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Post Hearing Information Pack



GUANGDONG ADWAY CONSTRUCTION (GROUP) HOLDINGS COMPANY LIMITED*

廣東愛得威建設(集團)股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(the “Company”)

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廣東愛得威建設(集團)股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

[REDACTED]

Number of [REDACTED] under the [REDACTED]	:	[REDACTED] (subject to adjustment and the [REDACTED])
Number of Hong Kong [REDACTED]	:	[REDACTED] (subject to adjustment)
Number of [REDACTED]	:	[REDACTED] (subject to adjustment and the [REDACTED])
Maximum [REDACTED]	:	[REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027%, and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	RMB1.00 per [REDACTED]
[REDACTED]	:	[REDACTED]

Sole Sponsor



Guotai Junan Capital Limited

[REDACTED]

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The [REDACTED] is expected to be fixed by agreement between the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company on the [REDACTED]. The [REDACTED] is expected to be on or around [REDACTED] and, in any event, not later than [REDACTED]. The [REDACTED] will be no more than [REDACTED] and is currently expected to be no less than [REDACTED] unless otherwise announced. If, for any reason, the [REDACTED] is not agreed by [REDACTED] between the [REDACTED] (for itself and on behalf of the [REDACTED]) and our Company, the [REDACTED] will not proceed and will lapse.

Prior to making an investment decision, prospective [REDACTED] should consider carefully all of the information contained in this document, including the risk factors set forth in the section headed "Risk Factors".

The [REDACTED] (on behalf of the [REDACTED]) may, with our consent, reduce the number of [REDACTED] being offered under the [REDACTED] and/or the indicative [REDACTED] range below that stated in this document at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such a case, an announcement will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at <http://www.aidewei.cn> not later than the morning of the day which is the last day for lodging applications under the [REDACTED]. Please refer to the sections headed "Structure and Conditions of the [REDACTED]" and "How to Apply for Hong Kong [REDACTED]".

The obligations of the Hong Kong [REDACTED] under the Hong Kong [REDACTED] are subject to termination by the [REDACTED] (on behalf of the Hong Kong [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. Please refer to the section headed "[REDACTED] – [REDACTED] Arrangements and Expenses – [REDACTED] – Grounds for termination".

We are incorporated, and our businesses are located, in the PRC. Prospective [REDACTED] should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated businesses. Prospective [REDACTED] should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the [REDACTED]. Such differences and risk factors are set out in the section headed "Risk Factors – Risks relating to Conducting Business in the PRC".

The [REDACTED] have not been and will not be registered under the [REDACTED] or the securities laws of any state in the United States, and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the [REDACTED] and in accordance with any applicable state securities laws in the U.S. The [REDACTED] are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S of the [REDACTED].

* For identification purpose only

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

EXPECTED TIMETABLE⁽¹⁾

[REDACTED]

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IMPORTANT NOTICE TO [REDACTED]

This document is issued by our Company solely in connection with the Hong Kong [REDACTED] and the Hong Kong [REDACTED] and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong [REDACTED] offered by this document pursuant to the Hong Kong [REDACTED]. This document may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [REDACTED] of the [REDACTED] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this document in any jurisdiction other than Hong Kong. The distribution of this document and the [REDACTED] and sale of the [REDACTED] in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this document and the [REDACTED] to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this document. Any information or representation not made in this document must not be relied on by you as having been authorised by us, the [REDACTED], the [REDACTED], the Sole Sponsor, the [REDACTED] and the [REDACTED], any of our or their respective directors or advisers, or any other person or party involved in the [REDACTED]. Information contained in our website, located at <http://www.aidewei.cn>, does not form part of this document.

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SUMMARY AND HIGHLIGHTS

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this document. You should read the whole document including the appendices hereto, which constitute an integral part of this document, before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed "Risk Factors". You should read that section carefully before you decide to invest in the [REDACTED].

OVERVIEW

We are one of the top 20 building decoration service providers in the PRC in 2015, according to the Frost & Sullivan Report, with our headquarters located in Shenzhen, Guangdong Province. With almost 20 years of operating history, we have gained substantial experience and established a solid reputation in the building decoration industry in the PRC. We possess a broad range of the highest level of qualifications and licences in the building decoration industry and have been awarded "Top 100 Enterprises in the PRC Building Decoration Industry* (中國建築裝飾行業百強企業)" for 11 consecutive years during the period from 2004 to 2014. According to the Frost & Sullivan Report, there were approximately 24,000 players in the building decoration industry in the PRC as at 31 December 2015, and we ranked 18th with a market share of 0.07% in the building decoration industry and 6th with a market share of 0.09% in the medical building decoration industry in terms of sales revenue in the PRC in 2015. The medical building decoration sector accounted for 6.1% of the entire China public building decoration market in terms of revenue in 2015.

We provide our customers with professional and comprehensive building decoration services that mainly cover four areas: (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works. We also offer customised and professional interior design and curtain wall design services. During the Track Record Period, we acted as a subcontractor and were engaged in approximately 867 projects (each with a contract value of more than RMB1 million) in the PRC, the total contract value of which amounted to approximately RMB7,380.9 million and among which approximately 169 and 23 projects were each with a contract value of more than RMB10 million and RMB50 million, respectively. In 2014, our building decoration project for The University of Hong Kong-Shenzhen Hospital (previously known as Shenzhen Binhai Hospital (深圳濱海醫院)) was awarded "China Construction Engineering Lu Ban Prize* (中國建設工程魯班獎)" by the Ministry of Construction (建設部) and China Construction Industry Association (中國建築業協會), which is an award for construction work with the highest quality at a national level in the PRC. In recognition of our professional and quality services, we were awarded "National Construction Engineering Decoration Prize* (全國建築工程裝飾獎)" by CBD Association for construction excellence in respect of seven projects undertaken by us during the Track Record Period.

We have established an extensive service network by setting up branch offices and representative offices in 18 provinces, autonomous regions and municipalities in the PRC. As at the Latest Practicable Date, we had 18 branch offices in major cities and regions across the PRC such as Beijing, Chongqing, Guangzhou, Wuhan, Chengdu, Xining, Yinchuan, Wuxi and Huizhou, and five representative offices in Tianjin, Nanjing, Zhengzhou, Urumqi and Dunhuang. Our widely distributed service network covers Southern China, Eastern China, South-western China, North-western China, Northern China, Central China and North-eastern China.

We place great emphasis on research and development. Since 2013, our Company has been awarded the status as "High and New Technology Enterprise* (高新技術企業)" by relevant PRC governmental authorities and has been enjoying a preferential EIT of 15%. While our certificate of "High and New Technology Enterprise* (高新技術企業)" expired in October 2016, given that (i) we have completed the necessary filings for re-examination of our status as "High and New Technology

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Enterprise* (高新技術企業)” with the relevant authorities in August 2016; (ii) there has been no major change to the laws and regulations relating to the certification since the last certification; and (iii) our corporate status and research and development credentials have been enhanced since the last certification, our Directors believe that we will continue to be qualified as a “High and New Technology Enterprise* (高新技術企業)” and be granted the preferential EIT treatment upon re-examination of our status as “High and New Technology Enterprise* (高新技術企業)” which is expected to be completed by the relevant authorities in December 2016. Please refer to the section headed “Financial Information – Critical Accounting Policies and Estimates – (d) Income taxes and deferred taxation” for the basis of our Directors’ views. According to the Frost & Sullivan Report, as at 31 December 2015, among approximately 24,000 players in the building decoration industry in the PRC, we were one of the 20 building decoration service providers which have been awarded the status as “High and New Technology Enterprise* (高新技術企業)”. Please refer to the section headed “Business – Research and Development” and “Business – Awards and Accreditations” for further details of our research and development capabilities and achievements.

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths: (i) we are one of the top 20 building decoration service providers in the PRC; (ii) we possess a broad range of the highest level of qualifications and licences and provide our customers with integrated building decoration services; (iii) we have an extensive service network in the PRC; (iv) we have strong research and development capabilities; and (v) we have a dedicated management team with extensive industry experience and a team of experienced project managers. Please refer to the section headed “Business – Competitive Strengths” for further details of our competitive strengths.

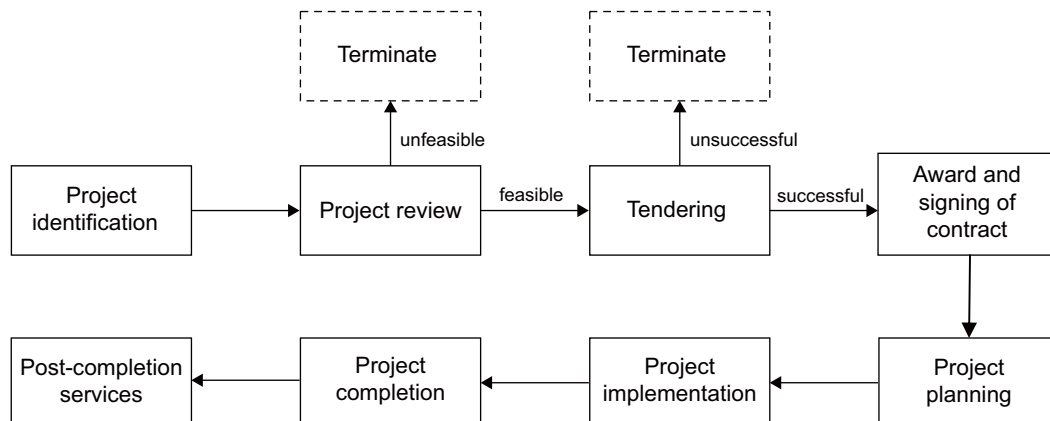
OUR BUSINESS STRATEGIES

We intend to strengthen our market position in the building decoration industry in the PRC by implementing the following strategies: (i) further expand our service network in the PRC and continue to expand our existing business; (ii) establish an internal online platform for central procurement of raw materials; (iii) strengthen our research and development capabilities and establish a research and development laboratory; (iv) strengthen our internal design capabilities; and (v) enhance the efficiency of our internal IT system. Please refer to the section headed “Business – Business Strategies” for further details of our business strategies.

OUR BUSINESS MODEL

We derive our revenue mainly from four areas of services: (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works. We undertake building decoration and design works for a wide range of building and property types in the PRC, including commercial buildings, office buildings, industrial buildings, residential buildings, public buildings and infrastructure, and hotels.

The key steps of our project workflow are as follows:



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Please refer to the section headed "Business – Our Business Operations – Project workflow" for further details of our project workflow.

After completion of the project, we are generally subject to a defect liability period during which we are responsible for rectifying defects identified by our customers without charge. In respect of building decoration and engineering works, the defect liability period is normally two years from the date of acceptance of project completion, whereas the defect liability period for waterproofing works is generally five years. Our Directors confirm that there was no project with costs overrun during the Track Record Period.

TENDER SUCCESS RATE DURING THE TRACK RECORD PERIOD

During the Track Record Period, almost all of our revenue was derived from construction contracts which were awarded to us by way of successful tenders.

The following table sets out the approximate number and contract value of tenders submitted and contracts awarded to our Group during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June 2016	
	2013		2014		2015		Number	Contract value
	Number	Contract value	Number	Contract value	Number	Contract value		
		RMB (million)		RMB (million)		RMB (million)		RMB (million)
Tenders submitted	2,905	5,132.3	2,497	5,033.8	2,625	5,899.9	1,065	2,332.6
Contracts awarded	1,148	1,392.0	1,080	1,409.1	1,186	1,741.5	492	637.4
Success rate ⁽¹⁾	<u>39.5%</u>	<u>27.1%</u>	<u>43.3%</u>	<u>28.0%</u>	<u>45.2%</u>	<u>29.5%</u>	<u>46.2%</u>	<u>27.3%</u>

Note:

⁽¹⁾ The tender success rate is an approximate percentage calculated for illustration purpose by dividing the number or value of contracts awarded by the number or value of tenders submitted during the relevant year or period.

PROJECT PROGRESS AND REVENUE DERIVED FROM PROJECTS DURING THE TRACK RECORD PERIOD

The following table sets out the progress of our projects during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June 2016
	2013	2014	2015	2016
Number of projects brought forward	212	275	400	393
Number of new projects commenced	194	200	184	77
Number of projects completed	(131)	(75)	(191)	(76)
Number of projects carried forward	<u>275</u>	<u>400</u>	<u>393</u>	<u>394</u>

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The following table sets out our revenue derived from all construction projects at different completion stages during the Track Record Period:

	For the year ended 31 December			For the
	2013	2014	2015	six months
	RMB'000	RMB'000	RMB'000	ended 30 June
				2016
				RMB'000
Revenue derived from projects brought forward	659,900	411,601	438,454	388,912
Revenue from new projects commenced	679,217	954,650	1,057,266	294,690
Miscellaneous contracts ⁽¹⁾	127,802	100,759	142,509	58,476
Total	1,466,919	1,467,010	1,638,229	742,078

Note:

⁽¹⁾ Miscellaneous contracts refer to contracts with contract value of less than RMB1 million.

OUR CUSTOMERS

We have a broad clientele and our customers generally include state-owned enterprises, governmental authorities and institutions, listed companies, foreign-owned enterprises, property developers and property management companies. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our five largest customers accounted for approximately 19.3%, 16.4%, 27.1% and 45.5% of our total revenue, respectively, while our largest customer accounted for approximately 4.7%, 4.0%, 7.4% and 17.9% of our total revenue, respectively. Please refer to the section headed "Business – Our Customers" for further details of our customers.

OUR SUPPLIERS

Our major raw materials include electrical and mechanical products, stone, ceramic materials, glass, metal, metal hardware and decoration boards. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the costs of raw materials and consumables used amounted to approximately RMB813.1 million, RMB810.8 million, RMB924.5 million and RMB432.7 million, respectively, representing approximately 61.2%, 61.6%, 63.2% and 66.1% of our total cost of sales, respectively. For each of the three years ended 31 December 2013, 2014 and 2015, our five largest suppliers accounted for approximately 23.9%, 33.0%, 45.0% and 40.5% of our total cost of sales, respectively. Please refer to the section headed "Business – Our Suppliers" for further details of our suppliers.

OUR ARRANGEMENTS WITH LICENSED LABOUR AGENCIES AND TEMPORARY WORKERS

Similar to many building decoration service providers in the PRC, we engage licensed labour agencies in the PRC to carry out labour works during the implementation of our projects. Under our arrangement with the licensed labour agencies, the licensed labour agencies are only responsible for providing us with sufficient number of workers to complete the works as specified in the relevant contracts under the supervision of our project managers, while we remain responsible for project management and procurement of raw materials. We also engage temporary workers to assist our workers sourced from licensed labour agencies and carry out labour works that are not specified in our agreements with licensed labour agencies. Our Directors believe that such arrangements have

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provided us with operational flexibility and enhanced the cost-effectiveness of our projects. Please refer to the sections headed “Business – Our Arrangements with Licensed Labour Agencies” and “Business – Our Arrangements with Temporary Workers” for further details.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED], Mr. Ye Yujing and Ms. Ye Xiujin will hold approximately [REDACTED]% and [REDACTED]% of our enlarged issued share capital, respectively, assuming the [REDACTED] is not exercised. Ms. Ye Xiujin is the wife of Mr. Ye Yujing and has always acted collectively and uniformly with Mr. Ye Yujing in voting on any resolutions passed at any shareholders’ meeting of our Company. Ms. Ye Xiujin and Mr. Ye Yujing will together be entitled to exercise or control the exercise of approximately [REDACTED]% of the total issued share capital of our Company immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised). Accordingly, Mr. Ye Yujing and Ms. Ye Xiujin will be regarded as the Controlling Shareholders of our Company under the Listing Rules. Please refer to the sections headed “Relationship with our Controlling Shareholders” and “Substantial Shareholders” for further details.

PREVIOUS NON-COMPLIANCE MATTERS

During the Track Record Period, we had not been in strict compliance with the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Regulations concerning the Administration of Housing Provident Fund (住房公積金管理條例) and did not fully pay our contributions to the social insurance and housing provident fund for all of our employees. In addition, we had not registered with the relevant authorities in respect of housing provident fund and did not make housing provident fund contributions for employees of our branch office in Chongqing. Furthermore, during the Track Record Period, our Company and one of our subsidiaries were involved in certain inter-company lending activities, either as lender or borrower, with other companies that are Independent Third Parties. Please refer to the section headed “Business – Non-compliance Matters” for further details of incidents of non-compliance of our Group during the Track Record Period.

