalian Lugang with respect to the retirement benefit scheme is to make the specified contributions. The total costs charged to the profit or loss of approximately RMB77,000, RMB36,000, RMB136,000, RMB11,000 (unaudited) and RMB55,000 for the years ended 31 December 2012, 31 December 2013, 31 December 2014 and the four months ended 30 April 2014 and 2015, respectively represent retirement benefit contributions paid or payable to this scheme by Dalian Lugang.

## 13. (LOSS) EARNINGS PER SHARE

No (loss) earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful.

## 14. DIVIDEND

No dividend was declared or proposed during the Relevant Period.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Vehicles | Equipment and others | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **COST** | | | | |
| At 1 January 2012 | 3,253 | 1,226 | 1,131 | 5,610 |
| Additions | – | – | 33 | 33 |
| At 31 December 2012 | 3,253 | 1,226 | 1,164 | 5,643 |
| Additions | – | – | 6 | 6 |
| At 31 December 2013 | 3,253 | 1,226 | 1,170 | 5,649 |
| Disposals | (3,253) | – | (30) | (3,283) |
| At 31 December 2014 and 30 April 2015 | – | 1,226 | 1,140 | 2,366 |
| **DEPRECIATION** | | | | |
| At 1 January 2012 | (3,130) | (1,185) | (930) | (5,245) |
| Provided for the year | (26) | – | (65) | (91) |
| At 31 December 2012 | (3,156) | (1,185) | (995) | (5,336) |
| Provided for the year | – | – | (60) | (60) |
| At 31 December 2013 | (3,156) | (1,185) | (1,055) | (5,396) |
| Provided for the year | – | – | (48) | (48) |
| Eliminated on disposals | 3,156 | – | 29 | 3,185 |
| At 31 December 2014 | – | (1,185) | (1,074) | (2,259) |
| Provided for the period | – | – | (8) | (8) |
| At 30 April 2015 | – | (1,185) | (1,082) | (2,267) |
| **CARRYING VALUES** | | | | |
| At 31 December 2012 | 97 | 41 | 169 | 307 |
| At 31 December 2013 | 97 | 41 | 115 | 253 |
| At 31 December 2014 | – | 41 | 66 | 107 |
| At 30 April 2015 | – | 41 | 58 | 99 |

The property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account their residual value as follows:

| | |
|---|---|
| Buildings | 5 years |
| Vehicles | 5 years |
| Equipment and others | 5 years |

**16. INTANGIBLE ASSETS**

| | **Computer software license** |
|---|---|
| | *RMB'000* |
| **COST** | |
| At 1 January 2012, 31 December 2012, 31 December 2013, 31 December 2014 and 30 April 2015 | 11 |
| **AMORTISATION** | |
| At 1 January 2012 | – |
| Provided for the year | 4 |
| At 31 December 2012 | 4 |
| Provided for the year | 4 |
| At 31 December 2013 | 8 |
| Provided for the year | 3 |
| At 31 December 2014 and 30 April 2015 | 11 |
| **CARRYING VALUES** | |
| At 31 December 2012 | 7 |
| At 31 December 2013 | 3 |
| At 31 December 2014 and 30 April 2015 | – |

The intangible assets relate to the acquisition of computer software license. They are amortised on a straight-line basis over their estimated useful lives of 3 years.

**17. LAND DEVELOPMENT FOR SALE**

Land development for sale represents acquisition cost of land and cost of land development within the areas of the development project in which Dalian Lugang runs its land development businesses. Land development for sale is expected to be realised over twelve months thus it is classified as non-current assets. The accounting policy of revenue recognition on sale of land parcels is set out in note 4.

Due to the lawsuit as disclosed in note 5, the land parcels, for which ineffective S&P agreement was signed, amounting to approximately RMB20,742,000 were written to profit or loss.

The land use right certificates for the land parcels are not in the name of Dalian Lugang at the end of each reporting periods. The key source of estimation uncertainty on ownership of the land parcels is set out in note 5.

**18. OTHER RECEIVABLES**

| | At 31 December | | | At 30 April |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Deposits and other receivables | 41 | 41 | 7,808 | 7,836 |
| Prepayments | 111 | 105 | 53 | 13 |
| | 152 | 146 | 7,861 | 7,849 |

The balances as at 31 December 2014 and 30 April 2015 included a receivable amounting RMB7,790,000 related to a court decision during 2014. As discussed in note 5, Dalian Lugang can claim back from this land user the proceed they paid for the land parcels, amounting approximately RMB7,790,000.

In order to minimise credit risk, Dalian Lugang reviews the recoverable amount of each individuals debt at the end of reporting period to ensure that impairment loss are made for irrecoverable amounts. Accordingly, the directors of Dalian Lugang consider that no allowance for bad and doubtful debts is required.

**19. BANK BALANCES AND CASH**

Bank balances carry prevailing bank interest rates at 0.35% per annum as at 31 December 2012, 2013, 2014 and 30 April 2015.

**20. TRADE AND OTHER PAYABLES/LONG TERM PAYABLE**

| | At 31 December | | | At 30 April |
|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Long term payable *(note a)* | 15,047 | 15,047 | 15,047 | 15,047 |
| Interest payable *(note b)* | – | 18,145 | 1,783 | 3,352 |
| Other payable | 13,124 | 1,761 | 3,227 | 2,240 |
| Amount shown under trade and other payable | 13,124 | 19,906 | 5,010 | 5,592 |

*Note a:* The long term payable represents the outstanding balances to be paid for acquiring the land development for sale. The long term payable is aged, based on the invoice date, over one year, and due for payment only after the relevant land certificate is obtained by the Group.

*Note b:* As at 30 April 2015, the interest payable is due to its immediate holding company.

## 21. BORROWINGS FROM THIRD PARTIES

| | At 31 December | | | At 30 April |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Borrowings from third parties | 697,190 | – | 369,813 | – |

The balances are unsecured, bearing fixed interest at 12% per annum and repayable within one year. They represent short term borrowings from unrelated third parties to provide short term financing to Dalian Lugang.

## 22. BORROWINGS FROM SHAREHOLDERS/HOLDING COMPANY

Borrowings from shareholders/holding company are unsecured and carried at fixed interest of 12% interest per annum.

Details are as follows:

| | Year ended 31 December | | | 30 April |
|---|---|---|---|---|
| **Shareholders** | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Dalian Bao Xing Da Industrial Co., Ltd. *(note 1)* | – | – | – | 1,157,601 |
| Dalian Furuida Investment Company Limited *(note 2)* | 82,000 | – | – | – |
| Dalian Changming Information Technology Company Limited *(note 2)* | 44,700 | – | – | – |
| | 126,700 | – | – | 1,157,601 |

*Note 1:* The borrowing is classified as non-current as it is repayable on 19 October 2016 which is repayable over one year but less than two years. Dalian Bao Xing Da Industrial Co., Ltd. is the holding company of Dalian Lugang as at 30 April 2015. The borrowing was advanced to Lugang Logistic before the Lender became the holding company and hence was presented as advances from third parties in the statement of cash flows.