SUMMARY HISTORICAL FINANCIAL INFORMATION

Summary of Results of Operations

The following table summarises the consolidated statements of comprehensive income data from the financial statements of our Group during the Track Record Period, details of which are set out in the Accountant’s Report in Appendix I to this document:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	Amount	Amount	Amount	Amount	Amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Revenue	1,484,634	1,479,719	1,659,693	705,197	746,213
Gross profit	156,684	163,443	197,699	90,064	91,632
Total comprehensive income for the year/period	60,657	79,107	100,710	43,589	44,299
Total comprehensive income for the year/period attributable to owners of our Company	61,731	79,630	100,710	43,589	44,299

SUMMARY AND HIGHLIGHTS

Summary of Consolidated Statements of Financial Position

The following table sets forth a summary of information on our financial positions as at the dates indicated:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	144,068	142,507	154,610	147,306
Current assets	717,189	1,176,281	1,180,536	1,112,104
Current liabilities	569,354	880,900	860,507	739,844
Net current assets	147,835	295,381	320,029	372,260
Total equity	291,903	371,586	473,384	517,683

Summary of Consolidated Statements of Cash Flows

The following table summarises our statements of cash flows during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Net cash (used in)/generated from operating activities	(19,404)	11,373	(78,976)	(105,871)	59,692
Net cash (used in)/ generated from investing activities	(12,894)	(58,381)	57,848	51,465	484
Net cash generated from/ (used in) financing activities	34,019	56,902	(26,984)	(26,064)	(32,847)
Net increase/(decrease) in cash and cash equivalents	1,721	9,894	(48,112)	(80,470)	27,329
Cash and cash equivalents at beginning of the year/period	135,713	137,434	147,328	147,328	99,216
Cash and cash equivalents at end of the year/period	137,434	147,328	99,216	66,858	126,545

Since we generally receive payment from our customers in stages based on the terms of the contracts entered into with our customers, we incur some of our operating costs and setting-up expenses associated with a project, including labour and raw material costs, well before we receive interim payment from our customers. The contract period of our projects typically ranges from three months to two years and, depending on project progress, the contract period of a small number of our projects may extend to up to four years. In some extreme cases, we will only receive the first progress payment from our customers upon completion of approximately 80% of the contract value. As a result, there were periods during which we experienced net cash outflows for a particular project as well as on an overall basis. Our net cash used in operating activities for the year ended 31 December 2015 of approximately RMB79.0 million was mainly due to the change in working capital as a result of (i) the increase in amounts due from customers for contract work, trade and other receivables, and

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prepayments, mainly due to the significant increase in total contract value of our projects commenced in 2015 and unexpected delay in settlement from customers as a result of slowdown in the PRC economy; and (ii) the decrease in trade and other payables, and deposits received, mainly due to the increase in advances from customers as a result of increase in total contract value of projects commenced in 2015 compared to 2014. Please refer to the section headed "Financial Information – Liquidity and Capital Resources – Cash flows – Operating activities" for further details.

FINANCIAL RATIOS

The following table sets forth our key financial ratios for each of the years/periods and as at each of the dates indicated:

	For the year ended 31 December			For the six months ended
	2013	2014	2015	30 June 2016
Gross Profit Margin (%)	10.6	11.0	11.9	12.3
Net Profit Margin (%)	4.1	5.3	6.1	5.9
Return on equity (%)	23.6	24.0	23.8	N/A
Return on total assets (%)	7.6	7.3	7.6	N/A
Interest coverage	8.7	8.4	8.8	7.7

	As at 31 December			As at
	2013	2014	2015	30 June 2016
Current ratio	1.3	1.3	1.4	1.5
Gearing ratio (%)	52.1	56.0	52.1	43.3
Net debt to equity ratio (%)	1.6	16.3	31.1	18.8

Please refer to the section headed "Financial Information – Key Financial Ratios" for further information on these ratios.

SELECTED OPERATIONAL AND FINANCIAL DATA

The tables below set forth the key data of our business during the Track Record Period:

	For the year ended 31 December						For the six months ended	
	2013		2014		2015		30 June 2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Revenue from construction contracts	1,466,919	98.8	1,467,010	99.2	1,638,229	98.7	742,078	99.4
Design and other income ⁽¹⁾	7,495	0.5	7,997	0.5	12,948	0.8	4,135	0.6
Sales of goods ⁽²⁾	10,220	0.7	4,712	0.3	8,516	0.5	–	–
Total	1,484,634	100.0	1,479,719	100.0	1,659,693	100.0	746,213	100.0

Notes:

- (1) Revenue from design and other income represents the revenue derived from design decoration service and maintenance of fire safety system.
- (2) Sales of goods represent the sales of construction materials to our customers such as property developers.

SUMMARY AND HIGHLIGHTS

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, we were awarded approximately 41 projects (each with a contract value of more than RMB1 million) in the PRC, the total contract value of which amounted to approximately RMB208.3 million and among which approximately six projects and one project were each with a contract value of more than RMB10 million and RMB30 million, respectively.

As at 30 September 2016, we had approximately 446 projects on hand (each of contract value of more than RMB1 million), the total contract value of which was approximately RMB4,485.6 million. The revenue of the projects on hand expected to be recognised for the year ending 31 December 2016 is approximately RMB1,312.7 million. Please refer to the section headed "Business – Our Business Operations – Our projects" for further details on our projects on hand as at the Latest Practicable Date.

Based on our Group's unaudited management accounts, our revenue and gross profit for the three months ended 30 September 2016 decreased moderately, compared to the corresponding period in 2015. Our gross margin for the three months ended 30 September 2016 increased slightly compared to that of the corresponding period in 2015. As at 30 September 2016, approximately RMB351.6 million or 47.1% and RMB109.3 million or 17.6% of the amounts due from customers for contract work as at 31 December 2015 and 30 June 2016, respectively, was subsequently endorsed by the respective customers. As at 30 September 2016, we had recovered approximately RMB207.1 million and approximately RMB62.0 million of net trade receivables outstanding as at 31 December 2015 and 30 June 2016, respectively, with a recovery rate of 83.6% and 23.0%, respectively.

Subsequent to the Track Record Period and up to the date of this document, there had been no significant change in our principal business, pricing policy and cost structure. Our Directors confirm that, subsequent to the Track Record Period and up to the date of this document, there had been no material adverse change in our financial or trading position or prospects since 30 June 2016 and there had been no event since 30 June 2016 which would materially affect the information in our consolidated financial statement included in the Accountant's Report set forth in Appendix I to this document.

[REDACTED] EXPENSES

Based on the mid-point of the proposed [REDACTED] range, the total expenses for the [REDACTED] are estimated to be approximately RMB[REDACTED], of which (i) approximately RMB[REDACTED] is directly attributable to the issue of new [REDACTED] to the public and will be accounted for as deduction from equity; and (ii) approximately RMB[REDACTED] will be charged to the profit and loss account of our Group for the year ending 31 December 2016. Up to 30 June 2016, approximately RMB[REDACTED] of [REDACTED] expenses was incurred and recognised as prepayments. Approximately RMB[REDACTED] was charged to the profit or loss account for the six months ended 30 June 2016.

USE OF [REDACTED]

The net [REDACTED] from the [REDACTED], after deducting [REDACTED] fees and estimated total expenses paid and payable by us in connection thereto, are estimated to be approximately HK\$[REDACTED] before any exercise of the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the proposed [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]. We intend to use such net [REDACTED] as follows:

- approximately [REDACTED], or HK\$[REDACTED] million, will be used to establish an internal online supply-chain management platform which aims to serve as a centralised procurement online platform for our existing and prospective suppliers, and a logistics centre to facilitate the storage and delivery of raw materials;
- approximately [REDACTED], or HK\$[REDACTED] million, will be used to further expand the geographical coverage of our services and optimise our branch network;

SUMMARY AND HIGHLIGHTS

- approximately [REDACTED], or HK\$[REDACTED] million, will be used to enhance the efficiency of our internal IT system by improving and upgrading our internal integrated IT infrastructure for business management;
- approximately [REDACTED], or HK\$[REDACTED] million, will be used to strengthen our research and development capabilities and establish a research and development laboratory;
- approximately [REDACTED], or HK\$[REDACTED] million, will be used to strengthen our internal design capabilities by upgrading our design system, recruiting more design professionals and enhancing the synergy with our new research and development laboratory; and
- approximately [REDACTED], or HK\$[REDACTED] million, will be used for working capital and general corporate purposes.

If the [REDACTED] is set at the highest or lowest point of the indicative [REDACTED] range, the net [REDACTED] of the [REDACTED], assuming that the [REDACTED] is not exercised, will increase to approximately HK\$[REDACTED] or decrease to approximately HK\$[REDACTED], respectively. In such event, we will increase or decrease the intended use of the net [REDACTED] for the above purposes on a pro-rata basis.

If the [REDACTED] is exercised in full, the net [REDACTED] from the [REDACTED] will increase to approximately HK\$[REDACTED], assuming an [REDACTED] of HK\$[REDACTED], being the mid-point of the proposed [REDACTED] range. If the [REDACTED] is set at the high-end or low-end of the proposed [REDACTED] range, the net [REDACTED] of the [REDACTED], including the [REDACTED] from the exercise of the [REDACTED], will increase or decrease to approximately HK\$[REDACTED] or HK\$[REDACTED], respectively. In such event, we will increase or decrease the allocation of the net [REDACTED] to the above purposes on a pro-rata basis.

To the extent that the net [REDACTED] of the [REDACTED] are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net [REDACTED] into interest-bearing bank accounts with licensed banks and/or financial institutions.

We will issue an appropriate announcement if there is any material change to the above proposed use of [REDACTED].

DIVIDEND

As at the Latest Practicable Date, we did not have any fixed dividend policy nor pre-determined dividend payout ratios. After completion of the [REDACTED], our Shareholders will be entitled to receive dividends declared by us. The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Since the establishment of our Company and up to the Latest Practicable Date, no dividend had been declared or distributed to our Shareholders. There can be no assurance that we will be able to declare or distribute any dividend after completion of the [REDACTED]. Any dividend distribution shall also be subject to the approval of our Shareholders in a Shareholders' meeting.

Under the PRC Company Law and our Articles of Association, we will pay dividends out of our after-tax profit only after we have made the following allocations: (i) recovery of accumulated losses, if any; (ii) allocations to the statutory reserve fund equivalent to 10% of our after-tax profit; and (iii) allocations, if any, to a discretionary reserve fund approved by the Shareholders in a Shareholders' meeting.

SUMMARY AND HIGHLIGHTS

When the statutory reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations will be required. Our profit distributable for the above-mentioned allocations and our dividend distributions shall be paid out of our after-tax profit as determined by PRC GAAP or HKFRSs, whichever is lower. All of our Shareholders have equal rights to dividends and distributions in the form of stock or cash. For holders of our [REDACTED], cash dividend payments, if any, will be declared and paid in Hong Kong dollars.

[REDACTED] STATISTICS

All statistics in this table are based on the assumption that the [REDACTED] is not exercised.

	Based on minimum indicative [REDACTED] of HK\$[REDACTED]	Based on maximum indicative [REDACTED] of HK\$[REDACTED]
Market capitalisation of our [REDACTED] ⁽¹⁾	[REDACTED]	[REDACTED]
Unaudited pro forma adjusted net tangible asset value per [REDACTED] ⁽²⁾	[REDACTED]	[REDACTED]

Notes:

- (1) The calculation of market capitalisation is based on the [REDACTED] expected to be in issue immediately upon completion of the [REDACTED].
- (2) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after adjustments referred to in "Unaudited Pro Forma Financial Information – [REDACTED]" in Appendix II to this document and on the basis of [REDACTED] issue at the [REDACTED] immediately upon completion of the [REDACTED].

RISK FACTORS

Our business is subject to a number of risks, including but not limited to risks relating to our business and industry, the country in which we operate, and the [REDACTED]. As different investors may have different interpretations and standards for determining the materiality of a risk, you should read the entire section headed "Risk Factors" carefully before you decide to invest in the [REDACTED]. Some of the major risks we face include:

- there is no guarantee that our customers will make payment to us on time and in full and we are therefore subject to credit risks;
- if we are unable to accurately estimate and control our project costs, we may achieve lower-than-expected profits on our projects and may even incur losses;
- our revenue is mostly derived from contracts awarded through competitive tendering that are non-recurrent in nature, and there is no guarantee that we will succeed in our tender process or our customers will award new contracts to us in the future;
- project delays may result in substantial liabilities, which may materially and adversely affect our cash flow position and financial condition; and
- seven of our customers settled their payment to us through third parties during the Track Record Period and we may be subject to claims for return of funds and risks of money laundering.

The entire document should be read carefully and we strongly caution you not to place any reliance on any information contained in press articles or disseminated through our media relating to us and/or the [REDACTED], certain of which may not be consistent with the information contained in this document.

DEFINITIONS

In this document, unless the context otherwise requires, the following words and expressions shall have the following meanings.

"Accountant's Report"	the accountant's report prepared by the Reporting Accountant set out in Appendix I to this document
	[REDACTED]
"Articles" or "Articles of Association"	the articles of association of our Company adopted on 21 August 2015 which will take effect on the [REDACTED], as amended from time to time, a summary of which is set out in Appendix V to this document
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of our Board
"Board of Directors" or "Board"	our board of Directors
"Board of Supervisors"	our board of Supervisors
"Business Day"	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licenced banks in Hong Kong are generally open for normal banking business to the public
"CBD Association"	China Building Decoration Association (中國建築裝飾協會)
	[REDACTED]
"Chairman"	the chairman of our Board
"China" or "the PRC"	the People's Republic of China and, for the purpose of this document only, excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the People's Republic of China

DEFINITIONS

"close associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Companies Ordinance"	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Company" or "our Company"	Guangdong Adway Construction (Group) Holdings Company Limited* (廣東愛得威建設(集團)股份有限公司), established as a limited liability company in the PRC on 18 December 1996 under the corporate name Guangdong Yahe Decoration Construction Company Limited* (廣東雅和裝飾工程有限公司), which was renamed as Guangdong Adway Decoration Construction Company Limited* (廣東愛得威裝飾工程有限公司) on 19 February 1997 and as Guangdong Adway Construction Decoration Installation Engineering Company Limited* (廣東愛得威建築裝飾安裝工程有限公司) on 27 May 2003, and then converted into a joint stock company with limited liability and renamed as Guangdong Adway Construction (Group) Holdings Company Limited* (廣東愛得威建設(集團)股份有限公司) on 3 December 2007
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected transaction(s)"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and, for the purpose of this document, refers to Mr. Ye Yujing and Ms. Ye Xiujin. Please refer to the section headed "Relationship with our Controlling Shareholders" for further details
"Corporate Governance Code"	Corporate Governance Code set out in Appendix 14 to the Listing Rules
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"Deed of Indemnity"	the deed of indemnity dated 9 November 2016 executed by our Controlling Shareholders in favour of our Company, Huidong Yip's Development Company Limited* (惠東葉氏實業發展有限公司), Shenzhen City Jingdi Gardening Construction Engineering Company Limited* (深圳市景帝園林建設工程有限公司) and Huidong Shikuan Decorative Furniture Creative Culture Company Limited* (惠東士寬裝飾傢俬創藝文化有限公司) in respect of taxation and other indemnities referred to in the section headed "Statutory and General Information – Further Information about our Business – 1. Summary of material contracts – Deed of Indemnity" in Appendix VI to this document

DEFINITIONS

<i>"Deed of Non-competition"</i>	the deed of non-competition undertakings dated 16 September 2015 executed by our Controlling Shareholders in favour of our Company, Huidong Yip's Development Company Limited* (惠東葉氏實業發展有限公司), Shenzhen City Jingdi Gardening Construction Engineering Company Limited* (深圳市景帝園林建設工程有限公司) and Huidong Shikuan Decorative Furniture Creative Culture Company Limited* (惠東士寬裝飾傢俬創藝文化有限公司), particulars of which are set out in the section headed "Relationship with our Controlling Shareholders – Deed of Non-competition"
<i>"Director(s)" or "our Directors"</i>	director(s) of our Company
<i>"Domestic Share(s)"</i>	ordinary share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, which are [REDACTED] for and paid up in Renminbi and are [REDACTED] Shares which are currently not [REDACTED] or traded in any stock exchange
<i>"EIT"</i>	enterprise income tax (企業所得稅)
<i>"EIT Law"</i>	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) [REDACTED]
<i>"Executive Director(s)"</i>	executive director(s) of our Company
<i>"Frost & Sullivan"</i>	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co, an independent industry consultant commissioned by our Company to prepare the Frost & Sullivan Report
<i>"Frost & Sullivan Report"</i>	an independent research report dated [REDACTED] commissioned by our Company and prepared by Frost & Sullivan for the purpose of the [REDACTED] [REDACTED] [REDACTED]
<i>"Group", "we", "our", "our Group" or "us"</i>	our Company and its subsidiaries [REDACTED] [REDACTED]

DEFINITIONS

[REDACTED]

[REDACTED]

[REDACTED]

"HKFRSs"

Hong Kong Financial Reporting Standards issued by The Hong Kong Institute of Certified Public Accountants

[REDACTED]

"Hong Kong" or "HK"

the Hong Kong Special Administrative Region of the PRC

"Hong Kong dollars", "HKD" or "HK\$"

Hong Kong dollars, the lawful currency of Hong Kong

[REDACTED]

[REDACTED]

"Hong Kong Stock Exchange" or "Stock Exchange"

The Stock Exchange of Hong Kong Limited

"Hong Kong Takeovers Code"

The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

[REDACTED]

DEFINITIONS

[REDACTED]

"Independent Non-executive Director(s)" independent non-executive Director(s) of our Company

"Independent Third Party(ies)" any entity or person who is not a connected person within the meaning ascribed thereto under the Listing Rules

[REDACTED]

"Latest Practicable Date" 7 November 2016, being the latest practicable date for ascertaining certain information in this document before its publication

[REDACTED]

[REDACTED]

[REDACTED]

DEFINITIONS

<i>"Listing Rules" or "Hong Kong Listing Rules"</i>	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
<i>"Main Board"</i>	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
<i>"Mandatory Provisions"</i>	the Mandatory Provisions for Articles of Association of Companies to be [REDACTED] (到境外[REDACTED]公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be [REDACTED] overseas, promulgated by the former State Council Securities Committee and other PRC government departments on 27 August 1994 and became effective on the same date, as amended, supplemented or otherwise modified from time to time
<i>"Maximum [REDACTED]"</i>	[REDACTED] (being the high end of the [REDACTED] range stated in this document)
<i>"NDRC"</i>	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
<i>"Nomination Committee"</i>	the nomination committee of our Board
<i>"Non-executive Director(s)"</i>	non-executive director(s) of our Company

[REDACTED]

DEFINITIONS

"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"Per cent." or "%"	percentage or per centum
"PRC Company Law"	Company Law of the PRC (中華人民共和國公司法), as amended and adopted by the Standing Committee of the Tenth National People's Congress on 27 October 2005 and effective on 1 January 2006, as amended, supplemented or otherwise modified from time to time, which was further amended on 28 December 2013 to take effect on 1 March 2014
"PRC GAAP"	accounting principles generally accepted in the PRC
"PRC Government" or "State"	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
"PRC Legal Advisers"	Jingtian & Gongcheng, a qualified PRC law firm as the PRC legal advisers to our Company for the application for [REDACTED]
"[REDACTED]"	the date, expected to be on or about [REDACTED], on which the [REDACTED] is fixed for the purposes of the [REDACTED], and in any event no later than [REDACTED]
"document"	this document being issued in connection with the [REDACTED] [REDACTED]
"Remuneration Committee"	the remuneration committee of our Board
"Reporting Accountant"	PricewaterhouseCoopers, Certified Public Accountants, the reporting accountant of our Company
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

DEFINITIONS

"Share(s)"	share(s) in the share capital of our Company, with a nominal value of RMB1.00 each, comprising the Domestic Shares and [REDACTED]
"Shareholder(s)"	holder(s) of the [REDACTED]
"Shenzhen Co-Win Asset"	Shenzhen Co-Win Asset Management Holding Company Limited (深圳同創偉業資產管理股份有限公司), one of the general partners of South China Sea LP, is a limited liability company established under PRC laws on 27 December 2010 and owned as to 35.6% by Shenzhen Co-Win Venture Capital, 15.9% by Zheng Wei He (鄭偉鶴), 15.9% by Huang Li (黃荔), 10.5% by Shenzhen Co-Win Victory LP, 7.1% by Shenzhen Co-Win South China Asset Management Company Limited (深圳市同創偉業南海資產管理有限公司) which is a limited liability company established under PRC laws on 5 February 2013 and wholly owned by Shenzhen Co-Win Venture Capital, 4.5% by Ding Bao Yu (丁寶玉), 2.6% by Ma Weiguo (馬衛國), 1.2% by Tang Zhongcheng (唐忠誠), with the remaining 6.7% owned by other shareholders
"Shenzhen Co-Win Jinxiu Asset"	Shenzhen Co-Win Jinxiu Asset Management Limited (深圳同創錦繡資產管理有限公司), a limited liability company established under PRC laws on 24 December 2014 and a wholly-owned subsidiary of Shenzhen Co-Win Asset
"Shenzhen Co-Win Venture Capital"	Shenzhen Co-Win Venture Capital Investments Limited (深圳市同創偉業創業投資有限公司), one of the general partners of South China Sea LP, is a limited liability company established under PRC laws on 26 June 2000 and is ultimately owned as to 45% by Zheng Wei He (鄭偉鶴) and 55% by Huang Li (黃荔), who are Independent Third Parties
"Shenzhen Co-Win Victory LP"	Shenzhen Co-Win Victory Investment Limited Partnership Corporation (Limited Partnership) (深圳同創創贏投資合夥企業(有限合夥)), a limited partnership entity established under PRC laws on 26 March 2015 and owned as to 43.2% by Ding Bao Yu (丁寶玉), 25% by Ma Weiguo (馬衛國), 11.4% by Tang Zhongcheng (唐忠誠), 6% by Zhang Yiwei (張一巍), 6% by Lu Xiaobo (陸瀟波), 4.5% by Tong Ziping (童子平), 1.9% by Zheng Wei He (鄭偉鶴) and 1.9% by Huang Li (黃荔). The executive partner of Shenzhen Co-Win Victory LP is Zheng Wei He
"Shenzhen Gong Fen Li"	Shenzhen Gong Fen Li Investment Entity (Limited Partnership) (深圳共分利投資企業(有限合夥)), a limited partnership entity established under PRC laws on 16 March 2012 owned by our employees. Please refer to the section headed "History and Development – Investment from our employees and senior management" for the ownership structure of Shenzhen Gong Fen Li

DEFINITIONS

<i>"Shenzhen Gong Xiang Li"</i>	Shenzhen Gong Xiang Li Investment Entity (Limited Partnership) (深圳共享利投資企業(有限合伙)), a limited partnership entity established under PRC laws on 13 March 2012 owned by our Directors, senior management and senior employees. Please refer to the section headed "History and Development – Investment from our employees and senior management" for the ownership structure of Shenzhen Gong Xiang Li
	[REDACTED]
<i>"Sole Sponsor"</i>	Guotai Junan Capital Limited, a corporation licensed under the SFO and permitted to carry on type 6 (advising on corporate finance) regulated activities as defined under the SFO
<i>"South China Sea LP"</i>	South China Sea Selected (Tianjin) Equity Investment Fund Limited Partnership Corporation (Limited Partnership) (南海成長精選(天津)股權投資基金合夥企業(有限合夥)), a limited partnership entity established under PRC laws on 13 April 2011 controlled by four general partners as at the Latest Practicable Date, namely (i) Shenzhen Co-Win Jinxiu Asset; (ii) Zheng Wei He (鄭偉鶴); (iii) Huang Li (黃荔); and (iv) Ding Bao Yu (丁寶玉). The executive partner of South China Sea LP is currently Zheng Wei He (鄭偉鶴). To the best knowledge, information and belief of our Directors, other than its investment in our Group, South China Sea LP and its ultimate partners are Independent Third Parties
<i>"Special Regulations"</i>	Special Regulations of the State Council on the Overseas [REDACTED] and [REDACTED] of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外[REDACTED]及[REDACTED]的特別規定), promulgated by the State Council on 4 August 1994 and became effective on the same date, as amended, supplemented or otherwise modified from time to time
<i>"sq. m." or "m²"</i>	square metre
<i>"State Council"</i>	State Council of the PRC (中華人民共和國國務院)
<i>"Strategy Committee"</i>	the strategy committee of our Board
<i>"subsidiaries"</i>	has the meaning ascribed thereto under the Listing Rules
<i>"Substantial Shareholder(s)"</i>	has the meaning ascribed thereto under the Listing Rules
<i>"Supervisor(s)"</i>	supervisor(s) of our Company

DEFINITIONS

"Track Record Period" the three financial years ended 31 December 2015 and the six months ended 30 June 2016

[REDACTED]

"United States" or "U.S." the United States of America, its territories, its possessions and all areas subject to its jurisdiction

"U.S. dollars" or "US\$" United States dollars, the lawful currency of the United States

[REDACTED]

[REDACTED]

In this document:

1. Unless otherwise specified, all references to any shareholdings in our Company assume no exercise of the [REDACTED].
2. Amounts and percentage figures, including share ownership and operating data in this document, may have been subject to rounding adjustments. In this document, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.
3. For ease of reference, the names of the PRC established companies or entities have been included in this document in both Chinese and English languages. The name in Chinese language is the official name of such company or entity and the name in English language is an unofficial translation and is included for identification purpose only.

If there is any inconsistency of this document and the Chinese translation of this document, this document shall prevail.

* for identification purpose only

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this document that relate to our business and the industry in which we operate. These terms and their meanings may not always correspond to standard industry definitions or usage of these terms.

<i>"building decoration"</i>	the different processes applied to the internal surface, external surface and space of buildings with the use of decoration materials, which aim to protect the main structure and improve the physical properties, functions and appearance of buildings
<i>"CAGR"</i>	compound annual growth rate
<i>"curtain wall"</i>	the external protective or decorative structure of buildings which can be displaced from the main structure with reference to the structural supporting system but do not affect the main structure
<i>"GB/T50430"</i>	quality management standards for engineering construction enterprises* (工程建設施工企業質量管理規範)
<i>"ISO"</i>	International Organisation for Standardisation, a non-governmental organisation based in Geneva of Switzerland for assessing the quality systems of business organisations
<i>"ISO 14001"</i>	the ISO requirements for an environmental management system to enable an organisation to develop and implement a policy and objectives which take into account legal requirements and other requirements to which the organisation subscribes, and information about significant environmental aspects
<i>"ISO 9001"</i>	the ISO requirements for a quality management system where an organisation needs to demonstrate its ability to consistently provide products that meet customer and applicable statutory and regulatory requirements and that aims to enhance customer satisfaction through the effective application of the system
<i>"medical building decoration"</i>	the building decoration processes for medical institutions
<i>"office building decoration"</i>	the building decoration processes for office premises
<i>"OHSAS 18001"</i>	internationally applied British standards for occupational health and safety management systems
<i>"public building decoration"</i>	the different processes applied to the internal space of public buildings with the use of decoration materials, which aim to protect the main structure and improve the physical properties, functions and appearance of public buildings

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS CONTAINED IN THIS DOCUMENT ARE SUBJECT TO RISKS AND UNCERTAINTIES.

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed "Summary and Highlights", "Risk Factors", "Industry Overview", "Business", "Financial Information" and "Future Plans and Use of [REDACTED]". These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed "Risk Factors", which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies, plans, objectives and goals;
- the performance of global and the PRC financial markets, including changes in our ability to access the capital markets and changes in the level of interest rates;
- the business opportunities that we may pursue;
- our dividend policy; and
- the amount and nature of, and potential for, future development of our business.

The words "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "seek", "will", "would" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future occurrence of such events. Actual outcomes may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- our ability to collect our receivables and recover the amount due from our customers for contract works;
- our ability to sustain and achieve growth of existing businesses and expansion of operations through investments;
- our ability to integrate new businesses and create synergies;
- changes in the governmental policies, laws or regulations of the relevant jurisdictions in which we operate in;
- our ability to attract and retain customers;
- our ability to attract and retain qualified employees and key personnel;
- our ability to protect our brand, trademarks or other intellectual property rights;
- global and the PRC general economic, market and business conditions; and
- the other risk factors discussed in this document as well as other factors beyond our control.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed "Risk Factors".

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

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[REDACTED]

INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]

[REDACTED]

RISK FACTORS

You should carefully read and consider all of the information in this document including the risks and uncertainties described below before deciding to make any investment in our [REDACTED]. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of our [REDACTED] could decline due to any of these risks and uncertainties. As a result you may lose part or all of your investment.

RISKS RELATING TO OUR BUSINESS

There is no guarantee that our customers will make payment to us on time and in full and we are therefore subject to credit risks.

We normally submit interim payment applications to and receive progress payment from our customers in stages, based on the terms of the contracts entered into with our customers and with reference to the value of works done. Our customers are expected to certify the value of works completed by us by endorsing on the project progress reports prepared by us. The value of works completed by us before the endorsement of such reports will be considered as amounts due from customers for contract work. After our customers endorse on the project progress reports, we will bill and issue invoices to our customers and the amounts billed but not yet settled by our customers will be considered as trade receivables. During the Track Record Period, we experienced difficulties in collecting the outstanding balances from our customers and amounts due from customers for contract work and trade receivables made up a significant portion of our current assets. As at 31 December 2013, 2014 and 2015 and 30 June 2016, amounts due from customers for contract work amounted to approximately RMB303.4 million, RMB635.7 million, RMB746.2 million and RMB620.4 million, respectively; whereas our trade receivables amounted to approximately RMB206.5 million, RMB227.5 million, RMB258.3 million and RMB283.4 million, respectively. While we generally grant to our customers a credit period of 15 days, approximately 29.3% and 8.9% of our trade receivables as at 30 June 2016 (without taking into account the provision for impairment) was aged over one year and three years, respectively. Please refer to the section headed "Financial Information – Description of Certain Items of Consolidated Statements of Financial Position – Trade receivables" for further details of the aging analysis of our trade receivables.

During the Track Record Period, we made provision in respect of foreseeable losses on construction contracts, which represent amounts due from customers for contract work that were considered doubtful in respect of recoverability. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our provision for foreseeable losses on construction contracts amounted to approximately RMB25.0 million, RMB7.0 million, RMB9.0 million and RMB23.9 million, respectively. In addition, during the Track Record Period, we made provision in respect of impairment of receivables. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our provision for impairment of receivables amounted to approximately RMB12.0 million, RMB14.6 million, RMB18.2 million and a net reversal of RMB12.4 million, respectively. Please refer to the sections headed "Business – Credit Management" and "Financial Information – Description of Selected Items in Statements of Comprehensive Income – Administrative expenses" for further details of our provision for foreseeable losses on construction contracts and impairment of receivables.

In addition, our customers generally withhold 3% to 5% of the contract value as retention money, which will be released to us without interest upon expiry of the defect liability period if there is no breach of contract on our part. As at 31 December 2013, 2014 and 2015 and 30 June 2016, retention money retained by our customers amounted to approximately RMB18.8 million, RMB25.6 million, RMB44.9 million and RMB41.6 million, respectively.

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Since we generally receive payment from our customers in stages, we are subject to credit risks and may experience difficulties in collecting outstanding balances from our customers. There is no assurance that the financial position of our customers will remain healthy in the future or that our customers will make progress payment or release retention money to us on time and in full. In particular, some of our customers are property developers in the PRC which might experience tight credit control and be adversely affected by downturn in the PRC real estate market. Any failure to collect all or a portion of such outstanding balances in a timely manner may pose difficulties for us to effectively manage our working capital, which may materially and adversely affect our liquidity position. In addition, the process of collecting outstanding balances from our customers is often time-consuming and administratively cumbersome and may divert a significant amount of management time and other administrative resources from our business operations. In circumstances where we have to resort to legal means to collect our fees from our customers, we may have to incur substantial legal and other expenses. In addition, we may have limited recourse against our customers who fail to settle payment on time and in full due to the need to maintain business relationships with them. If our customers fail to make payment to us on time or if they default in all or a substantial portion of their payment obligations to us, our results of operations, liquidity and financial condition may be materially and adversely affected.

If we are unable to accurately estimate and control our project costs, we may achieve lower-than-expected profits on our projects and may even incur losses.

Substantially all of our revenues are derived from fixed-price contracts, with prices being determined with reference to our bids or quotations that are formulated on a cost plus margin basis and substantially agreed to at the time when a project is awarded to us. Since we are generally responsible for all of our costs, we have to bear the risk of cost fluctuations and our ability to achieve our target profitability in any project is largely dependent on our ability to accurately estimate and control these costs. However, the actual time and costs incurred in completing a project may be affected by a variety of factors, including adverse weather conditions, shortage and cost escalation of raw materials and labour, changes in project scope or customers' requests or orders, accidents, changes in regulatory requirements, and other unforeseen circumstances. Although some of our contracts provide for pricing adjustments if certain specified events occur, these adjustment provisions may not adequately protect us in the event of a cost overrun. Any of these can result in the actual time and costs incurred in completing a project exceeding our initial estimation.

There is no assurance that the actual time and costs incurred in completing a project will not exceed our initial estimation during the actual implementation of a project. If we fail to accurately estimate the time and costs required to complete our projects, or if the costs of a project exceed the contract price and any price adjustment provision in the relevant contract does not cover the additional costs, we may achieve lower-than-expected profits on our projects and may even incur losses, which may materially and adversely affect our results of operations and financial condition.

Our revenue is mostly derived from contracts awarded through competitive tendering that are non-recurrent in nature. There is no guarantee that we will succeed in our tender process or our customers will award new contracts to us in the future.

Almost all of our revenue is derived from contracts awarded through competitive tendering and is not recurring in nature. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the percentage of our revenue derived from construction contracts was approximately 98.8%, 99.2%, 98.7% and 99.4%, respectively.

Whether we will succeed in our tender process depends on a number of factors, including the pricing and other terms and conditions offered by our competitors. There is no guarantee that we will succeed in the tender process or maintain comparable tender success rates in the future.

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Most of our customers have maintained an evaluation system for their tenders to ensure that their contractors meet certain standards in aspects such as management, industrial expertise, financial capability, reputation and regulatory compliance. Since such standards are subject to change from time to time, there is no assurance that we will continue to meet our customers' tendering requirements and criteria, in which case we may not be awarded the tender and our reputation, business, results of operations and financial condition may be materially and adversely affected. Even if we are able to meet the pre-requisite requirements and criteria for tendering, there is no assurance that we will be invited to or are made aware of the tendering process or that our tenders will be selected. We may have to lower our service fees or offer more favourable terms to our customers in order to increase the competitiveness of our tenders, and if we are unable to reduce our costs accordingly, our profitability and results of operations may be materially and adversely affected.