*Note 2:* The borrowings are classified as current as they are repayable on demand. Dalian Furuida Investment Company Limited and Dalian Changming Information Technology Company Limited are shareholders of Dalian Lugang who had 23% and 19% equity interest of Dalian Lugang as at 31 December 2012 respectively.

### 23. BORROWINGS FROM FINANCIAL INSTITUTIONS

The maturity profile of borrowings from financial institutions are as follows:

| | At 31 December | | | At 30 April |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Aggregate amount repayable within one year | 87,200 | 250,000 | 865,053 | – |
| More than one year, but not exceeding two years | 250,000 | 829,630 | – | – |
| | 337,200 | 1,079,630 | 865,053 | – |
| Less: Amount shown under current liabilities | (87,200) | (250,000) | (865,053) | – |
| Amount shown under non-current liabilities | 250,000 | 829,630 | – | – |

Certain of the borrowings from financial institutions as at 31 December 2012 and 2013 are guaranteed by a Dalian Lugang's shareholder.

The borrowings carried fixed interests ranging from 8.8% to 22.0% per annum as at 31 December 2012, ranging from 8.8% to 22.0% per annum as at 31 December 2013 and ranging from 8.8% to 15.0% per annum as at 31 December 2014.

### 24. PAID-IN CAPITAL

| | **Amount** |
|---|---|
| | *RMB'000* |
| Paid-in capital at 1 January 2012 and 31 December 2012 | 200,000 |
| Capital injection during the year | 200,000 |
| Paid-in capital as at 31 December 2013 | 400,000 |
| Capital injection during the year | 40,000 |
| Paid-in capital as at 31 December 2014 and 30 April 2015 | 440,000 |

## 25. CAPITAL RISK MANAGEMENT

Dalian Lugang manages its capital to ensure that Dalian Lugang will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. Dalian Lugang's overall strategy remains unchanged throughout the Relevant Period.

The capital structure of Dalian Lugang consists of debt, which includes borrowings from third parties, borrowings from shareholders and borrowings from financial institutions as disclosed in notes 21, 22 and 23, respectively, net of bank balances and cash and equity attributable to owners of Dalian Lugang, comprising paid-in capital, accumulated losses and other reserve.

The directors of Dalian Lugang review the capital structure from time to time. As a part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, Dalian Lugang will balance its overall capital structure through raising of new capital, new debt or the redemption of existing debt.

## 26. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | At 31 December | | | At 30 April |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Financial assets** | | | | |
| Loans and receivables (including cash and cash equivalents) | 3,247 | 4,069 | 8,006 | 7,912 |
| **Financial liabilities** | | | | |
| Other financial liabilities at amortised cost | 1,189,261 | 1,114,583 | 1,254,923 | 1,178,240 |

### b. Financial risk management objectives and policies

Dalian Lugang's major financial instruments include other receivables, bank balances and cash, trade and other payables, borrowings from third parties, borrowings from shareholders and borrowings from financial institutions. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments principally include market risk (interest rate risk) and liquidity risk. The directors of Dalian Lugang considered that the credit risk is insignificant and therefore they are excluded from the financial risk analysis. 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.

***Market risk***

Dalian Lugang's activities expose them primarily to the financial risk of changes in interest rates.

There has been no change to Dalian Lugang's exposure to market risks or the manner in which they manage and measure the risk. Details of market risk are described as follows:

*(i) Interest rate risk management*

Dalian Lugang is mainly exposed to fair value interest rate risk in relation to fixed-rate borrowings from third parties, shareholders and financial institutions. The Group currently does not have any instruments to hedge against the fair value interest rate risk.

The directors of Dalian Lugang considered that cash flow interest rate risk in bank balances is insignificant and therefore no sensitivity analysis is presented.

***Liquidity risk***

In the management of the liquidity risk, the Dalian Lugang's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and long term.

The following tables detail Dalian Lugang's remaining contractual maturities for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Dalian Lugang can be required to pay. The tables include both interest and principal cash flows.

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1–2 years | Over 2 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 31 December 2012 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 13,124 | – | – | 15,047 | 28,171 | 28,171 |
| Borrowings from shareholders | 12% | 126,700 | – | – | – | 126,700 | 126,700 |
| Borrowings from third parties | 12% | – | 740,893 | – | – | 740,893 | 697,190 |
| Borrowings from financial institutions | 14.4% | – | 99,216 | 288,500 | – | 387,716 | 337,200 |
| | | 139,824 | 840,109 | 288,500 | 15,047 | 1,283,480 | 1,189,261 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1–2 years | Over 2 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 31 December 2013 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 19,906 | – | – | 15,047 | 34,953 | 34,953 |
| Borrowings from financial institutions | 14% | – | 266,500 | 1,032,889 | – | 1,299,389 | 1,079,630 |
| | | 19,906 | 266,500 | 1,032,889 | 15,047 | 1,334,342 | 1,114,583 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1–2 years | Over 2 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 31 December 2014 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 5,010 | – | – | 15,047 | 20,057 | 20,057 |
| Borrowings from third parties | 12% | – | 384,606 | – | – | 384,606 | 369,813 |
| Borrowings from financial institutions | 15% | – | 973,185 | – | – | 973,185 | 865,053 |
| | | 5,010 | 1,357,791 | – | 15,047 | 1,377,848 | 1,254,923 |

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 months to 1 year | 1–2 years | Over 2 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 30 April 2015 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 5,592 | – | – | 15,047 | 20,639 | 20,639 |
| Borrowing from a shareholder | 12% | – | – | 1,395,509 | – | 1,395,509 | 1,157,601 |
| | | 5,592 | – | 1,395,509 | 15,047 | 1,416,148 | 1,178,240 |

c. **Fair value measurements**

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 inputs are inputs that are not based on observable market data (unobservable inputs).

The directors of Dalian Lugang consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statement of financial position approximate their respective fair values at the end of each reporting period.

## 27. RELATED PARTY DISCLOSURES

Apart from details of the borrowings from shareholders disclosed in the statements of financial position and other details disclosed elsewhere and below in the Financial Information, Dalian Lugang has not entered into any significant transactions with related parties during the Relevant Period.

**Interest expenses on borrowings from shareholders**

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Dalian Bao Xing Da Industrial Co., Ltd. | – | – | – | – | 3,352 |
| Dalian Furuida Investment Company Limited | 7,052 | 4,701 | – | – | – |
| Dalian Changming Information Technology Company Limited | 1,043 | 2,608 | – | – | – |
| | 8,095 | 7,309 | – | – | 3,352 |

**Compensation of key management of personnel**

The remuneration of directors and other members of key management during the Relevant Period was as follows:

| | Year ended 31 December | | | Four months ended 30 April | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Short-term benefits | 125 | 37 | 158 | 75 | 80 |
| Retirement benefits scheme contributions | 30 | 8 | 33 | 11 | 18 |
| | 155 | 45 | 191 | 86 | 98 |

The remuneration of directors and key executives is determined by having regard to the performance of individuals and Dalian Lugang and market trends.