In addition, there is no guarantee that we will secure new projects or business opportunities from our customers after completion of the existing projects. If we cannot maintain the same quantity of contracts or obtain new projects of similar or larger contract value on a continuous basis, our results of operations, financial condition as well as business prospects may be materially and adversely affected.

Project delays may result in substantial liabilities, which may materially and adversely affect our cash flow position and financial condition.

We are generally required to complete a project according to a fixed schedule by an agreed date as stated in the relevant contract. If we fail to complete a project in accordance with our contractual obligations, we may be liable to compensate our customer for losses or damages caused by such delay. Any delay in the completion of a project, whether or not caused by us, may also lead to additional costs being incurred, including costs to hire additional workers and to provide temporary storage for raw materials.

There is no assurance that we will not experience delays in completing our projects in the future. Any failure on our part to complete a project in a timely manner may result in not only substantial liabilities on and financial loss to our Group, but also negative publicity and a deterioration of our corporate image and reputation in the industry. Our business, results of operations and financial condition may be materially and adversely affected.

In addition, as we typically receive payment under our contracts in stages, any delay in the completion of a project may postpone our receipt of anticipated payments, which may have a material adverse effect on our cash flow position.

If we do not effectively manage our working capital or obtain adequate funding to finance our projects, our business operations may be interrupted and we may be forced to curtail our expansion plans.

Since we generally receive payment from our customers in stages based on the terms of the contracts entered into with our customers, we incur some of our operating costs and setting-up expenses associated with a project, including labour and raw material costs, well before we receive interim payment from our customers. The contract period of our projects typically ranges from three months to two years and, depending on project progress, the contract period of a small number of our projects may extend to up to four years. In relation to some of our projects, we will only receive the first progress payment from our customers upon completion of approximately 80% of the contract value. As a result, there may be periods during which we may experience net cash outflows for a particular project as well as on an overall basis. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our net cash (used in)/generated from operating activities was approximately RMB(19.4) million, RMB11.4 million, RMB(79.0) million and RMB59.7 million, respectively. Please refer to the section headed "Financial Information - Liquidity and Capital Resources - Cash flows - Operating activities" for further details of our cash flows during the Track Record Period.

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We undertake a number of projects at any given period, and the cash outflows of a particular project are normally compensated by the cash inflows of other projects. If, at a particular point of time, the mix of our projects be such that more are at the initial stage, or if we take up too many significant projects, which require substantial initial setting-up costs, without sufficient cash inflows from other projects, our cash flow position may be materially and adversely affected.

We currently fund our working capital requirements through a combination of bank borrowings and cash inflows from different projects. However, there is no assurance that we will be able to match the timing and amounts of our cash inflows with the timing and amounts of our payment obligations and other cash outflows. There is also no assurance that we will be able to generate sufficient cash inflows from our business operations to meet our payment obligations. If we are unable to make scheduled payments and other fixed payment obligations as they become due, we may need to re-negotiate the terms and conditions of such obligations or to obtain additional equity or debt financing. There is no assurance that our re-negotiation efforts will be successful or timely or that we will be able to obtain additional financing on commercially acceptable terms or at all. If we fail to effectively manage our working capital, our ability to meet our payment obligations may be impaired, and our business, results of operations and financial condition may be adversely affected.

In addition, the execution of our projects and our business development will require significant capital. Our inability to obtain additional capital on favourable terms may result in project delays, curtail the expansion of our business, or force us to forego project opportunities, which may materially and adversely affect our business, results of operations and financial condition.

Fluctuations in the prices of raw materials may affect our cost of sales, which may materially and adversely affect our profitability and results of operations.

The raw materials purchased by our Group mainly include electrical and mechanical products, stone, ceramic materials, glass, metal, metal hardware and decoration boards. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the costs of raw materials and consumables used amounted to approximately RMB813.1 million, RMB810.8 million, RMB924.5 million and RMB432.7 million, respectively, representing 61.2%, 61.6%, 63.2% and 66.1% of our total cost of sales, respectively.

Since our service fees are generally pre-determined when a project is awarded to us, any substantial increase in the prices of raw materials between the time of submission of our tender or quotation and the time when we purchase the relevant raw materials will substantially increase our material costs and may materially and adversely affect our profitability, results of operations and financial condition. Since we do not enter into long-term supply contracts with our suppliers, there is no assurance that our suppliers will not significantly increase the prices of raw materials in the future, in particular when the market prices of or the market demand for such raw materials increases. There is also no assurance that we will be able to pass the increase in the costs of raw materials to our customers to avoid adverse impacts on our profit margins.

In addition, we cannot assure you that we will be able to continue to secure adequate supplies of raw materials to meet all of our business needs at commercially reasonable prices in the future. If we are unable to secure adequate raw materials at commercially reasonable prices, we may miss project schedules or completion deadlines, which may harm our reputation in the industry or subject us to pay monetary compensation or damages to our customers. We may be forced to procure raw materials from more expensive alternative sources or incur other additional costs to meet our contractual obligations, which may materially and adversely affect our results of operations and financial condition.

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If we fail to meet specified technical standards or industry requirements, we may have to incur additional costs to remedy the defects and compensate our customers.

Our contracts typically require us to commit to certain technical standards and industry requirements. If we fail to adhere to the standards and requirements set out in the contracts, we may need to incur additional costs to rectify the defects and may be liable to compensate our customers for any losses sustained by them. Any such work defects may also harm our reputation in the industry, which may hinder our ability to win future contracts and subject us to more onerous warranty provisions in the future. Moreover, a severe technical defect may lead to incidents of personal injury or property damage, which may result in litigation and liability for damages. If any of the foregoing events occur, our business, results of operations and financial condition may be materially and adversely affected.

We rely on workers sourced from licensed labour agencies in the PRC and our business operations may be materially and adversely affected by the qualification, work performance and availability of such workers.

During the Track Record Period, we engaged licensed labour agencies in the PRC to carry out the labour works involved in our project implementation. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our fees paid to labour agencies amounted to approximately RMB153.1 million, RMB251.3 million, RMB470.8 million and RMB204.5 million, respectively, representing approximately 11.5%, 19.1%, 32.2% and 31.2% of our total cost of sales, respectively.

Although our project managers closely monitor the work quality and performance of the workers sourced from the licensed labour agencies, there is no assurance that the works undertaken by them will be completed in a timely manner or of satisfactory quality. If the workers fail to complete their works on time or if their works are not of acceptable quality, we may need to incur additional costs to engage other workers to complete the works or undertake remedial works, which may materially and adversely affect our results of operations and our reputation in the industry. There is no assurance that we will be able to engage alternative licensed labour agencies on commercially acceptable terms or at all. Furthermore, any labour agency facing financial or other difficulties, including labour disputes with its employees, may not be able to meet our staffing needs in a timely manner or at all, which may result in a delay in the completion of our projects and substantial liabilities on our Group. The occurrence of any of these events may materially and adversely affect our business and results of operations.

We may face difficulties in completing our projects if we do not have sufficient workers. There is also no assurance that such agencies will be able to provide us with workers of satisfactory qualification and skill level or that the workers will not deliver sub-standard work. In such circumstances, the quality of our project and our reputation in the industry may be materially and adversely affected and we may be exposed to litigation and damages claims.

According to the Interim Provisions on Labour Despatch (勞務派遣暫行規定) (the "Interim Provisions") promulgated on 24 January 2014 and became effective on 1 March 2014, the number of despatched workers employed by an employer shall not exceed 10% of the total number of its workers (including workers sourced under labour despatch agreements and our employees). If the number of despatched workers employed by an employer exceeded 10% of its total workers before the effective date of the Interim Provisions, the employer shall adjust its employment structure and reduce the proportion to the statutory limit within two years from the effective date of the Interim Provisions, i.e. before 1 March 2016. Since 19 February 2016 and up to the Latest Practicable Date, the majority of our workers were sourced under labour subcontracting agreements, with only less than 10% of our total workers being sourced under labour despatch agreements. If the number of workers sourced

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under labour despatch agreements exceeds the maximum level allowed under the Interim Provisions, we will not be able to employ additional despatch workers, which may cause delay or difficulties in completing our projects. On the other hand, there is no assurance that we will be able to source additional workers under labour subcontracting agreements so as to comply with the requirements under the Interim Provisions, which may materially and adversely affect our results of operations. In addition, there is no assurance that workers sourced under labour subcontracting agreements will not significantly increase the prices of their services and our profitability and financial condition may be materially and adversely affected.

Seven of our customers settled their payment to us through third parties during the Track Record Period and we may be subject to claims for return of funds and risks of money laundering.

During the Track Record Period, seven of our customers settled their payments to us through third parties in the PRC by way of bank remittance or deposit (the “**Third Party Payments**”). The Third Party Payments occurred during the period from October 2015 to February 2016. For the year ended 31 December 2015 and the six months ended 30 June 2016, Third Party Payments amounted to approximately RMB21.9 million and RMB32.5 million, respectively, representing approximately 1.3% and 4.4% of our total revenue, respectively. Please refer to the section headed “Business – Third Party Payments” for further details of the Third Party Payments.

As advised by our PRC Legal Advisers, we may be subject to risks of money laundering under the Criminal Law of the PRC (中華人民共和國刑法) if we (i) clearly know that the Third Party Payments represent proceeds and/or gains obtained from drug-related crimes, crimes committed by criminal organisations, crimes of terrorism, smuggling, bribery and corruption, crimes undermining the financial order of society and financial fraud; and (ii) commit certain acts for the purpose of covering up or concealing the source and nature of the above proceeds or gains. While we have ceased all Third Party Payments since mid-March 2016, there is no assurance that the Third Party Payments during the Track Record Period will not be subject to claims for return of funds or expose us to risks of money laundering. If we are faced with claims for return of funds or suspected of having committed money laundering, our reputation, business, results of operations and financial condition may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights and may be exposed to third-party claims of infringement or misappropriation of intellectual property rights.

Our success largely depends on our ability to operate with our business name and use our techniques, know-how and designs without infringing the intellectual property rights of third parties. As at the Latest Practicable Date, our Group had registered various trademarks in the PRC and in Hong Kong and more than 60 utility patents in the PRC. We cannot assure you that the steps we have taken to protect and safeguard our intellectual property rights are adequate or that our intellectual property rights will not be infringed by any third party in the future. Any unauthorised use of our intellectual property rights may harm our brand image and reputation, which may have an adverse effect on our business performance and results of operations. We may resort to legal proceedings in order to protect and enforce our intellectual property rights and the legal fees and expenses involved in such proceedings can be substantial. Furthermore, the diversion of resources and our management’s effort and attention in addressing such intellectual property claims may significantly affect our business performance and hinder our business development.

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In addition, we may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. The defence of intellectual property lawsuits, patent opposition proceedings and related legal and administrative proceedings can be costly and time consuming. An adverse judgment in any such proceedings may result in substantial liability on us. In addition, we may be required to obtain licences from third parties at a substantial cost. In these circumstances, our reputation, financial condition and results of operations may be materially and adversely affected.

We are exposed to construction disputes and litigation.

While we require our workers to implement all the safety measures and procedures as stipulated in our safety manual when carrying out works on worksites, there is no assurance that they will fully adhere to and comply with such safety requirements and procedures. If our workers fail to take sufficient precautionary or safety measures on worksites, there may be a higher number of accidents or incidents of personal injury or property damage. Any claim against us may negatively affect our reputation and may materially and adversely affect our results of operations and financial position.

Due to the nature of our business, we may also become involved in claims and legal proceedings relating to, among other things, warranty, indemnification or liability claims, contractual disputes with customers, labour disputes, workers' compensation, and safety, environmental or other legal requirements. We may also be subject to claims for personal injury and property damage arising from our projects. Legal proceedings and investigations can be time-consuming and costly, and may divert our management's attention away from our business operations. Such claims, legal proceedings and investigations may also cause a deterioration of our corporate image and reputation in the industry, which may have a material and adverse impact on our business, results of operations and financial condition.

There is no assurance that our existing insurance policies will cover the full extent of loss or liability for which we may be held liable. There is also no assurance that the insurance company will not counter-claim us for breach of the terms and conditions of the relevant insurance policy. In either event, our results of operations and financial position may be materially and adversely affected.

Our insurance policies may not be sufficient to cover liabilities arising from claims and litigation and our insurance premium may increase from time to time.

We have taken out insurance policies in line with industry practice to cover the risks associated with our business operations. However, there are certain types of risks, such as acts of gods, for which insurance coverage is generally not available on commercially acceptable terms or at all. There is no assurance that our current insurance coverage will be able to cover all types of risks involved in our business operations, or be sufficient to cover the full extent of losses, damages or liabilities arising therefrom. If we suffer any losses, damages or liabilities in the course of our business operations arising from events for which we do not have any or adequate insurance coverage, we will have to bear all or a certain portion of such losses, damages or liabilities. In such circumstances, our business operations, results of operations and financial condition may be materially and adversely affected.

In addition, there is no assurance that our insurance premium will not increase or that we will not be required by law to obtain additional insurance coverage in the future. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our total insurance premium amounted to approximately RMB0.4 million, RMB0.6 million, RMB0.7 million and RMB0.3 million, respectively. Any further increase in insurance costs may materially and adversely affect our results of operations and financial condition.

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Our five largest customers accounted for almost half of our total revenue for the six months ended 30 June 2016, and any adverse changes in their business or financial condition may materially and adversely affect our business and financial condition.

For the six months ended 30 June 2016, our five largest customers accounted for approximately 45.5% of our total revenue, whereas our largest customer accounted for approximately 17.9% of our total revenue. Any adverse changes in the business or financial condition of such customers, including liquidity problems, liquidation and restructuring, may result in delay in settlement to us, non-performance of their payment obligations, delay in project schedule or discontinuation of projects. Any of the above circumstances may materially and adversely affect our business, results of operations, financial condition as well as cash flow.

We may be subject to fines and penalties as a result of our non-compliance with certain PRC laws and regulations during the Track Record Period.

Pursuant to the relevant PRC laws and regulations, employers in the PRC are required to make social insurance contributions and housing provident fund contributions for their employees, and entities failing to make contributions may be ordered to settle the outstanding contributions within a prescribed time limit and subject to penalties or fines. During the Track Record Period, we were not in strict compliance with the requisite contribution requirements in relation to some of our PRC employees. In addition, during the Track Record Period, our Company and one of our subsidiaries were involved in certain non-compliant inter-company lending activities with other companies which are Independent Third Parties. For details of the non-compliance incidents and the remedial measures taken, please refer to the section headed "Business – Non-compliance Matters".

There is no assurance that we will not be subject to penalties or fines imposed by the relevant PRC authorities as a result of such non-compliance incidents or be ordered to rectify such non-compliance incidents. There is also no assurance that there will not be any employee complaint against us in relation to our failure to make full social insurance and housing provident fund contributions. Any such penalties, orders or complaints may harm our corporate image and may have an adverse effect on our financial condition and results of operations.

We derive a majority of our revenue from Southern, Eastern and South-western China. Our business is therefore susceptible to adverse economic or market development in these regions, which may materially and adversely affect our results of operations.

During the Track Record Period, a majority of our revenue derived from construction contracts was derived from Southern, Eastern and South-western China. We expect that, as we are headquartered in Shenzhen in Guangdong Province, a majority of our revenue will continue to be derived from Southern, Eastern and South-western China in the near future. As such, our business is more susceptible to adverse economic or market development in these regions, including but not limited to (i) downturn in the local economy, or slowdown in local construction activities or property upgrade; (ii) change in local government policies, rules or regulations such as property market tightening measures; and (iii) change in competitive landscape, such as the emergence of building decoration service providers with stronger brand recognition and more financial resources. As a result, our business, results of operations and prospects may be materially and adversely affected.

Our revenue is subject to seasonality fluctuations.

During the Track Record Period, the average revenue generated during the period from July to December was higher than that generated during the period from January to June. Our Directors believe that this was due to (i) major national holidays such as Chinese New Year, Qingming Festival and Labour Day in the first half of the year; and (ii) customers' preferences to have their projects

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completed by the end of the year. Please refer to the section headed "Business – Our Business Operations – Seasonality" for further details. Due to the seasonality of our business, the results of operations as well as our cash flow for any period of a year are not necessarily indicative of the results that may be achieved for the full year. As such, comparison of revenue and operating results between different periods within a financial year may not be meaningful and should not be relied upon as indicators of our performance.

We have low profit margins and may not be able to sustain our historical profitability.

For each of the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, our gross profit margin was approximately 10.6%, 11.0%, 11.9% and 12.3%, respectively, while our net profit margin was approximately 4.1%, 5.3%, 6.1% and 5.9%, respectively. Our gross and net profit margins mainly depend on a number of factors including the number of projects undertaken, contract value of the projects, and costs of raw materials and labour. As these factors are largely outside of our control, we cannot assure you that we will be able to maintain the current level of profit margins in the future.

Our employees or workers may engage in bribery, corrupt practices or other improper conduct, which may materially and adversely affect our reputation, results of operations and business prospects.

We had, during the Track Record Period, obtained and expect to continue to obtain some of our contracts through public bidding. We are therefore subject to anti-corruption measures provided in the Tender and Bidding law of the PRC (中華人民共和國招標投標法) and other related PRC regulations. In addition, the State Council and various PRC regulatory authorities have, in recent years, intensified and stepped up their efforts to combat bribery, corrupt practices and other improper conduct in the PRC. We are therefore subject to risks in relation to actions taken by our employees or workers if they engage in bribery, corrupt practices or other improper conduct. There is no assurance that our internal control measures and corporate governance system will prevent or detect any improper or illegal act by our employees or workers on a timely basis or at all. Our failure to effectively supervise and monitor our employees or workers, or to comply with the PRC anti-bribery, anti-corruption and other related laws and regulations, may subject us to financial losses and may materially and adversely affect our reputation, results of operations and business prospects.

Our business operations may be affected by extraordinary events such as adverse weather conditions and are subject to other inherent construction risks.

Our operations may be interrupted or otherwise affected by adverse weather conditions and natural disasters, such as rainstorms, floods, tropical cyclones, snowstorms and earthquakes, which may significantly delay our project process and prevent us from completing our projects in a timely manner. Other extraordinary events, including political unrest, riots, terrorist attacks and outbreaks of epidemics such as Severe Acute Respiratory Syndrome (SARS), avian influenza and swine influenza, may also result in material disruptions to our business operations. If our works are delayed due to extraordinary events, we may have to subsequently accelerate our work progress in order to catch up with our works and meet the scheduled time for completion, unless our customers agree to extend the time for completion. We may have to incur additional costs, including costs to hire additional workforce and for repair or replacement of damaged inventories and properties. Any delay in completion of the projects may subject us to payment of compensation or damages to our customers, which may materially and adversely affect our results of operations and financial condition.

In addition, we are subject to other inherent construction risks, such as industrial accidents, fire, and suspension of water and electricity supplies, which may affect our work progress, pose risks on our properties kept at our worksites, and result in us being liable for damages to third parties.

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Failure to retain the services of our key personnel may materially and adversely affect our business and results of operations.

The success of our Group to date has largely been attributable to the contributions, commitment and experience of our management team and key personnel, in particular their familiarity with our business operations and their experience and expertise in the building decoration industry. Our Executive Directors have an average of almost 10 years of experience in the building decoration industry. If we lose our key management personnel without a suitable and timely replacement or if we lose them to our competitors, our competitiveness, business performance, results of operations as well as business prospects may be materially and adversely affected.

In addition, our future growth and our ability to implement our business strategies will depend on, among other factors, the successful recruitment and retention of additional highly skilled and experienced management and other key personnel. We cannot assure you that we will be able to hire or retain such employees and the failure to do so may materially and adversely affect our business, results of operations and financial condition.

Any change in tax treatment in the PRC may have an impact on our results of operations.

The current standard EIT rate in the PRC is 25%. In 2013, our Company was awarded the status as "High and New Technology Enterprise*" (高新技術企業) by relevant PRC government authorities and was entitled to enjoy a preferential tax rate of 15% on EIT during the Track Record Period.

There is, however, no assurance that our Company will continuously be awarded the status as "High and New Technology Enterprise*" (高新技術企業) or enjoy the favourable tax rate of 15% in 2016 or in the future. Any change in or discontinuation of such favourable tax treatment may adversely affect our results of operations and profitability.

Our use of the "percentage-of-completion" method of accounting means that our recorded revenues and profits are based on our best estimates at the relevant times, which are subject to inherent uncertainties and subsequent adjustments.

Our revenues and profits are measured and recognised using the "percentage-of-completion" method of accounting, which is further discussed in the Accountant's Report as set out in Appendix I to this document. Our use of this method results in recognition of revenues and profits ratably over the life of a contract, generally based on the proportion of costs incurred to date to the total costs expected to be incurred for the entire project. Revisions to revenues and estimated costs are recorded when the amounts are known or can be reasonably estimated. Although we use our best efforts to estimate the progress towards completion of our projects under construction, the uncertainties inherent in the estimating process mean that actual costs may vary materially from estimates, which may result in adjustments to our revenues or profits in subsequent fiscal periods and such adjustments may be material.

Non-renewal of, or delay in obtaining permits, licences, approvals, certificates or qualifications may have a material adverse effect on our business operations.

It is a pre-requisite for us to obtain certain permits, licences, approvals, certificates and qualifications from various governmental or regulatory authorities in order to conduct and carry on our business operations. However, these permits, licences, approvals, certificates and qualifications are subject to periodic review and renewal by the relevant governmental or regulatory authorities and our continued compliance with certain standards and requirements.

There is no assurance that we will be able to renew or that we will not experience any delay in obtaining all necessary permits, licences, approvals, certificates and qualifications in the future.

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Non-renewal of, or delay in obtaining, all necessary permits, licences, approvals, certificates and qualifications may prevent us from undertaking or carrying on certain types of projects or works, which may disrupt our business operations and may have a material adverse effect on our business, results of operations and financial condition.

Labour shortages and increase in labour cost may have a material and adverse effect on our business operations.

Our future growth and expansion will depend on our ability to continue to employ qualified personnel at a rate consistent with the growth of our business. There is no assurance that we will be able to continuously recruit staff in a timely and cost-efficient manner. Any failure to attract qualified personnel at a reasonable cost and in a timely manner may weaken our competitive advantages relative to our competitors. Any shortage of labour in the regions where we operate may also prevent us from completing our projects on time and may hinder our future business growth. Furthermore, there is no assurance that we will not experience any labour strike or dispute in the future. Any labour strike or dispute may materially disrupt our business operations.

Labour cost has increased significantly in the PRC in recent years. Apart from inflation, the implementation of the Labour Contract Law of the PRC (中華人民共和國勞動合同法), which became effective on 1 January 2008 and was amended on 28 December 2012, has increased our labour cost. Our Directors expect that our labour cost will continue to increase in the future. If labour cost in the PRC continues to increase and we are unable to pass such increase in cost to our customers in a timely manner or adopt appropriate or effective means to reduce our labour cost, our profitability and results of operations may be materially and adversely affected.

Any change in our management's expectation with respect to the recoverability of our deferred income tax assets may have a material adverse effect on our results of operations and financial condition.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, our deferred income tax assets amounted to approximately RMB11.4 million, RMB14.7 million, RMB18.4 million and RMB20.6 million. Please refer to the section headed "Financial Information – Description of Certain Items of Consolidated Statements of Financial Position – Deferred income tax assets" for further details of our deferred income tax assets.

Deferred income tax assets are recognised where our management considers it probable that future taxable profit will be available against which the temporary differences can be utilised, and their recoverability is re-assessed at the end of each financial year. There is no assurance that our management's expectation in relation to the recoverability of such deferred income tax assets will remain the same as its original estimates, and any change in such expectation may have a negative impact on the recognition of deferred income tax assets and our taxation in the year in which such expectation is changed, which may materially and adversely affect our results of operations and financial condition.

The trend of our historical financial information may not necessarily reflect our financial performance in the future.

For each of the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, our revenue amounted to approximately RMB1,484.6 million, RMB1,479.7 million, RMB1,659.7 million and RMB746.2 million, respectively, and the profit attributable to equity holders of our Company amounted to approximately RMB61.7 million, RMB79.6 million, RMB100.7 million and RMB44.3 million, respectively.

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However, the trend of our historical financial information is a mere analysis of our past performance and does not have any positive implication on and may not necessarily reflect our future financial performance. Our future financial results may fluctuate due to the quantity and contract value of our new projects each year and will depend on our ability to secure new contracts and keep our costs at a minimum. There is no assurance that our short-term operating results are indication of our long-term prospects.

There is no assurance that our business strategies and future plans will be successfully implemented.

The implementation of our business strategies and future plans may be hindered by risks including but not limited to those set out in this section. There is no assurance that we will be able to successfully implement our business strategies or future plans. Even if our business strategies or future plans are implemented, there is no assurance that they will increase our market share or enhance our market position. Our results of operations and financial position may be materially and adversely affected if our business strategies or future plans are not successfully implemented.

RISKS RELATING TO OUR INDUSTRY

We are susceptible to adverse development in the real estate market in the PRC.

The services offered by our Group relates to the improvement and upgrade of the general condition of buildings and properties. Accordingly, our business performance, results of operations and prospects are driven, to a certain extent, by the performance and development of the real estate and property market and the relevant government policies in the PRC. While the PRC property market has undergone significant growth in the last decade, in order to address concerns over the overheated real estate market in the PRC, the PRC Government has introduced a series of measures to curtail the growth of and investment in the PRC property market. For example, in February 2013, the Notice of the General Office of the State Council on Continuing to Effectively Regulate the Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知) was promulgated, which laid down various administrative, financial, tax, market and pricing measures which aim to stabilise the real estate market in the PRC, including increasing land supply and accelerating construction of government housing. The restrictive measures adopted by the PRC Government have slowed down property investment activities, reduced the number of newly completed properties, and affected the general appetite for property investment and related activities in the PRC as a whole. Even though the PRC Government introduced measures such as the relaxation of restrictions on the purchase of new residential properties to stimulate the real estate market in early 2015, there is no assurance that the PRC Government will not impose additional or more stringent measures in the future in response to the overheated real estate market. There is also no assurance that the PRC real estate and property market will continue to grow. As a result, our business and results of operations are susceptible to adverse change in the PRC property market and our revenue, results of operations and cash flow may fluctuate significantly due to circumstances beyond our control.

We operate in a highly competitive industry.

We operate in a highly competitive industry. According to the Frost & Sullivan Report, the building decoration industry in the PRC is highly fragmented with intense regionalisation, and as at 31 December 2015, there were approximately 24,000 players in the building decoration industry in the PRC. Some of our competitors may have more manpower, financial resources, licences and qualifications, greater access to capital, longer operating history and track record, more established relationship with customers, and stronger corporate image. Due to the large number of competitors in the building decoration industry, we may face significant downward pricing pressure, thereby reducing our profit margins. Our competitors may reduce our market share by adopting more

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aggressive pricing strategies, which may significantly harm our ability to secure future contracts. If we fail to effectively respond to changes in the competitive landscape or provide a competitive bid as compared to our competitors, we may not be able to win future contracts and our business performance and profitability may be materially and adversely affected.

Our business performance is heavily dependent on the general economic and market conditions in the PRC.

Our business performance and level of profitability are heavily dependent on the demand for works relating to building decoration, electrical and mechanical engineering, curtain wall engineering, and fire safety engineering in the PRC. The nature, scale and timing of such projects will, however, be determined by the interplay of a variety of factors, in particular, global economic climate, social, economic and market conditions in the PRC, and spending patterns of the public and private sectors in the PRC.

Any occurrence of global economic slowdown or financial crisis may materially and adversely affect the overall economic and market conditions in the PRC. Increased market volatility and uncertainty in the PRC and the lack of market confidence may weaken economic sentiments, decrease business spending and reduce the availability of credit facilities, all of which may cause a reduction in the demand for building decoration and engineering works in both public and private sectors in the PRC. As a result, our results of operations, financial condition and business prospect may be materially and adversely affected.

We may not be able to keep up with changes in market demands or technological advancements.

In order to respond to and anticipate changes in the building decoration industry and maintain our competitiveness, we devote considerable amount of resources to the research and development of new technologies and techniques, which are subject to continuous evolution and upgrade. There is no assurance that our research and development efforts will be successful or that the technologies or techniques developed by us will be well accepted by the market or achieve commercial success. If we are unable to develop new technologies or techniques that meet the needs and preferences of our customers in a timely manner, or if our competitors have developed new and more advanced technologies and techniques, our business, results of operations and financial condition may be materially and adversely affected.

We are exposed to environmental liabilities and may have to incur significant capital expenditure if additional or more onerous laws and regulations are passed in relation to environmental protection.

Our business operations are subject to a number of environmental protection laws, regulations, policies and standards in the PRC, including the Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境雜訊污染防治法) and the Standards for Indoor Environmental Pollution Control of Civil Building Engineering (民用建築工程室內環境污染控制規範). In the event that we fail to comply with or meet the applicable environmental protection laws, regulations and policies, we may be subject to substantial fines or penalties, required to take remedial measures, or ordered to suspend our business operations, which may in turn have a material and adverse effect on our business operations, results of operations and financial condition.

In addition, there is no assurance that the PRC Government or the relevant PRC authorities will not impose additional or more stringent environmental protection laws, regulations or policies in the future, which may subject us to more onerous duties and obligations. Any change or amendment to these laws, regulations or policies may require us to incur substantial financial or other resources to

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adjust the manner in which we carry out our works, introduce new preventive or remedial measures, purchase new pollution control equipment, and update our compliance and monitoring systems to ensure compliance with such amended laws, regulations, policies or standards. Failure to ensure compliance in a timely manner or at all may result in substantial penalties or fines and our business operations may be disrupted, thus materially and adversely affecting our results of operations and financial condition.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Our business operations may be materially and adversely affected by any change in the political, economic and social policies and conditions of the PRC.

Our business and results of operations are subject to the political, economic and social policies and conditions of the PRC, as all of our revenue is derived from our operations in the PRC and our major assets are located in the PRC. Our ability to conduct and expand our business operations in the PRC depends on a number of factors that are beyond our control, including macro-economic and other market conditions and credit availability from lending institutions. In order to control inflation and promote economic growth, the PRC Government has introduced certain macro-economic policies, such as imposing commercial bank lending guidelines, which have the effect of restricting lending to certain industries. Some of these macro-economic policies and lending policies may limit our ability to obtain financing, thus reducing our ability to implement our business strategies. There is no assurance that the PRC Government will not introduce more restrictive or onerous policies in the future. Any change in the political, economic and social policies and conditions of the PRC may bring uncertainty to our business operations and may materially and adversely affect our prospects and results of operations.

While the PRC Government has undergone various economic reforms in the last few decades, many of such reforms are of an experimental nature and are expected to be refined, adjusted and modified from time to time based on economic and social conditions. In addition, the scope, application and interpretation of the laws and regulations relating to such reforms may not be entirely clear. Such refinement, adjustment or modification may impact our business operations in ways that we cannot predict and any uncertainty in the scope, application and interpretation of the relevant laws and regulations may materially and adversely affect our results of operations and financial condition.

The legal system in the PRC is not fully developed and has inherent uncertainties that could limit the legal protections available to our Shareholders.

Our business operations are primarily conducted in the PRC and our Company is governed by PRC laws, rules and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC, and may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but do not have binding precedential effect and have little weight as precedents. Accordingly, the outcome of dispute resolutions may not be consistent or predictable.

Although efforts have been made by the PRC Government to enhance protection of foreign investment in the PRC, the PRC has not yet developed a fully integrated legal system. Newly-enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. Furthermore, the PRC legal system is partly based on government policies and administrative rules that may take effect retrospectively. As a result, we may not be aware of our violations of certain policies or rules in a timely manner.

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The legal protection available to us under the PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted, which may result in the diversion of our resources and management attention. In addition, the outcome of dispute resolutions may not be consistent or predictable and it may be difficult to enforce judgments and arbitration awards in the PRC.

In addition, the application, interpretation and enforcement of the PRC laws and regulations may be subject to the political condition and changes in social policies in the PRC. Different regulatory authorities may have different interpretation on certain laws and regulations and may adopt different approach in enforcement. As a result, companies may be required to comply with the requirements or standards set by the relevant authorities from time to time or obtain approvals and complete filings in accordance with the interpretation and enforcement of such laws and regulations by the relevant authorities. Uncertainty in the application, interpretation and enforcement of the PRC laws and regulations may require us to incur additional cost and effort in complying with the requirements or standards imposed by the PRC regulatory authorities, which may materially and adversely affect our business, results of operations and financial condition.

Fluctuations in exchange rates and the value of Renminbi may have a material adverse effect on our results of operations and financial condition.

Since substantially all of our revenues are denominated in Renminbi, we will need to convert some of our cash into foreign currencies in order to pay dividends to holders of our [REDACTED]. The value of Renminbi against foreign currencies fluctuates, and is subject to changes resulting from the PRC Government's policies, domestic and international economic and political developments as well as supply and demand in the monetary market. Since July 2005, the PRC Government has adopted a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and with reference to a basket of currencies. In April 2012, the PBOC enlarged the floating band for the trading price of Renminbi against U.S. dollars on the interbank spot exchange market to 1.0% around the central parity rate. In March 2014, the PBOC further enlarged the floating band for the trading price of Renminbi against U.S. dollars on the interbank spot exchange market to 2.0% around the central parity rate. There remains significant international pressure on the PRC Government to adopt more flexible currency policies. In the event of significant change in the exchange rates of Hong Kong dollars and U.S. dollars against Renminbi, our ability to pay dividends in foreign currencies may be materially and adversely affected.

In addition, since dividends in respect of our [REDACTED] will be declared in Renminbi and paid in Hong Kong dollars, holders of our [REDACTED] in countries other than the PRC are subject to risks arising from adverse fluctuations in the value of Renminbi against Hong Kong dollars, which may reduce the value of any dividends to be paid in respect of our [REDACTED]. Furthermore, following completion of the [REDACTED], our exposure to risks associated with foreign currency fluctuations may further increase as the net [REDACTED] from the [REDACTED] are expected to be denominated in currencies other than Renminbi. We cannot predict how the exchange rate of Renminbi against other currencies will fluctuate in the future. Any such fluctuation may have a material and adverse effect on our business, results of operations and financial condition.