Maximum and utilised financial guarantee from a shareholder of Dalian Lugang:

| | At 31 December | | | At 30 April |
|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Dalian Huaxin Xinda Industrial Development Company Limited | 250,000 | 250,000 | – | – |

## B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Dalian Lugang have been prepared in respect of any period subsequent to 30 April 2015.

Yours faithfully

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

## MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP AND LUGANG LOGISTICS

Set out below is the management discussion and analysis of (i) the Target Group for the period from 2 April 2015 (the date of incorporation of the Target Company) to 30 April 2015 and; (ii) Lugang Logistics for the three years ended 31 December 2012, 2013 and 2014 and for the four months ended 30 April 2015. The following financial information are based on the financial information of the Target Group and Lugang Logistics as set out in Appendix II to III to this circular.

### A. The Target Group

The Target Company is a limited company established in the PRC on 2 April 2015 with a registered share capital of RMB100 million which has not yet been paid up by its shareholders. In April 2015, the Target Company has acquired the entire equity interests of Lugang Logistics and Lugang Logistics has become a wholly-owned subsidiary of the Target Company since then. The Target Company is an investment holding company and it does not carry out any other business. The major asset of the Target Company is the entire issued share capital of Lugang Logistics.

The equity interest of the Target Company is owned as to 70%, 10% and 20% by the Vendor, Harbin Hezhong and Beijing Hengyu respectively.

For the period from 2 April 2015 (the date of incorporation of the Target Company) to 30 April 2015, the Target Group recorded loss for the period of approximately RMB328.5 million contributed by the impairment loss on goodwill of approximately RMB278.8 million. The directors of the Company have assessed the impairment of the pro forma goodwill arising from the Acquisition under Hong Kong Accounting Standard 36 and concluded that the pro forma goodwill shall be fully impaired due to the reason set out in the note e to the unaudited pro forma financial information of the Enlarged Group. The directors of the Company have confirmed that consistent accounting policies and principal assumptions for the impairment test of goodwill will be applied for any future assessment and that for the same reason as that set out in note e, any goodwill arising from the purchase price allocation carried out as at the completion date of the Acquisition will be fully impaired in the same accounting period as the Acquisition date. The reporting accountants concurred with the assessment of the directors of the Company set out above. As Lugang Logistics is the operating subsidiary of the Target Group, we include in the below sub-section headed "Lugang Logistics" for the management discussion and analysis of the business and financial results of Lugang Logistics for the three years ended 31 December 2012, 2013 and 2014 and the four months ended 30 April 2015. We have also prepared an analysis on the financial position of Lugang Logistics for the three years ended 31 December 2012, 2013 and 2014 and for the four months ended 30 April 2015.

## B. Lugang Logistics

***Business and financial review of Lugang Logistics***

*(i) Comparison for the four months ended 30 April 2015 to the four months ended 30 April 2014*

Lugang Logistics is a company established in the PRC and is principally engaged in land consolidation, parking services and lease of land.

For the four months ended 30 April 2015, Lugang Logistics recorded other income and gain of approximately RMB113.7 million, as compared with that of approximately RMB133,000 for the four months ended 30 April 2014. Such increase was primarily due to the compensation of approximately RMB113.6 million received during the four months ended 30 April 2015 from the PRC government for its expropriation of certain land parcels owned by Lugang Logistics for the purpose of construction of the Dalian Intercity Railway, net off with the cost of those relevant lands.

The finance costs increased from approximately RMB53.4 million for the four months ended 30 April 2014 to approximately RMB71.4 million for the four months ended 30 April 2015 due to increase in borrowings from shareholders during the four months ended 30 April 2015.

The net profit after taxation of Lugang Logistics for the four months ended 30 April 2015 was approximately RMB20.1 million, as compared with the net loss after taxation of approximately RMB55.2 million for the four months ended 30 April 2014. Such change was primarily due to the combined effect of increase in other income and gain and increase in finance costs.

*(ii) Comparison for the year ended 31 December 2014 to the year ended 31 December 2013*

For the year ended 31 December 2014, Lugang Logistics recorded other income and gain of approximately RMB6.4 million, representing the compensation received from the PRC government for its expropriation of certain land parcels owned by Lugang Logistics for the purpose of the construction of the Dalian Intercity Railway, net off with the cost of those relevant lands, and the miscellaneous rental income as compared with that of approximately RMB40.7 million for the year ended 31 December 2013. Such decrease was primarily due to the recovery on deposit impaired in previous years of approximately RMB40.0 million during the year ended 31 December 2013.

The finance costs increased from approximately RMB154.4 million for the year ended 31 December 2013 to approximately RMB176.6 million for the year ended 31 December 2014 mainly due to the loan arrangement fee of approximately RMB15.1 million during the year ended 31 December 2014, representing guarantee fee and financing services fee to obtain a borrowing from a financial institution.

The net loss after taxation of Lugang Logistics for the year ended 31 December 2014 was approximately RMB197.2 million, as compared with the net loss after taxation of approximately RMB114.6 million for the year ended 31 December 2013. Such increase was primarily due to the combined effect of decrease in other income and gain and increase in finance costs, and the write off of land development for sale of approximately RMB20.7 million during the year ended 31 December 2014.

*(iii) Comparison for the year ended 31 December 2013 compared to the year ended 31 December 2012*

For the year ended 31 December 2013, Lugang Logistics recorded other income and gain of approximately RMB40.7 million, as compared with that of approximately RMB1.0 million for the year ended 31 December 2012. Such increase was primarily due to the recovery on deposit impaired in previous years of approximately RMB40.0 million during the year ended 31 December 2013.

The finance costs decreased from approximately RMB174.5 million for the year ended 31 December 2012 to approximately RMB154.4 million for the year ended 31 December 2013 due to the decrease in total borrowings during the year ended 31 December 2013.

The net loss after taxation of Lugang Logistics for the year ended 31 December 2013 was approximately RMB114.6 million, as compared with the net loss after taxation of approximately RMB174.7 million for the year ended 31 December 2012. Such change was primarily due to the combined effect of increase in other income and gain and decrease in finance costs.

*(iv) For the year ended 31 December 2012*

For the year ended 31 December 2012, Lugang Logistics recorded other income and gain of approximately RMB1.0 million, which mainly comprised of miscellaneous rental income. The finance costs was approximately RMB174.5 million for the year ended 31 December 2012.

The net loss after taxation of Lugang Logistics for the year ended 31 December 2012 was approximately RMB174.7 million, which mainly comprised of finance costs of approximately RMB174.5 million.

***Liquidity and financial resources***

As at 31 December 2012, 31 December 2013, 31 December 2014 and 30 April 2015, Lugang Logistics had (i) trade and other payables of approximately RMB13.1 million, RMB19.9 million, RMB5.0 million and RMB5.6 million respectively; and (ii) cash and cash equivalents of approximately RMB3.2 million, RMB4.0 million, RMB198,000 and RMB76,000 respectively.