The PRC Government's control of foreign currency conversion may limit our foreign exchange transactions, including payment of dividends to holders of our [REDACTED].

Substantially all of our revenue is denominated in Renminbi. Since Renminbi is not a freely convertible currency, a portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including payment of dividends to holders of our [REDACTED]. The PRC Government has imposed controls on the conversion between Renminbi and foreign currencies and, in certain cases, the remittance of foreign currencies into and out of the PRC.

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Pursuant to the existing PRC foreign exchange regulations, payments of current account items, such as dividend distributions and interest payments, can be made in foreign currencies without prior approval from the SAFE, but subject to certain procedural requirements. However, approval from or registration with the SAFE is required where Renminbi is to be converted into other foreign currencies and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. We cannot assure you that the PRC regulatory authorities will not impose restrictions on foreign exchange transactions for current account items in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our currency demands, we may not be able to pay dividends to holders of our [REDACTED] in foreign currencies. Any shortage in the availability of foreign currencies may also restrict our ability to purchase or obtain goods and services in countries outside of the PRC, impair our business activities that are conducted in foreign currencies, or limit our ability to remit sufficient foreign currencies to make other payments or otherwise satisfy our obligations that are required to be settled in foreign currencies.

Furthermore, the net [REDACTED] from the [REDACTED] are expected to be deposited in currencies other than Renminbi until we convert these [REDACTED] into onshore Renminbi. If the net [REDACTED] cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these [REDACTED] efficiently may be affected, which may adversely affect our business, results of operations and financial condition.

Our results of operations may be materially and adversely affected by tax reforms in the PRC.

On 23 March 2016, the Ministry of Finance of the PRC and the State Administration of Taxation jointly released the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (關於全面推開營業稅改徵增值稅試點的通知), whereby business tax in certain industry sectors will be replaced by value-added tax with effect from 1 May 2016. In particular, value-added tax at a rate of 11% will be imposed on the construction industry in the PRC. Please refer to the section headed "Law and Regulations – Value-added Tax" for further details.

There is also no assurance that the PRC government authorities will not impose a higher tax rate on the construction industry in the PRC in the future. Any tax reform introduced by the government authorities in the PRC may increase our tax burden and have a material adverse impact on our financial condition and results of operations.

It may be difficult to effect service of process in relation to disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC.

Most of our management reside in the PRC and our major assets and a significant portion of the assets of our management are located in the PRC. There is no assurance that you will be able to effect service of process in connection with disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC.

Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in most western countries. It may therefore be difficult or even impossible to enforce against us or our management who reside in the PRC any judgment obtained from non-PRC courts.

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Payment of dividends is subject to restrictions under the PRC laws and regulations.

According to the relevant PRC laws and regulations, our Company can only pay dividends out of our distributable profits. Distributable profits are our after-tax profits as calculated according to PRC GAAP or HKFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to make dividend distributions to our Shareholders, even if our financial statements may indicate that our business is profitable. Our ability to pay dividends may also be restricted due to the existence of restrictive covenants in banking facilities or other agreements that we may enter into in the future. Please refer to the section headed "Financial Information – Indebtedness" for further details of such restrictive covenants in our banking facilities.

Dividends payable by us to our foreign [REDACTED] and gains on the sale of our [REDACTED] may be subject to withholding tax under the PRC tax laws and regulations.

Non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to dividends received from us or gains realised upon the sale or other disposition of our [REDACTED] in accordance with the applicable PRC tax laws, rules and regulations.

Non-PRC resident individuals are required to pay PRC individual income tax under the Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法). Generally, a Hong Kong-[REDACTED] domestic non-foreign-invested enterprise may withhold individual income tax at a rate of 10% when distributing dividends to non-PRC resident individual shareholders. If an applicable tax treaty provides that the applicable tax rate is lower than 10%, a non-PRC resident individual shareholder may be entitled to claim a refund from the PRC tax authorities. If an applicable tax treaty provides that the tax rate is between 10% and 20%, it is possible that we may be required to pay the withholding tax at a rate specified by the applicable treaty. In the absence of any applicable tax treaty, non-PRC resident individual shareholders may be required to pay the PRC withholding tax at a rate of 20%. Accordingly, we are required to withhold PRC individual income tax from our dividend payments to our non-PRC resident individual Shareholders. There is also much uncertainty as to whether gains realised by non-PRC resident individuals on the disposition of [REDACTED] are subject to PRC individual income tax.

Pursuant to the EIT Law and other applicable PRC tax rules and regulations, non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises, are subject to EIT of 10% on dividend income received from a PRC company. The 10% tax rate is subject to reduction under special arrangements or applicable treaties between the PRC and the jurisdiction where the non-PRC resident enterprise resides. Accordingly, we are required to withhold EIT from our dividend payments to our non-PRC resident enterprise Shareholders. There is also much uncertainty as to whether gains realised upon the disposal of [REDACTED] by non-PRC domestic residents are subject to EIT.

Moreover, there remains substantial uncertainty as to the interpretation and implementation of the EIT Law and other applicable PRC tax rules and regulations by the PRC tax authorities. There is no assurance that such PRC tax rules and regulations will not be subject to change in the future. If there is any unfavourable change to the applicable tax laws and the interpretation or application of such laws, the value of your investment in our [REDACTED] may be materially and adversely affected.

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RISKS RELATING TO THE [REDACTED]

There has been no prior public market for our [REDACTED] and an active trading market for our [REDACTED] may not develop or be sustained.

Prior to completion of the [REDACTED], there had been no public market for our [REDACTED]. There is no assurance that an active and liquid trading market for our [REDACTED] will develop, or if it does develop, will be sustained following completion of the [REDACTED]. Moreover, the [REDACTED] of our [REDACTED] will be determined by agreement between the [REDACTED] (for itself and on behalf of the [REDACTED]) and us, and may not be indicative of the market price of our [REDACTED] following completion of the [REDACTED].

The price and trading volume of our [REDACTED] may be volatile.

The price and trading volume of our [REDACTED] may be volatile and may fluctuate widely in response to factors beyond our control, including actual or anticipated fluctuations in our revenue, earnings and results of operations, potential litigation or regulatory investigations, announcements of competitive developments, acquisitions or strategic alliances in our Industry, general market conditions, and other developments affecting us or our industry. In particular, the business performance and the market price of the shares of other companies engaging in similar business may affect the price and trading volume of our [REDACTED]. Any of these factors may materially and adversely affect the price and trading volume of our [REDACTED].

Since there will be a gap of several days between pricing and trading of our [REDACTED], holders of our [REDACTED] are subject to the risk that the market price of our [REDACTED] could be lower than the [REDACTED].

The [REDACTED] of our [REDACTED] is expected to be determined on the [REDACTED]. However, our [REDACTED] will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the [REDACTED]. [REDACTED] may not be able to sell or otherwise deal in our [REDACTED] during that period. As a result, holders of our [REDACTED] are subject to the risk that the price of our [REDACTED] could fall before trading begins as a result of adverse market conditions or other unfavourable circumstances that may occur between the [REDACTED] and the time when trading of our [REDACTED] begins.

Future sales or perceived sales of a substantial number of our [REDACTED] in the public market may have a material adverse effect on the prevailing market price of our [REDACTED] and may result in a dilution of your shareholding.

The market price of our [REDACTED] may decline as a result of future sales of a substantial number of [REDACTED] or other securities relating to [REDACTED] in the public market, or the issuance of new [REDACTED] or other securities, or the perception that such sales or issuances may occur. In addition, our Shareholders may experience dilution in their shareholdings upon offer or sale of additional share capital or equity-linked securities by our Company in future [REDACTED]. If additional funds are raised through the issuance of new equity or equity-linked securities other than on a pro rata basis to existing Shareholders, (i) the percentage ownership of existing Shareholders may be reduced and they may experience subsequent dilution and reduction in their earnings per share; and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the [REDACTED] of the existing Shareholders.

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Any possible conversion of our Domestic Shares into [REDACTED] in the future may increase the number of our [REDACTED] in the market and may adversely and materially impact the market price of our [REDACTED].

Subject to the approval of the CSRC, all of our Domestic Shares may be converted into [REDACTED] in the future, and such converted [REDACTED] may be [REDACTED] or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted [REDACTED], all requisite internal approval by Shareholders in a general meeting and the approval from relevant PRC regulatory authorities shall have been obtained. However, the PRC Company Law provides that, in relation to the [REDACTED] of a company, the shares of that company which are issued prior to the [REDACTED] shall not be transferred within one year from the date of the [REDACTED]. Therefore, upon obtaining all requisite approval, our Domestic Shares may be traded, after the conversion, in the form of [REDACTED] on the Stock Exchange after one year upon completion of the [REDACTED], which may further increase the supply of our [REDACTED] in the market and negatively impact the market price of our [REDACTED].

There is no assurance if and when we will pay dividends in the future.

Distribution of dividends will be at the discretion of our Board and subject to Shareholders' approval. A decision to declare or pay dividend and the amount of such dividends will depend on various factors, including but not limited to our business performance, financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or HKFRSs, our Articles of Association, applicable laws and regulations of the PRC, market conditions, our business plans, contractual limits and obligations, taxation, and other factors determined by our Board from time to time to be relevant to the declaration of dividends. As a result, there is no assurance whether, when and in what manner we will pay dividend in the future.

Information and statistics in this document may come from various sources and may not be fully reliable.

Some of the information and statistics in this document are derived from various publicly available government official and other publications and obtained during communications with various governmental agencies or independent third parties that our Directors believe are reliable. However, our Directors cannot guarantee that the quality or reliability of such materials. Our Directors believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting or reproducing such information and statistics. They do not believe that such information or statistics is false or misleading in any material aspect or that any material fact has been omitted that would render such information or statistics false or misleading. Such information or statistics has not been independently verified by our Group, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], their respective directors or advisers, or any other party involved in the [REDACTED] and no representation is given as to its accuracy or completeness. Due to the possibly flawed or ineffective sampling or discrepancies between published information and market practices or other reasons, such information and statistics may be inaccurate or may not be comparable to official statistics. You should consider how much weight or importance such information or statistics carry and should not place undue reliance on them.

RISK FACTORS

Prospective [REDACTED] should read the entire document carefully and are strongly cautioned against placing any reliance on the information contained in any press article or other media coverage which contains information not being disclosed or which is inconsistent with the information included in this document.

You are strongly advised to read the entire document carefully and are cautioned against placing any reliance on the information contained in any press article or other media coverage which contains information not disclosed or not consistent with the information included in this document.

Prior to completion of the [REDACTED], there may be press and media coverage regarding our Group and the [REDACTED]. Such press and media coverage may include information that does not appear in or is inconsistent with information contained in this document. Our Directors would like to emphasise to prospective [REDACTED] that we do not accept any responsibility for the accuracy or completeness of such information and the disclosure of such information has not been authorised by us. Our Directors make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or any forecast, view or opinion expressed by the press or other media regarding our Group, our [REDACTED] or the [REDACTED]. In making decisions as to whether to invest in our [REDACTED], prospective [REDACTED] should rely only on the information included in this document.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for [REDACTED], we have sought and have been granted the following waiver from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

[REDACTED] of the Listing Rules provides that a new applicant applying for a primary [REDACTED] on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of our Executive Directors must be ordinarily resident in Hong Kong. [REDACTED] of the Listing Rules further provides that the requirement in [REDACTED] maybe waived by the Hong Kong Stock Exchange at its discretion.

Our headquarters and all of our business operations are based, managed and conducted in the PRC. As the Executive Directors and senior management of our Company play very important roles in our business operations, it is in our best interests that they are based in the places where our Group has significant operations. Therefore, our Company does not, and in the foreseeable future will not, have Executive Directors who are ordinarily resident in Hong Kong. Currently, all of our Executive Directors, Mr. YE Yujing (葉玉敬), Mr. LIU Yilun (劉奕倫) ("Mr. Liu"), Ms. YE Xiujin (葉秀近), Mr. YE Guofeng (葉國鋒) ("Mr. Ye"), and Mr. YE Niangting (葉娘汀) are ordinarily resident in the PRC. Our Company considers that it would be practically difficult and commercially unreasonable for us to relocate two Executive Directors to Hong Kong or appoint two additional Executive Directors who are ordinarily resident in Hong Kong. Each of our Directors, who is not ordinarily resident in Hong Kong, currently holds or can apply for and renew valid travel documents that allow him or her to travel to Hong Kong for meetings with the Stock Exchange within a reasonable period of time. For the purposes of the [REDACTED], our Company has established a place of business in Hong Kong and has completed the application for the registration as a non-Hong Kong company under Part 16 of the Companies Ordinance.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us a waiver from strict compliance with [REDACTED] of the Listing Rules subject to the following conditions to ensure that regular and effective communication is maintained between the Stock Exchange and our Company:

- (a) we have appointed two authorised representatives, Mr. Ye, a PRC resident, and Ms. KOU Yue (寇悅) ("Ms. Kou"), a Hong Kong resident who is ordinarily residing in Hong Kong, pursuant to [REDACTED] and [REDACTED] of the Listing Rules to act as our principal channel of communication with the Stock Exchange. Although Mr. Ye resides in the PRC, he confirms that he possesses valid travel documents and is able to renew such documents when they expire in order to visit Hong Kong. Accordingly, each of our authorised representatives will be available to meet with the Stock Exchange in Hong Kong on reasonable notice and will be readily contactable by telephone, facsimile and e-mail. Each of the two authorised representatives has been duly authorised to communicate on our behalf with the Stock Exchange. Our Company has been registered as a non-Hong Kong company under the Companies Ordinance, and Ms. Kou, the authorised representative of our Company registered under the Companies Ordinance, is authorised to accept service of legal process and notices in Hong Kong on behalf of our Company;
- (b) in addition to Mr. Ye and Ms. Kou, one of our Independent Non-executive Directors, Mr. FUNG Yat Sang (馮逸生) is ordinarily resident in Hong Kong and will serve as an additional channel of communication between our Company and the Stock Exchange;
- (c) both of our authorised representatives have means to contact all of our Directors (including the Independent Non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any reason;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (d) to enhance the communication between the Stock Exchange, our authorised representatives and our Directors, we have implemented a policy whereby (i) each of our Directors will provide his or her respective updated office telephone numbers, mobile telephone numbers, residential telephone numbers, facsimile numbers and e-mail addresses to our authorised representatives; (ii) each of our Directors will endeavour to provide valid means of communication to our authorised representatives when he is travelling; and (iii) each of our Directors and authorised representatives will provide his or her updated office telephone numbers, mobile telephone numbers, residential telephone numbers, facsimile numbers and email addresses to the Stock Exchange;
- (e) each of our Directors who is not ordinary resident in Hong Kong possesses or can apply for and renew valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange on reasonable notice;
- (f) all of our Directors can normally be contacted at the headquarters of our Company in Shenzhen, PRC during normal working hours;
- (g) we shall promptly inform the Stock Exchange of any changes on the authorised representatives and/or the compliance adviser of our Company in accordance with the requirements under the Listing Rules;
- (h) we, in accordance with [REDACTED] of the Listing Rules, have appointed Guotai Junan Capital Limited as our compliance adviser, and Guotai Junan Capital Limited will have access at all times to our authorised representatives, Directors and senior management to ensure that they are in a position to provide prompt responses to any query or request from the Stock Exchange in respect of our Company and will act as an additional channel of communication with the Stock Exchange for the period commencing on the [REDACTED] and ending on the date on which we despatch our annual report to our Shareholders for the first full financial year after the [REDACTED] pursuant to [REDACTED] of the Listing Rules;
- (i) we will retain Hong Kong legal advisers to advise on our on-going compliance obligations and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong after [REDACTED]; and
- (j) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or the compliance adviser of our Company or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly in respect of any change in our authorised representatives and/or compliance adviser.

WAIVER IN RESPECT OF APPOINTMENT OF COMPANY SECRETARY

Pursuant to [REDACTED] of the Listing Rules, we must appoint a company secretary who satisfies [REDACTED] of the Listing Rules. According to [REDACTED] of the Listing Rules, we must appoint as our company secretary an individual who, by virtue of his or her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

The following academic and professional qualifications are considered acceptable by the Stock Exchange:

- (a) a member of the Hong Kong Institute of Chartered Secretaries;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance) (Chapter 159 of the Laws of Hong Kong); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance) (Chapter 50 of the Laws of Hong Kong).

When assessing an individual's "relevant experience", the Stock Exchange will consider the individual's:

- (a) length of employment with the issuer and other issuers and the roles he or she played;
- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, and the Hong Kong Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under [REDACTED] of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Ms. Kou and Mr. Liu as our joint company secretaries. Both Ms. Kou and Mr. Liu were appointed as the joint company secretaries of the Board of Directors since September 2015. Please refer to the paragraphs headed "Directors, Supervisors and Senior Management – Senior Management" for further details on Ms. Kou's biography. Mr. Liu, however, does not possess the specified qualifications required by [REDACTED] of the Listing Rules. Therefore, our Company has appointed Ms. Kou, who possesses such qualifications, to be a joint company secretary of our Company. Please refer to the paragraph headed "Directors, Supervisors and Senior Management – Joint Company Secretaries" for further details on Mr. Liu's biography.

Given the important role of the company secretary in the corporate governance of a [REDACTED] issuer, particularly in assisting the [REDACTED] issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have made the following arrangements:

- (a) Ms. Kou, one of our joint company secretaries who satisfies the requirements under [REDACTED] of the Listing Rules, will assist Mr. Liu so as to enable him to acquire the requisite knowledge and experience in order to discharge his duties and responsibilities as a company secretary of our Company. Given Ms. Kou's relevant experience, she will be able to advise both Mr. Liu and our Company on the relevant requirements of the Listing Rules as well as other applicable laws and regulations of Hong Kong;
- (b) Mr. Liu, one of our joint company secretaries, will be assisted and supported by Ms. Kou for a period of three years commencing from the [REDACTED]. Upon expiry of the three year period, a further evaluation of the qualifications and experience of Mr. Liu and the need for on-going assistance would be made;
- (c) our Company will ensure that Mr. Liu has access to the relevant trainings and support to enable him to familiarise himself with the Listing Rules and the duties required of a company secretary of a Hong Kong [REDACTED] company, and Mr. Liu has undertaken to attend such trainings;
- (d) Ms. Kou will communicate with Mr. Liu on a regular basis regarding matters in relation to corporate governance, the Listing Rules as well as other applicable laws and regulations of Hong Kong which are relevant to the operations and affairs of our Company. Ms. Kou will work closely with, and provide assistance to Mr. Liu with a view to discharging his duties and responsibilities as a company secretary, including but not limited to organising the Board meetings and Shareholders' meetings of our Company;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) Mr. Liu will also be assisted by the compliance adviser and the Hong Kong legal advisers of our Company, particularly in relation to Hong Kong corporate governance practices and regulatory compliance, on matters concerning our Company's on-going compliance obligations under the Listing Rules and the applicable laws and regulations; and
- (f) pursuant to **[REDACTED]** of the Listing Rules, Mr. Liu and Ms. Kou will also attend in each financial year no less than 15 hours of relevant profession training courses to familiarise themselves with the requirements of the Listing Rules and other regulatory requirements of Hong Kong. Both Mr. Liu and Ms. Kou will be advised by the legal advisors as to Hong Kong law and the compliance adviser as and when required.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the requirements under **[REDACTED]** and **[REDACTED]** of the Listing Rules in respect of the appointment of Mr. Liu as one of the joint company secretaries of our Company, which is valid for an initial period of three years commencing from the **[REDACTED]**. Upon expiry of the initial three-year period, our Company will evaluate the qualifications and experience of Mr. Liu. Upon the determination of our Company that no on-going assistance is necessary, we will demonstrate to the Stock Exchange that, with the assistance of Ms. Kou over such three-year period, Mr. Liu has acquired the requisite knowledge and experience as prescribed in **[REDACTED]** of the Listing Rules. The Stock Exchange will then re-evaluate whether any further waiver would be necessary.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. YE Yujing (葉玉敬)	Room 1901, Building C, Yifeng Garden, Jingtian Road East, Futian District, Shenzhen, Guangdong, PRC	Chinese
Mr. LIU Yilun (劉奕倫)	Room C, Building 6, Zhonghai Dashandi, Longgang District, Shenzhen, Guangdong, PRC	Chinese
Ms. YE Xiujin (葉秀近)	Room 1901, Building C, Yifeng Garden, Jingtian Road East, Futian District, Shenzhen, Guangdong, PRC	Chinese
Mr. YE Guofeng (葉國鋒)	Room 1901, Building C, Yifeng Garden, Jingtian Road East, Futian District, Shenzhen, Guangdong, PRC	Chinese
Mr. YE Niangting (葉娘汀)	Room 22E, Shenmao Business, Centre, 59 Xinwen Road, Futian District, Shenzhen, Guangdong, PRC	Chinese
Non-executive Director		
Mr. TIAN Wen (田文)	Room 806, Unit 2, Building 14, Sanlitun Road South, Chaoyang District, Beijing, PRC	Chinese
Independent Non-Executive Directors		
Mr. LI Bingren (李秉仁)	Room 2005, 3rd Floor, Xinyi Building, 9 Sanlihe Road, Haidian District, Beijing, PRC	Chinese
Mr. FUNG Yat Sang (馮逸生)	Unit E, 50/F, Tower 2, Sorrento, 1 Austin Road West, Tsim Sha Tsui, Kowloon, Hong Kong	Australian
Mr. LIN Zhiyang (林志揚)	Room 202, 28 East Haibin Zone, Xiamen University, Siming District, Xiamen, Fujian, PRC	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Name	Address	Nationality
Supervisors		
Mr. LUO Jianming (羅建明)	Room A6-2, Jikang Huayuan, Hetian Town, Luhe County, Guangdong, PRC	Chinese
Mr. WU Hanguang (吳漢光)	Room 1503, Building 2, Songde Garden, Xiameilin Second Road, Futian District, Shenzhen, Guangdong, PRC	Chinese
Mr. YE Xian (葉縣)	Room 1, 9th Floor, Building C, Yifeng Garden, Jingtian Road East, Futian District, Shenzhen, Guangdong, PRC	Chinese

Please refer to the section headed "Directors, Supervisors and Senior Management" for further information.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor

Guotai Junan Capital Limited
27/F, Low Block, Grand Millennium Plaza,
181 Queen's Road Central,
Hong Kong

[REDACTED]

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]

Legal advisers to our Company

As to Hong Kong law:
Howse Williams Bowers
27/F Alexandra House,
18 Chater Road,
Central, Hong Kong

As to PRC law:
Jingtian & Gongcheng
34th Floor, Tower 3,
China Central Place,
77 Jianguo Road,
Chaoyang District Beijing 100025, PRC

**Legal advisers to the Sole Sponsor
and the [REDACTED]**

As to Hong Kong law:
Deacons
5th Floor, Alexandra House,
18 Chater Road,
Central, Hong Kong

As to PRC law:
King & Wood Mallesons
28th Floor, Landmark,
4028 Jintian Road, Futian District,
Shenzhen 518035, PRC

Reporting Accountant

PricewaterhouseCoopers
Certified Public Accountants
22/F Prince's Building,
Central, Hong Kong

Industry Consultant

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.
Suite 2802-2803, Tower A Dawning Centre,
500 Hongbaoshi Road,
Shanghai 201103, PRC

[REDACTED]

CORPORATE INFORMATION

Headquarters and principal place of business in the PRC	3rd Floor, Pengyi Garden Building 1, Bagua No.1 Road, Futian District, Shenzhen, PRC
Place of business in Hong Kong registered under Part 16 of the Companies Ordinance	27/F, Alexandra House, 18 Charter Road, Central, Hong Kong
Company's website	http://www.aidewei.cn <i>(The contents on this website do not form part of this document)</i>
Compliance Adviser	Guotai Junan Capital Limited
Joint Company Secretaries	Mr. LIU Yilun Room C, Building 6, Zhonghai Dashandi, Longgang District, Shenzhen, Guangdong, PRC Ms. KOU Yue (FCCA, CPA, MAcc) Room A2201, Midland Centre, 328 Queen's Road, Central, Hong Kong
Authorised representatives	Mr. YE Guofeng Room 1901, Building C, Yifeng Garden, Jingtian Road East, Futian District, Shenzhen, Guangdong, PRC Ms. KOU Yue Room A2201, Midland Centre, 328 Queen's Road, Central, Hong Kong
Audit Committee	Mr. FUNG Yat Sang (<i>Chairman</i>) Mr. LI Bingren Mr. LIN Zhiyang
Nomination Committee	Mr. LIN Zhiyang (<i>Chairman</i>) Mr. YE Yujing Mr. LI Bingren
Remuneration Committee	Mr. LI Bingren (<i>Chairman</i>) Mr. YE Guofeng Mr. FUNG Yat Sang
Strategy Committee	Mr. YE Yujing (<i>Chairman</i>) Mr. LI Bingren Mr. LIN Zhiyang Mr. LIU Yilun Mr. YE Guofeng

CORPORATE INFORMATION

[REDACTED]

Principal banks

China Construction Bank

Shenzhen Jingyuan Branch
Ground Floor, Building C, Hezheng Mingyuan,
Xinwen Road, Futian District,
Shenzhen, Guangdong, PRC

Bank of China

Shenzhen Changcheng Branch
Baihua Five Road, Baishaling, Futian District,
Shenzhen, Guangdong, PRC

China Guangfa Bank

Shenzhen Xinghai Mingcheng Branch
Ground Floor Zhenye International Business Centre,
3101–90 Qianhai Road, Nanshan District,
Shenzhen, Guangdong, PRC

China Minsheng Bank

Shenzhen Zhongxin District Branch
Minsheng Bank Plaza,
Xinzhou First Street, Futian District,
Shenzhen, Guangdong, PRC

INDUSTRY OVERVIEW

Certain information contained in this section and elsewhere in this document has been derived from various public sources or extracted from a commissioned market research report prepared by Frost & Sullivan for the purposes of this document. Our Directors believe that the sources of the information in this section are reliable as the information was extracted from the Frost & Sullivan Report, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or that any fact has been omitted that would render such information misleading. Our Directors believe that the Frost & Sullivan Report is reliable and not misleading as Frost & Sullivan is an independent professional research agency with extensive experience in this profession.

In addition, our Directors confirm that, after taking reasonable care, there is no adverse change in market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on such information. However, such information has not been independently verified by us or any of our Directors, the Sole Sponsor, the [REDACTED], the [REDACTED], the Joint [REDACTED] or the [REDACTED] and no representation is given as to its accuracy. Such information may not be consistent with the information compiled by other sources.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, which is an Independent Third Party, to conduct market research and analysis of our industries and prepare a report entitled China Public Building Decoration Industry Independent Market Research at a fee of RMB570,000. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. In preparing the report described above, Frost & Sullivan conducted detailed primary research which involved discussions of the status of the selected industries with certain leading industry participants. Frost & Sullivan also conducted secondary research which involved reviewing company reports, independent research reports and data based on its own research database.

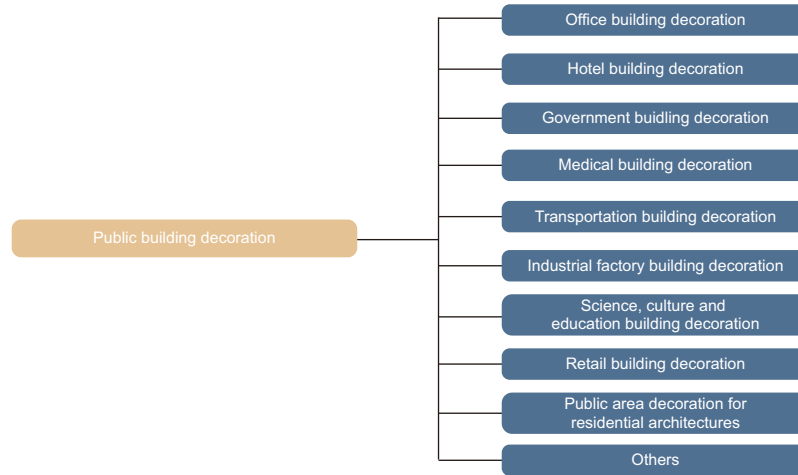
In preparing and compiling the Frost & Sullivan Report, Frost & Sullivan conducted detailed primary research which involved discussing the status of the industry with certain leading industry participants (including industry players and association professionals) and secondary research which involved reviewing company reports, independent research reports and data based on its own research database and the published statistics of the PRC Government. Frost & Sullivan obtained the figures for various market size estimates from historical data analysis plotted against macroeconomic data, as well as considered the industry key drivers discussed in the report. Its forecasting methodology integrates several forecasting techniques with its internal analysis of critical market elements investigated in connection with its market research work. These elements include expert-opinion forecasting methodology, integration of market drivers and restraints, integration with the market challenges, integration of market trends, and integration of econometric variables.

The following assumptions were used in preparing and compiling the Frost & Sullivan Report:

- the social, economic and political environment of the PRC is likely to remain stable in the forecast period; and
- related industry key drivers are likely to drive the market in the forecast period.

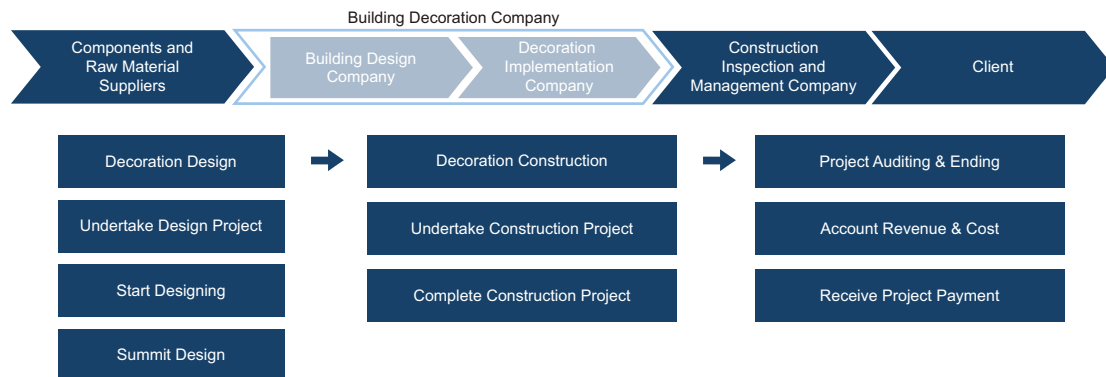
INDUSTRY OVERVIEW

The public building decoration market is composed of many sectors including office building decoration, hotel building decoration, government building decoration, transportation building decoration, industrial building decoration, science, culture and education building decoration, retail building decoration, public area decoration of residential architectures and others.



Source: Frost & Sullivan

Value Chain and Service Process



Source: Frost & Sullivan

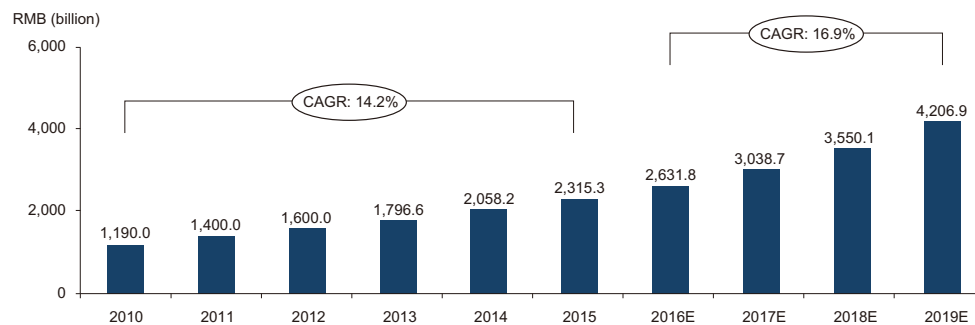
INDUSTRY OVERVIEW

THE CHINA PUBLIC BUILDING DECORATION MARKET

Overview

The China public building decoration market size accounts for over 59.6% of the entire building decoration market in the PRC in 2015 and covers the decoration of non-residential architecture such as office buildings, hotel buildings, government buildings and transportation buildings. In 2015, the China public building decoration market size reached RMB2,315.3 billion with a CAGR of 14.2% from 2010 and is estimated to reach RMB4,206.9 billion in 2019 due to reasons such as increasing government investments on transportation (subways, high-speed railways, etc.), establishment of new schools, establishments of medical buildings such as hospitals, and the constant development of the commercial real estate sector.

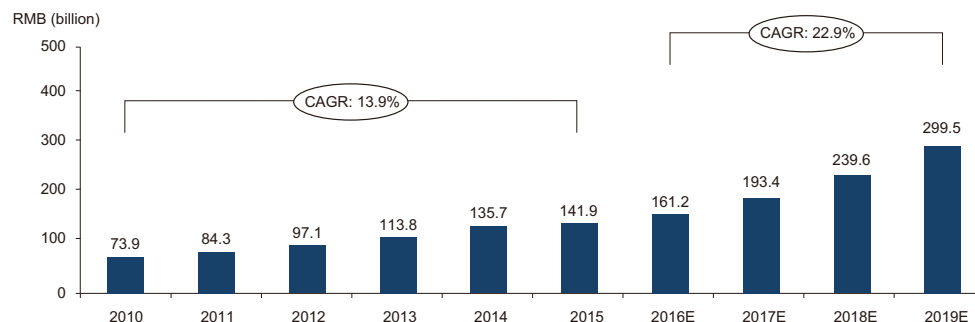
China Public Building Decoration Market Size by Revenue, 2010-2019E



Source: Frost & Sullivan

The market size of the sector of medical building decoration in the PRC reached RMB141.9 billion in 2015 with a CAGR of 13.9% from 2010. With the rising of the China healthcare industry and people's awareness about health, there will be more medical premises, such as hospitals, community clinics, maternal and child care service centres, established in China (especially in tier two and three cities), creating great market potential for the construction business. The medical building decoration sector accounted for 6.1% of the entire China public building decoration market in 2015 and its share is expected to reach 7.1% in 2019.