As at 31 December 2012, 31 December 2013, 31 December 2014 and 30 April 2015, Lugang Logistics had current ratio (calculated by current assets divided by current liabilities) of approximately 0.0 times, 0.0 times, 0.0 times and 0.3 times respectively.

As at 31 December 2012, 31 December 2013, 31 December 2014 and 30 April 2015, Lugang Logistics had borrowings of approximately RMB1.2 billion, RMB1.1 billion, RMB1.2 billion and RMB1.2 billion respectively other than normal trade debts and thus the gearing ratios (being total borrowings over the total assets) are approximately 306.5%, 277.2%, 331.4% and 342.7% respectively.

***Foreign exchange management***

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

***Funding and treasury policy***

Lugang Logistics adopts a prudent funding and treasury policy towards their overall business operations with an aim to minimise financial risks. Future projects will be financed by cash flows from operations or capital raised by means of equity financing.

***Capital commitment***

As at 31 December 2012, 31 December 2013, 31 December 2014 and 30 April 2015, Lugang Logistics had no capital commitment.

***Significant investment, material acquisition and disposals***

Lugang Logistics did not have any significant investments, material acquisition or disposal for the period from 1 January 2012 to 30 April 2015.

***Contingent liabilities***

As at 31 December 2012, 31 December 2013, 31 December 2014 and 30 April 2015, Lugang Logistics did not have any significant contingent liabilities.

***Pledge of asset***

As at 31 December 2012, 31 December 2013, 31 December 2014 and 30 April 2015, Lugang Logistics did not have any pledge of assets.

***Employee information***

As at 30 April 2015, Lugang Logistics had 32 employees (including directors).

Directors' and chief executive's emoluments and employees' remuneration of Lugang Logistics are disclosed in page III-20 and page III-21 of this circular.

*Remuneration policy*

Lugang Logistics recruit, employ, promote and remunerate their employees based on their qualification, experience, skills, performances and contributions. Remuneration is also determined with reference to, among others, the market trend. Other benefits include social insurance and allowance. Bonus to the employees of Lugang Logistics was determined after taking into accounts the results of Lugang Logistics and the performance of employees. During the years ended 31 December 2012, 2013 and 2014 and the four months ended 30 April 2015, staff costs of Lugang Logistics were approximately RMB564,000, RMB138,000, RMB1.1 million and RMB375,000 respectively.

The remuneration policy of Lugang Logistics' senior management is also regularly monitored by the Company's remuneration committee.

The Company will provide training (whether in-house or out-sourced) to their employees when necessary.

*The following is the full text of a report, prepared for the sole purpose of inclusion in this circular, received from the Company's auditors, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong addressed to the Directors.*

**REPORT ON THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP**

Deloitte.
德勤

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

TO THE DIRECTORS OF HUAJUN HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Huajun Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 March 2015 and related notes as set out on pages V7 of the circular issued by the Company dated 14 August 2015 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are set out in Appendix V to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 60% equity interest of Dalian Bao Xing Da Industrial Co., Ltd on the Group's financial position as at 31 March 2015 as if the event or transaction had taken place at 31 March 2015. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's consolidated financial statements for the year ended 31 March 2015, on which an audit report has been published.

**Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2015 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 unaudited pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

14 August 2015

## UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

### A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group ("Unaudited Pro Forma Financial Information") is prepared by the Directors to illustrate the financial effect of the proposed acquisition of 60% equity interest of Dalian Bao Xing Da Industrial Co., Ltd. (the "Target Company") and its subsidiary (collectively referred to as the "Target Group") (the "Acquisition") on Huajun Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), as if the Acquisition had been completed on 31 March 2015.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Listing Rules, for the purpose of illustrating the effect of the Acquisition pursuant to the terms of the sale and purchase agreement dated 12 June 2015 (the "SPA") entered into among the Company and the controlling shareholder of the Target Company.

The unaudited pro forma consolidated statement of financial position is prepared based on the audited consolidated statement of financial position of the Group as at 31 March 2015, which has been extracted from the Company's published annual report for the year ended 31 March 2015 and the audited consolidated statement of financial position of the Target Group as at 30 April 2015 as extracted from the accountants' report of the Target Group thereon set out in Appendix II to this Circular, after making pro forma adjustments relating to the Acquisition, as if the Acquisition had been completed on 31 March 2015.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group set out the annual report of the Company for the year ended 31 March 2015 and other financial information included elsewhere in this Circular.

| | The Group as at 31 March 2015 | The Target Group as at 30 April 2015 | The Target Group as at 30 April 2015 | Pro forma adjustments for the Acquisition | | | Pro forma Enlarged Group after the Acquisition |
|---|---|---|---|---|---|---|---|
| | *HKD'000* | *RMB'000* | *HKD'000* | *HKD'000* | *HKD'000* | *HKD'000* | *HKD'000* |
| | *(Audited)* | *(Audited)* | *(Audited)* | | | | *(Unaudited)* |
| | *Note a* | *Note b* | *Note b* | *Note c* | *Note d* | *Note e* | |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | 247,689 | 99 | 124 | | | | 247,813 |
| Prepaid lease payments | 16,979 | – | – | | | | 16,979 |
| Investment properties | 637,431 | – | – | | | | 637,431 |
| Club membership | 2,092 | – | – | | | | 2,092 |
| Finance lease receivables | 462,492 | – | – | | | | 462,492 |
| Loan receivables | 54,199 | – | – | | | | 54,199 |
| Deferred tax assets | 2,332 | – | – | | | | 2,332 |
| Deposits for purchases of plant and equipment | 10,966 | – | – | | | | 10,966 |
| Land development for sale | – | 1,900,000 | 2,375,000 | | | | 2,375,000 |
| Goodwill | – | – | – | 321,395 | | (321,395) | – |
| | 1,434,180 | 1,900,099 | 2,375,124 | | | | 3,809,304 |
| **Current assets** | | | | | | | |
| Inventories | 106,253 | – | – | | | | 106,253 |
| Finance lease receivables | 41,258 | – | – | | | | 41,258 |
| Trade and other receivables | 189,680 | 7,849 | 9,811 | | | | 199,491 |
| Loan receivables | 71,300 | – | – | | | | 71,300 |
| Tax recoverable | 336 | – | – | | | | 336 |
| Pledged bank deposits | 644,388 | – | – | | | | 644,388 |
| Bank balances and cash | 1,231,259 | 76 | 95 | (75,000) | (1,720) | | 1,154,634 |
| | 2,284,474 | 7,925 | 9,906 | | | | 2,217,660 |
| **Total assets** | 3,718,654 | 1,908,024 | 2,385,030 | | | | 6,026,964 |
| **Current liabilities** | | | | | | | |
| Trade and other payables | 442,353 | 8,173 | 10,215 | | | | 452,568 |
| Tax payables | 11,767 | 21,670 | 27,088 | | | | 38,855 |
| Borrowings | 714,710 | – | – | | | | 714,710 |
| | 1,168,830 | 29,843 | 37,303 | | | | 1,206,133 |
| **Net current assets (liabilities)** | 1,115,644 | (21,918) | (27,397) | | | | 1,011,527 |
| **Total assets less current liabilities** | 2,549,824 | 1,878,181 | 2,347,727 | | | | 4,820,831 |

| | The Group as at 31 March 2015 | The Target Group as at 30 April 2015 | The Target Group as at 30 April 2015 | Pro forma adjustments for the Acquisition | | | Pro forma Enlarged Group after the Acquisition |
|---|---|---|---|---|---|---|---|
| | *HKD'000* | *RMB'000* | *HKD'000* | *HKD'000* | *HKD'000* | *HKD'000* | *HKD'000* |
| | *(Audited)* | *(Audited)* | *(Audited)* | | | | *(Unaudited)* |
| | *Note a* | *Note b* | *Note b* | *Note c* | *Note d* | *Note e* | |
| **Non-current liabilities** | | | | | | | |
| Long term deposits received | 21,875 | – | – | | | | 21,875 |
| Long term payable | – | 15,047 | 18,809 | | | | 18,809 |
| Deferred tax liabilities | 128,543 | 122,562 | 153,203 | | | | 281,746 |
| Borrowings | 1,051,910 | – | – | | | | 1,051,910 |
| Borrowing from a third party | – | 2,069,099 | 2,586,374 | | | | 2,586,374 |
| | 1,202,328 | 2,206,708 | 2,758,386 | | | | 3,960,714 |
| **Total liabilities** | 2,371,158 | 2,236,551 | 2,795,689 | | | | 5,166,847 |
| **Net assets (liabilities)** | 1,347,496 | (328,527) | (410,659) | | | | 860,117 |
| **Equity** | | | | | | | |
| Share capital | 31,983 | – | – | | | | 31,983 |
| Reserves | 1,250,176 | (328,527) | (410,659) | 410,659 | (1,720) | (321,395) | 927,061 |
| Equity attributable to shareholders of the Company | 1,282,159 | (328,527) | (410,659) | | | | 959,044 |
| Non-controlling interest | 65,337 | – | – | (164,264) | | | (98,927) |
| **Total equity (deficiency of total equity)** | 1,347,496 | (328,527) | (410,659) | | | | 860,117 |

## Notes to Unaudited Pro Forma Financial Information

a. Figures are extracted from the audited consolidated financial statements of the Group as set out in the annual report of the Company for the year ended 31 March 2015.

b. Figures are extracted from the Target Group's consolidated statement of financial position as at 30 April 2015 included in the accountants' report of the Target Group as set out in Appendix II to the Circular and converted to the presentation currency of the Group of HK$. The conversion of RMB into HK$ for the consolidated statement of financial position of the Target Group is based on the exchange rate of RMB1 translated to Hong Kong dollar ("HK$") 1.25 stated in Definitions. No representation is made that RMB amounts have been, could have been or could be converted into HK$, or vice versa, at that rate or at any other rates or at all.

c. Pursuant to the SPA entered into on 12 June 2015, the Consideration is RMB60,000,000 (equivalent to HK$75,000,000) and shall be satisfied by cash. The completion of the Acquisition is subject to the conditions as set out in the section of "Letter from the Board" to this circular (the "Conditions"). For the purpose of preparation of the unaudited Pro Forma Financial Information, it is assumed that the Group would obtain control over the Target Company pursuant to the SPA.

d. The adjustment represents estimated acquisition-related costs of approximately HK$1,720,000 which would be recognised in profit or loss upon the Completion. This adjustment will not have continuing effect on the Enlarged Group.

e. As the subsidiaries' assets mainly comprises land parcels for sale, which are already stated at their pro forma fair value, as such it is considered that there is no further value-in-use to support the carrying amount of the goodwill, so the Directors have assessed whether there is any impairment on the pro forma goodwill as at 31 March 2015 in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"). Full impairment is made in respect of the pro forma goodwill of approximately HK$321,395,000 shown in the unaudited pro forma consolidated statement of financial position of the pro forma Group immediately upon the Acquisition.

For the purpose of preparation of the unaudited Pro Forma Financial Information, it is assumed that (i) the Target has fulfilled the Conditions to the Acquisition; and (ii) the pro forma fair values of the identifiable assets and liabilities of the Target Group approximate their carrying amounts as at 30 April 2015.

The Acquisition will be accounted for under the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

| | *HKD'000* |
|---|---|
| Cash consideration to acquire 60% equity interest of the Target Group | 75,000 |
| Less: Non-controlling interests with 40% equity interest | (164,264) |
| Add: Pro forma fair value of the identifiable net liabilities of the Target Group | 410,659 |
| Pro forma goodwill arising on Acquisition | 321,395 |

The fair value of the identifiable assets and liabilities of the Target Group will be re-assessed at the actual completion date of the Acquisition, hence the amount of goodwill to be recognized in connection with the Acquisition at the completion date are therefore subject to changes from the pro forma amounts shown above. For the reason stated in the first paragraph of this note, any goodwill arising from the purchase price allocation carried out as at the completion date of the Acquisition will be fully impaired in the same accounting period as the Acquisition date.

Pro forma goodwill arose on the Acquisition because the Company expected to diversify the Group's business portfolio and also provide a new source of income for the Group. Therefore, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and the future market development of the Group. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

*The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited., an independent valuer, in connection with its valuation as at 30 June 2015 of the Property held by Huajun Holdings Ltd.*

永利行評值顧問有限公司
RHL Appraisal Limited
*Corporate Valuation & Advisory*

T +852 2730 6212
F +852 2736 9284

Room 1010, 10/F, Star House
Tsimshatsui, Hong Kong

14 August 2015

**The Board of Directors**
**Huajun Holdings Ltd**
36/F,
Citibank Tower,
3 Garden Road,
Central,
Hong Kong

Dear Sirs/Madam,

**INSTRUCTIONS**

We refer to the instruction of Huajun Holdings Ltd (the "Company") for us to value the property interest ("the Property") held by Dalian Lugang Logistics Company Limited ("Lugang Logistics") to be acquired by the Company located in the People's Republic of China ("PRC"). We confirm that we have carried out property inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 30 June 2015 (the "Valuation Date").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

## BASIS OF VALUATION

The valuation is our opinion of the market value ("Market Value") which we would define as intended to mean 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 wherein the parties had each acted knowledgeably prudently and without compulsion.

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

## VALUATION METHODOLOGY

We have valued the Property by using the Direct Comparison Approach by making reference to the comparable market transactions/asking cases as available. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

## VALUATION CONSIDERATIONS

In valuing the property interest, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2012 Edition.

## VALUATION ASSUMPTIONS

In our valuation, unless otherwise stated, we have assumed that:

i. the owner is entitled to transfer the Property based on designated usage at specific terms and no any outstanding land premium shall been borne by the owner;

ii. we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc., for any future development. Our valuation is prepared on the assumption that these aspects are satisfactory and no extraordinary expenses or delay will be incurred during the development period;

iii. no deleterious or hazardous materials or techniques have been used in the construction of the Property; and

iv. the Property is connected to main services and sewers which are available on normal terms.

**TITLE INVESTIGATION**

We have been shown copies of various documents relating to the property interest. However, we have not examined the original documents to verify the existing titles to the property interest or any amendment which does not appear on the copies handed to us. We have relied considerably on the information given by the Company's PRC legal advisers, concerning the validity of the titles to the property interests.

**LIMITING CONDITIONS**

We have conducted on-site inspections to the Property located in the PRC at September 2014 by our Mr. Christopher Cheung (Bachelor of Business Administration). During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot infestation or any other defects. No tests were carried out on any of the services.

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate.

We have relied to a considerable extent on information provided by the Company and accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas and all other relevant matters in the identification of the Property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also been advised by the Company that no material fact has been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our report for any charges, mortgages or amounts owing neither on the property interest valued nor for any expenses or taxation which may be incurred in effecting a sale.

The reported market value only applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

**REMARKS**

We have valued the Property in Renminbi (RMB).

We enclose herewith the valuation certificate.

Yours faithfully,
For and on behalf of
**RHL Appraisal Ltd.**

**Serena S. W. Lau**
*FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)*
*Managing Director*

**Jessie X. Chen**
*MRICS, MSc (Real Estate), BEcon*
*Associate Director*

*Ms. Serena S. W. Lau is a Registered Professional Surveyor (GP) with over 19 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is a Professional Member of The Royal Institution of Chartered Surveyors, an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.*

*Ms. Jessie Chen is a Chartered Surveyor (Valuation) of The Royal Institution of Chartered Surveyors with over 5 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region.*

## VALUATION CERTIFICATE

| Property | Description, age and tenure | Particulars of occupancy | Market value in its existing state as at 30 June 2015<br>*RMB* |
|---|---|---|---|
| Land parcels located at Qian Guan Village and Hou Yan Village, Da Lian Wan Town, Gan Jing Zi District, Dalian City, Liaoning Province, the PRC | The property comprises parcels of lands with a total site area of 1,575,300 sq.m. (16,956,529 sq.ft.). *(refer to Note 1 below)*.<br><br>Portion of the Property with total site area of approximately 1,239,000 sq.m. has been planned mainly for residential and commercial uses while the remaining portion has been planned for industrial and storage uses.<br><br>We have assumed in the valuation that the land use rights have been granted for residential, commercial and storage uses for various terms of 40 years, 50 years and 70 years respectively. | The Property is currently vacant. | 2,388,000,000<br>(RENMINBI TWO BILLION THREE HUNDRED AND EIGHTY EIGHT MILLION ONLY) |

*Notes:*

1. Pursuant to various land transfer contracts and agreements entered between Lugang Logistics (the "Buyer") and respectively parties (the "Sellers"), Lugang Logistics has acquired various land parcels with total site area of 1,761,800 sq.m. (18,964,015 sq.ft.). Details please see below table:

| Lot Name | Previous Owner (the "Sellers") | Site Area<br>*(sq.m.)* |
|---|---|---|
| Ru Gu Land and Qi Dong District Land | Hou Yan Villagers' Committee under People's Government of Dalian Gan Jing Zi District Dalian Wan Town | 536,500.00 |
| Hua Yue Hotel | Dalian Petrochemical Engineering Company | 4,700.00 |
| Jin Luen Electronics | Dalian Jin Luen Electronic Equipment Factory | 6,500.00 |
| Guo Lin Group | China National Forestry Materials Trading Corporation | 52,800.00 |
| Jin Zhou Cement Plant No. 2 | Jin Zhou Cement Plant No. 2 | 101,400.00 |
| Dalian Bay Cement | Dalian City Gan Jing Zi District Dalian Wan Street office | 109,700.00 |
| Qian Guan | Qian Guan Village, Qian Guan Industrial Company of Dalian City | 772,900.00 |
| Hou Yan | Hou Yan Villagers' Committee under People's Government of Dalian Gan Jing Zi District Dalian Wan Town | 77,300.00 |
| Da Bei | Da Bei Industrial Company | 100,000.00 |
| | Total: | 1,761,800.00 |

Among which, as advised by the Company, land portion with a total site area of approximately 180,000 sq.m. has been withdrawn by the government for railway construction. Moreover, the transaction of land parcel with site area of 6,500 sq.m. between Lugang Logistics and Dalian Jin Luen Electronic Equipment

Factory (the original owner) is under the procedure of litigation which may affect the validity of transaction. We have disregarded the aforesaid portions and only consider the remaining portions with total site area of 1,575,300 sq.m. (16,956,529 sq.ft.) in our valuation.

Pursuant to the legal opinion by the Group's PRC legal adviser, the land transfer contracts and agreements are legal and valid and Lugang Logistics is entitled to occupy, use and transfer the Property with total site area of 1,575,300 sq.m.

2. The whole site has been separated into east zone and west zone by Shenhai Expressway. Pursuant to planning parameters approved by Dalian Planning Department at 2013, total site area of 1,239,000 sq.m. which located at east zone has been approved mainly for residential and commercial uses with a minimum plot ratio of 1.5 while the remaining site located at west zone is for industrial and storage uses.

3. We are advised that Lugang Logistics will consolidate all parcels of land of the Property and transfer the whole site to local government for land banking use. Pursuant to the legal opinion by the Group's PRC legal adviser, Dalian government will acquire the Property from Lugang logistic at a consideration by referencing the market value of the Property based on the aforesaid usages (i.e. Residential, commercial and industrial uses respectively). In our valuation, no any payable tax, administrative expenses and demolition costs have been considered.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters, the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Interest of Directors and Chief Executive in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares or underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

*Interests in the Shares of the Company*

| Director | Number of Shares | Capacity | Approximate percentage of interests in the issued share capital of the Company as at the Latest Practicable Date |
|---|---|---|---|
| Mr. Meng | 2,250,082,214 (L) | Interest in controlled corporation *(Note 1)* | 57.51% |
| | 26,386,371 (L) | Share options *(Note 2)* | 0.67% |
| Mr. Wu | 133,264,500 (L) | Beneficial owner *(Note 3)* | 3.41% |
| | 26,386,371(L) | Share options *(Note 4)* | 0.67% |

| Director | Number of Shares | Capacity | Approximate percentage of interests in the issued share capital of the Company as at the Latest Practicable Date |
|---|---|---|---|
| Mr. Guo | 26,386,371 (L) | Share options *(Note 4)* | 0.67% |
| Mr. Zheng Bailin | 2,638,637 (L) | Share options *(Note 5)* | 0.07% |
| Mr. Shen Ruolei | 2,638,637 (L) | Share options *(Note 6)* | 0.07% |
| Mr. Pun Chi Ping | 2,638,637 (L) | Share options *(Note 7)* | 0.07% |

*The letter "L" denotes a long position in the Shares.*

(1) The 2,250,082,214 Shares were beneficially owned by Huajun International, which was wholly-owned by Mr. Meng, chairman of the Board and an executive Director. Mr. Meng was the sole director of Huajun International. Mr. Meng was deemed to be interested in all Shares held by Huajun International by virtue of the SFO.

(2) The 26,386,371 share options have been granted to Mr. Meng. For further details of the said share options granted, please refer to the announcement dated 16 February 2015 by the Company.

(3) 133,264,500 Shares are converted from the convertible bonds held by Forest Tree Limited, which in turn was 100% owned by Mr. Wu.

(4) The 26,386,371 and 26,386,371 share options have been granted respectively to Mr. Wu and Mr. Guo. For further details of the said share options granted, please refer to the announcements dated 16 February 2015 and 30 June 2015 by the Company.

(5) 2,638,637 share options have been granted to Mr. Zheng Bailin. For further details of the said share options granted, please refer to the announcement dated 30 June 2015 by the Company.

(6) 2,638,637 share options have been granted to Mr. Shen Ruolei. For further details of the said share options granted, please refer to the announcement dated 30 June 2015 by the Company.

(7) 2,638,637 share options have been granted to Mr. Pun Chi Ping. For further details of the said share options granted, please refer to the announcement dated 30 June 2015 by the Company.

*Interests in shares in associated corporations*

| Associated corporation | Director | Number of shares in the associated corporation | Capacity | Approximate percentage of interest in the issued share capital of the associated corporation |
|---|---|---|---|---|
| Huajun International | Mr. Meng | 1 | Beneficial owner | 100% |

As at the Latest Practicable Date, save as disclosed above, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have such under provisions of the SFO); or (ii) pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

## 3. SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, other than a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares 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, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

| Name of Shareholder | Nature of interest/capacity | Number of shares | Approximate percentage of interests in the issued share capital of the Company |
|---|---|---|---|
| Bao Le | Interest held by spouse | 2,250,082,214 (L) *(Note (a))* | 57.51% |
| Huajun International | Beneficial owner | 2,250,082,214 (L) *(Note (a))* | 57.51% |

| Name of Shareholder | Nature of interest/capacity | Number of shares | Approximate percentage of interests in the issued share capital of the Company |
|---|---|---|---|
| Mr. Meng | Interest of controlled corporation | 2,250,082,214 (L) *(Note (a))* | 57.51% |
| | Beneficial owner | 26,386,371 (L) *(Note (b))* | 0.67% |

*Notes:*

(a) The 2,250,082,214 Shares were beneficially owned by Huajun International, which was wholly-owned by Mr. Meng, chairman of the Board and an executive Director. Mr. Meng was the sole director of Huajun International. Mr. Meng was deemed to be interested in all Shares held by Huajun International by virtue of the SFO. Madam Bao Le, being a spouse of Mr. Meng, was also deemed to be interested in the Shares held by Huajun International.

(b) The 26,386,371 underlying Shares subject to the outstanding share options granted to Mr. Meng.

*The letter "L" denotes a long position in the shares.*

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person (other than a Director or chief executive of the Company) or corporation which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## 4. DIRECTORS' SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract or service agreement with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## 5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## 6. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any asset which, since 31 March 2015, being the date to which the latest published audited financial statements of the Group were made up, had been 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.

There was no contract or arrangement subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant in relation to the business of the Group.

## 7. LITIGATION

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

## 8. EXPERTS AND CONSENTS

The qualification of the experts who have given opinions and advice in this circular is as follows:

| Name | Qualification |
|---|---|
| Deloitte Touche Tohmatsu | Certified Public Accountants |
| RHL Appraisal Limited | Professional surveyors and valuers |

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and RHL Appraisal Limited has no shareholding in any company in the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Enlarged Group and has no direct or indirect interest in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2015, being the date to which the latest published audited financial statements of the Group were made up or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of Deloitte Touche Tohmatsu and RHL Appraisal Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, report, advice and/or references to its name, in the form and context in which it appears.

## 9. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Group within the two years immediately preceding the date of this circular:

(a) the sale and purchase agreement dated 28 March 2014 entered into between Prince Jade Limited, a wholly-owned subsidiary of the Company, as the vendor and Mr. Law Man Lung as the purchaser in relation to the sale and purchase of 70% of the issued share capital of CEPA Alliance Holdings Limited for a consideration of HK$34,800,000;

(b) the loan agreement dated 29 September 2014 entered into between the Company and Huajun International in respect of a loan in the principal amount of HK$585,960,000;

(c) the subscription agreement dated 5 November 2014 entered into between Huajun Capital Limited and Sheng Yuan Holdings Limited in relation to the subscription by Huajun Capital Limited of convertible bond issued by Sheng Yuan Holdings Limited in a principal amount of HK$100 million;

(d) the subscription agreement dated 28 November 2014 entered into between Huajun Capital Limited and Global High Growth Industries Fund Series SPC ("GHGI Fund Series SPC") in relation to the subscription of the shares of GHGI Fund Series SPC in relation to the Sheng Hua Financial Stable Growth Investment Fund SP, which are classified into Class B ("Class B Shares") in a principal amount of HK$542.87 million;

(e) the sale and purchase agreement entered into between Huajun Capital Limited and Wah Lun International Development Limited on 19 January 2015 in relation to the disposal of the Class B Shares of GHGI Fund Series SPC to Wah Lun International Development Limited for a consideration of HK$564,090,982.57;

(f) the sale and purchase agreement entered into between Huajun Capital Limited and CL International Training Limited on 19 January 2015 in relation to the disposal of the 8% 3-year convertible bonds of a principal amount of HK$100 million by Huajun Capital Limited to CL International Training Limited for a consideration of HK$101,797,260.27;

(g) the share subscription agreement dated 20 January 2015 made among Huajun Logistics Co. Limited, a wholly-owned subsidiary of the Company, as the subscriber, Candice Development Limited as the issuer, and Gather Take Development Limited as the guarantor, in relation to the subscription of the 52,041 shares of Candice Development Limited for a consideration of US$52,041 (equivalent to approximately HK$404,880);

(h) the sale and purchase agreement dated 6 February 2015 entered into between Continuously Water Affairs (China) Limited* (源源水務(中國)有限公司), an indirect wholly-owned subsidiary of the Company, as the purchaser and Mr. Qin Shixu* (秦世旭) and Ms. Cheng Meijun* (程梅君) as the vendors in relation to the sale and purchase of entire equity interest of Dashiqiao Continuously Water Affairs Limited* (大石橋源源水務有限公司) for a consideration of RMB100,000,000 (equivalent to approximately HK$125,000,000);

(i) the sale and purchase agreement dated 9 February 2015 entered into between Mr. Li Yonggang* (李永剛) as the vendor and B&H Properties Group Limited* (保華地產集團有限公司), an indirect wholly-owned subsidiary of the Company, as the purchaser in relation to the sale and purchase of 40% equity interest in Zhihua Logistics Technology Co., Ltd of Yingkou Economic Development Zone* (營口經濟技術開發區志華物流有限公司) for a consideration of RMB120,000,000 (equivalent to approximately HK$150,000,000);

(j) the sale and purchase agreement dated 9 February 2015 entered into between Zhao Changai* (趙長愛) as the vendor and the Purchaser in relation to the sale and purchase of 80% equity interest in Yingkou Wanhe Industrial Co. Ltd* (營口萬合實業有限公司) for a consideration of RMB80,000,000 (equivalent to approximately HK$100,000,000);

(k) the subscription agreement dated 10 February 2015 entered into between the Company and the subscribers named therein in respect of the subscription of the 533,058,000 new Shares issued by the Company at HK$0.7 each;

(l) the conditional subscription agreement dated 13 February 2015 entered into between the Company, Huajun International and Mr. Wu in respect of the subscription of the Convertible Bonds;

(m) the sale and purchase agreement dated 26 March 2015 entered into between the Company and Hung Jia Holdings Limited, in relation to the disposal of 100% shareholding of Success Crest Investment Limited for a consideration of RMB90,000,000 (equivalent to approximately HK$112,500,000);

(n) the sale and purchase agreement dated 26 March 2015 entered into between New Island Holdings (B.V.I.) Limited, a direct wholly-owned subsidiary of the Company, and Folli Follie Group Holding Co., Ltd, in relation to the disposal of 100% shareholding of New Island Property (B.V.I.) Limited for a consideration of HK$142,800,000;

(o) the termination agreement dated 27 March 2015 entered into between Mr. Li Yonggang* (李永剛) as the vendor and B&H Properties Group Limited* (保華地產集團有限公司), an indirect wholly-owned subsidiary of the Company, as the purchaser in relation to the sale and purchase of 40% equity interest in Zhihua Logistics Technology Co., Ltd of Yingkou Economic Development

Zone* (營口經濟技術開發區志華物流有限公司) for a consideration of RMB120,000,000 (equivalent to approximately HK$150,000,000);

(p) the supplemental agreement dated 31 March 2015 entered into between the Company, Huajun International and Mr. Wu for the purpose of supplementing and amending the subscription agreement in respect of the subscription of the Convertible Bonds;

(q) capital increase agreement dated 27 April 2015 entered into between New Island Management Services Limited and Harbin Hezhong in respect of the subscription of additional registered capital of Shenzhen Huajun Financial Leasing Limited* (深圳市華君融資租賃有限公司) at a consideration of US$15 million (equivalent to approximately HK$116.7 million), as a result of which Harbin Hezhong is interested in 30% equity interest in Shenzhen Huajun Financial Leasing Limited* (深圳市華君融資租賃有限公司);

(r) the sale and purchase agreement dated 26 May 2015 entered into between Huajun Industrial Equipment Group Limited* (華君工業裝備集團有限公司), an indirect wholly-owned subsidiary of the Company, as the purchaser, and Linhai Finance Bureau* (臨海市財政局) and Linhai Economic and Information Technology Bureau* (臨海市經濟和信息化局), together as the vendors, in relation to the entire equity interest of Zhejiang Linhai Machinery Company Limited* (浙江臨海機械有限公司) for a consideration of RMB192,150,000 (equivalent to approximately HK$240,187,500);

(s) the sale and purchase agreement dated 26 May 2015 entered into between Continuously Water Affairs (China) Limited* (源源水務(中國)有限公司), an indirect wholly-owned subsidiary of the Company, as the purchaser, and Yingkou Yin Ke Jian An Investment Co., Ltd.* (營口銀科建安投資有限公司), as the vendor, in relation to the 49% equity interest of Liaoning Yinzhu Chemtex Group Co. Ltd.* (遼寧銀珠化紡集團有限公司) for a consideration of RMB70,000,000 (equivalent to approximately HK$87,500,000);

(t) the Sale and Purchase Agreement dated 12 June 2015 entered into between the Purchaser and the Vendor in relation to the Target Equity Interest for a consideration of RMB60 million (equivalent to approximately HK$75 million);

(u) the sale and purchase agreement dated 17 June 2015 entered into between the Purchaser and Lijiang Tianan Forestry Development Co., Ltd.* (麗江天安林業開發有限公司), as the vendor, in relation to the entire equity interest of each of Heqing County Sengong Forestry Development Co., Ltd.* (鶴慶縣森工林業有限公司), Ninglang Boyu Forestry Development Co., Ltd.* (寧蒗博宇林業開發有限公司) and Yangbi Yunsen Forestry Development Co., Ltd.* (漾濞雲森林業有限公司) for a consideration of RMB160 million (equivalent to approximately HK$200 million);

(v) an agreement dated 26 June 2015 entered into between the Purchaser, Tianan Property Investment Strategic Planning (Shenzhen) Co. Ltd.* (天安地產投資策劃（深圳）有限公司) and Suzhou Tianan Import and Export Trading Co. Ltd.* (蘇州天安進出口貿易有限公司) in relation to the proposed establishment of a joint venture company; and

(w) an agreement dated 16 July 2015 entered into between the Purchaser and Mr. Zhou Luohong* (周羅洪), Mr. Xie Jianming* (謝建明) and Ms. Zhou Jing* (周靜), collectively as the vendor, in relation to the entire equity interest of Yingkou Xiang Feng Properties Company Limited* (營口翔峰置業有限公司) and development project named Xiang Feng Wealth Seaview* (翔峰財富海景) including the use rights of the state-owned lands for a consideration of RMB250 million (equivalent to approximately HK$312.5 million).

## 10. GENERAL

(a) The company secretary of the Company is Ms. Yeung Wai Ying, Yvonne, who is a fellow member of the Hong Kong Institute of Certified Public Accountants.

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(c) The head office and principal place of business of the Company is situated at 36/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong.

(d) The Hong Kong share registrar of the Company is Union Registrars Limited, located at A18/F., Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

(e) In the event of inconsistency, the English text shall prevail over the Chinese text.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at 36/F, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong on any week day (except public holidays) for the period of 14 days from the date of this circular:

(a) the memorandum of association and bye-laws of the Company;

(b) the annual reports of the Company for the three years ended 31 March 2013, 31 March 2014 and 31 March 2015;

(c) the accountants' report of Target Group, the text of which is set out in Appendix II to this circular;

(d) the accountants' report of Lugang Logistics, the text of which is set out in Appendix III to this circular;

(e) the report on unaudited pro forma financial information of the Enlarged Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix V to this circular;

(f) the valuation report on Land Property prepared by RHL Appraisal Limited, the text of which is set out in Appendix VI to this circular;

(g) the written consents from the experts referred to under the section headed "Experts and Consents" in this appendix;

(h) the material contracts referred to under the section headed "Material Contracts" in this appendix;

(i) the legal opinion prepared by the PRC lawyer;

(j) the Sales and Purchase Agreement;

(k) the circular of the Company dated 7 January 2015;

(l) the circular of the Company dated 18 February 2015;

(m) the circular of the Company dated 12 March 2015;

(n) the circular of the Company dated 7 May 2015; and

(o) this circular.