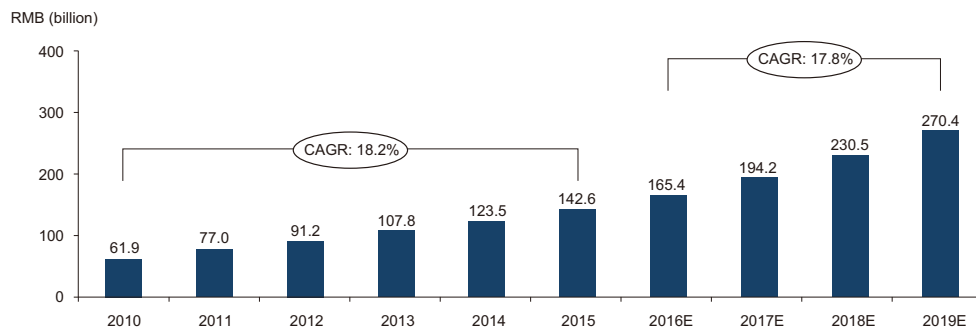
China Medical Building Decoration Market Size by Revenue, 2010-2019E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

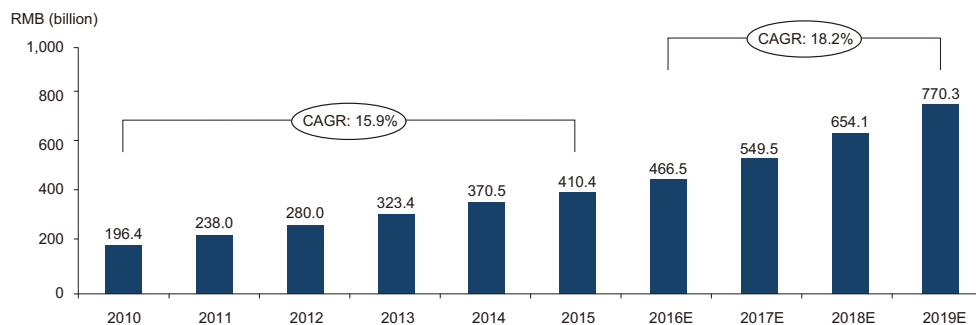
China Office Building Decoration Market Size by Revenue, 2010-2019E



Source: Frost & Sullivan

The office building decoration market size stood at RMB142.6 billion in 2015, accounting for 6.2% of the entire public building decoration excluding medical building decoration market, with a CAGR of 18.2% from 2010. Although the demand of office buildings in tier one cities such as Beijing and Shanghai is strong, the vacancy rates of office buildings in tier two cities such as Suzhou, Hangzhou, Nanjing and Wuhan are high due to the downturn of economic growth. The demand of office buildings in tier three and four cities still needs to be further stimulated. Considering the economic downturn in these areas, the CAGR of the office building decoration market from 2016 to 2019 is estimated to slightly decrease to 17.8%, with its market size reaching RMB270.4 billion in 2019.

China Commercial Building Decoration Market Size by Revenue, 2010-2019E



Note:

- (1) Commercial buildings mainly refer to architecture engaged in retail business (excluding on-line business) such as shopping malls, supermarkets, restaurants, etc.

Source: Frost & Sullivan

The decoration market size of commercial buildings reached RMB410.4 billion in 2015 with a CAGR of 15.9% from 2010. However, the rising of e-commerce has an impact on the development of commercial buildings such as shopping malls and supermarkets. As a result, the year-on-year growth rate is estimated to be 13.7% from 2015 to 2016. To address the downturn of business growth, many commercial building developers tend to increase the proportion of service-related business such as restaurants, cinemas and other entertainment elements and the year-on-year growth rate of the commercial building decoration market size is forecasted to reach 19.0% in 2018. The commercial building decoration market size is expected to reach RMB770.3 billion in 2019, representing a CAGR of 18.2% from 2016.

INDUSTRY OVERVIEW

KEY DRIVERS AND TREND OF CHINA PUBLIC BUILDING DECORATION MARKET

According to the Frost & Sullivan Report, the development of China public building decoration market has been mainly driven by the following factors:

- *Government support and investment.* According to the Twelfth Five-Year National Development Plan for the building decoration industry, the PRC Government has set RMB2.6 trillion as the targeted output value in 2015 for the public building decoration market, with an annual growth rate of 18.9% during the Twelfth Five-Year period. Driven by this target, the PRC Government will support this industry vigorously with relevant policies. Investment by the PRC Government in fixed assets is also expected to increase in the coming years, leading to a growth of infrastructure construction, real estate development etc. and the number of new projects, expansion projects and reconstruction projects. These investments will generate a great demand for building decoration services.
- *Accelerated urbanisation.* The acceleration of urbanisation continuously stimulates the investment of fixed assets, leading to the development of public infrastructure and thus an increasing demand for public building decoration. In 2015, 56.1% of the entire population in the PRC were living in urban areas, as compared to 50.0% in 2010. The increase of population in urban areas further stimulates the demand for new houses and public facilities (such as supermarkets, hospitals and schools) which need to be decorated before they are put into use. It is estimated that it will take three billion sq. m. of new houses over the next five years to cater for the population transferred from the rural regions. It is also estimated that it will take one billion sq. m. of public facilities to meet the needs of the transferred population and such facilities include shopping centers, office buildings and entertainment facilities. Both real estate developers for commercial, office and residential buildings and the ultimate purchasers of "bare shell" residential properties will require decoration services before the properties are put into use. As a result of urbanisation, the rising demand for various types of properties will lay a solid foundation for the development of the public building decoration market and generate substantial market potential for building decoration service providers such as our Company.
- *Economic growth.* Driven by a series of economic stimulus policies adopted by the PRC Government, including the Four-Trillion-Yuan Economic Stimulus Package and the Revitalisation Plans of Ten Key Industries, China's GDP grew rapidly, with a CAGR of 10.6% between 2010 and 2015. While the growth rate has shown a sign of slowdown since 2014, along with the transition of consumption pattern and the upgrade of economy, China's GDP is expected to recover and will sustain a long-term growth with a CAGR of 6.4% during the period from 2015 to 2020. In April 2015, the State Council adopted the Administrative Measures for the Franchising of Infrastructure and Public Utilities (基礎設施和公用事業特許經營管理辦法), simplifying the approval procedures to attract investments from the private sector into infrastructure and public utilities, which in turn creates further needs for building decoration for these projects. The recovery of China's economy, together with the new private capital boosting the building decoration market, will further promote the building decoration industry, optimise investment environment and bring momentum to market growth in China.
- *Rise of disposable income.* The disposable income of urban households per capita increased to RMB31,200 in 2015 from RMB19,110 in 2010, representing a CAGR of 10.3%. In view of China's moderate economic outlook, the indicator is projected to continue its upswing and reach RMB49,470 in 2020 with a CAGR of 9.7%. The willingness of Chinese people to improve their living conditions and to spend more on the decoration and design of their homes and offices will be driven by the increase in disposable income.

INDUSTRY OVERVIEW

- *Development of modern service industries.* Economic growth in China stimulates the development of modern service industries, including tourism, catering and exhibition, leading to the construction of more hotels, exhibition centres and other relevant infrastructure. The implementation of these projects not only stimulates the public building decoration market, but also puts forward higher requirements for the quality and fineness of building decoration.
- *Increased culture and health needs.* With the improvement of living standards, culture and health needs play a more important role in people's daily life. There exists an increasing demand for corresponding infrastructure, including cultural centres, public libraries, museums, hospitals, clinics and other health institutions. The construction of these public infrastructure will definitely bring new growth momentum for public building decoration.

KEY MARKET TRENDS OF CHINA PUBLIC BUILDING DECORATION MARKET

According to the Frost & Sullivan Report, the development trend of China public building decoration market is as follows:

- *More standardised regulation.* As the public building decoration industry continues to mature, the government continues to regulate the operation of the market and the regulations in this industry will become more standardised. Unlicensed decoration activities will be reduced and eventually prohibited.
- *Horizontal expansion of business scope.* With increasing scale of business operation, many public building decoration players will expand their business scope on relevant areas of application horizontally.
- *Internationalised development.* An increasing number of players in the public building decoration industry is trying to win overseas projects in order to expand their business. In addition, forming strategic relationship with overseas real estate developers can help public building decoration companies to go abroad.
- *More environmentally friendly.* In response to the increasing demand of environmental friendliness and the "green" method in the public building decoration industry, energy saving and environmental protection play a more important part in the process of building decoration design, construction technology and decoration materials.
- *Project reserve funds.* The provision of project reserve funds, which are funds to be used for limited purposes, such as urgent procurement of ad hoc and piecemeal raw materials, engagement of temporary workers and payment of other ad hoc and miscellaneous expenses, to project managers in the course of the implementation of construction projects is an industry norm of the public building decoration industry in the PRC, the practice of which is also adopted by other leading industry participants such as Suzhou Gold Mantis Construction Decoration Co., Ltd.* (蘇州金螳螂建築裝飾股份有限公司) ("**Suzhou Gold Mantis**") and Zhejiang Yasha Decoration Co., Ltd.* (浙江亞廈裝飾股份有限公司) ("**Yasha**").

INDUSTRY OVERVIEW

ENTRY BARRIERS TO CHINA PUBLIC BUILDING DECORATION MARKET

According to the Frost & Sullivan Report, the entry barriers to the China public building decoration market include the following:

- *Financial capacity.* Players in the China public building decoration industry generally have to pay bid bond at the tender stage. They also have to pay for part of the costs for raw materials in advance. Besides, performance bond and retention money are needed during and after construction. Liquidity is therefore crucial to project operations.
- *Qualifications.* Due to the particularity of the public building decoration industry, there is a well-established regulatory legal system. Enterprises are required to be qualified under government approval, imposing an entry barrier. Meanwhile, new entrants face great challenges because of the lack of iconic projects.
- *Channel capacity.* In the public building decoration industry, most large enterprises have established their business channels throughout the country. They are able to respond quickly to new business opportunities from high-end hotels, airports and large shopping malls, posing a direct threat to potential entrants.
- *Design capabilities.* Public building decoration is a complex systematic project, which is both labour and talent intensive. The quantity and quality of professionals are critical for the development of an enterprise, which will present an invisible technical barrier for new entrants. Some projects require design capabilities as a pre-requisite for tendering. Industry participants are required to have the ability to not only execute existing design plans, but also adjust and modify design plans to facilitate on-site construction if necessary. Building decoration and design capabilities are complementary to each other and the provision of design services will enhance the competitiveness of a building decoration service provider.
- *Partnership.* A public building decoration project involves many parties, including real estate developers, decoration design teams and construction teams. Project quality and management are dependent on the cooperation relationship among the parties and partnership therefore plays a crucial role in the whole project.

CHALLENGES OF CHINA PUBLIC BUILDING DECORATION MARKET

The China public building decoration industry is still at its initial stage of development and the market inevitably lacks well-established standards and mechanism for industry participants to comply with and follow. The China public building decoration market is highly fragmented with intense regionalisation, the majority of industry participants are small players who are known to have issues with qualifications and licences, construction quality and operation management, etc. The leading players in this industry should pave the way by exercising high quality project execution and help formulate market standards in order to achieve industry integration and gradually reduce and eliminate the underperforming ones.

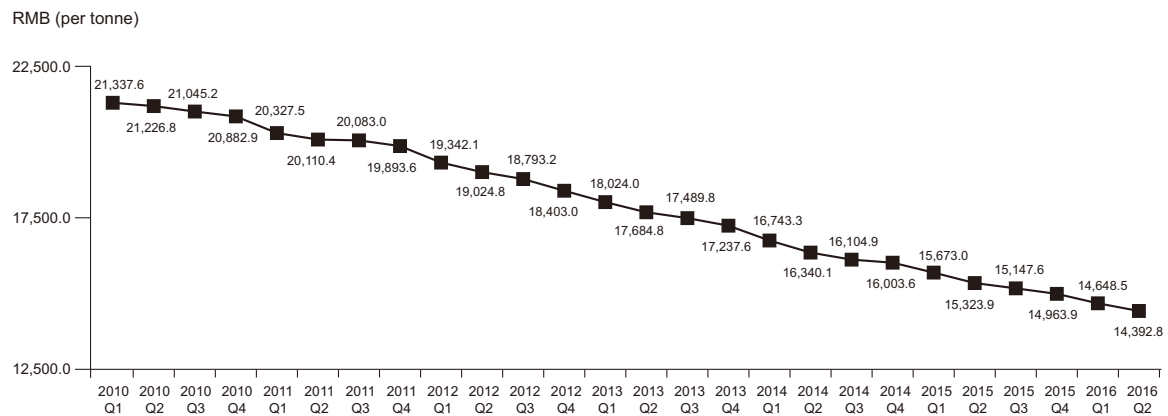
INDUSTRY OVERVIEW

ANALYSIS OF MAJOR RAW MATERIAL COST AND LABOUR COST OF CHINA PUBLIC BUILDING DECORATION MARKET

According to the Frost & Sullivan Report, the major raw materials of the China public building decoration market are aluminium plate (1060/H24:5*1000*2000), float glass (5mm), stainless steel (304/NO.1 flat: 6.0mm), marble slab (600*600mm) and plywood (1220*2440*9mm), which are also the major raw materials of our Company. The price trends of the aforesaid major raw materials are set out below:

The price of aluminium plate depends on two factors, including the price of aluminium and processing cost. In the past few years, the price of aluminium plate decreased steadily, by reason of a lesser demand in the Chinese market. The price of aluminium plate is expected to go down further in the coming years.

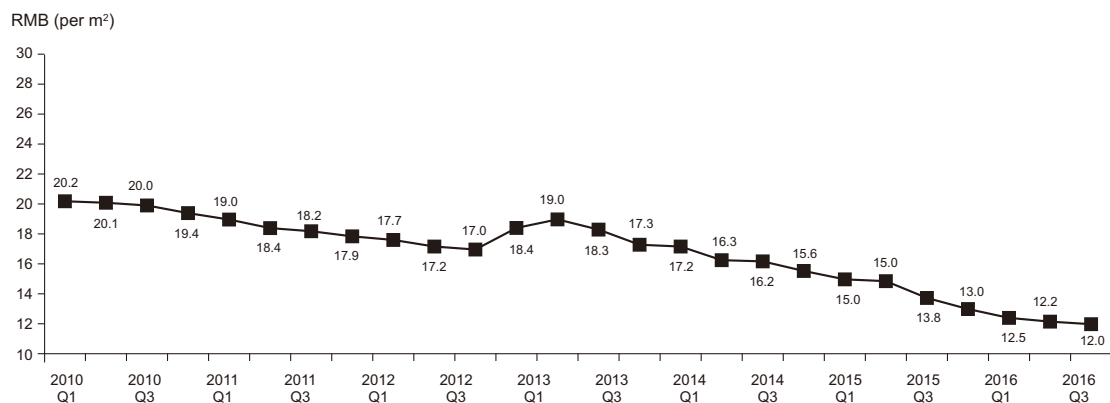
Price Curve of Aluminium Plate (1060/H24:5*1000*2000) , 2010 Q1-2016 Q2



Source: Frost & Sullivan

The price of float glass witnessed an overall decreasing trend since 2010, with slight fluctuation in 2012. Due to the overcapacity within the industry, the price of float glass is estimated to go down further in the second half of 2016.

Price Curve of Float Glass (5mm), 2010 Q1-2016 Q3

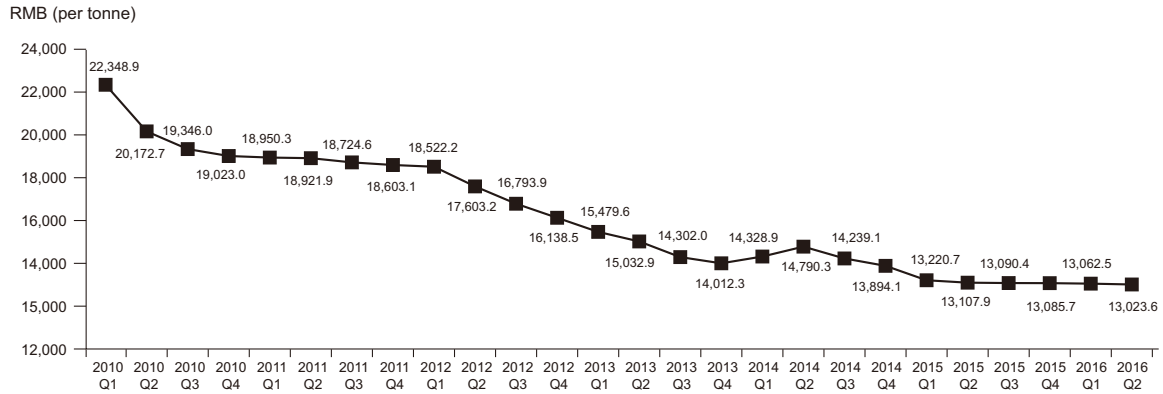


Source: Frost & Sullivan

INDUSTRY OVERVIEW

The price of stainless steel has presented a slight fluctuation in recent years. The price of stainless steel has experienced an overall downturn since 2010, with a slight rebound in 2014 in line with the price changes of nickel. The price of stainless steel reached RMB13,023.6 per tonne in the second quarter of 2016 and is expected to decrease further in the years to come due to oversupply.

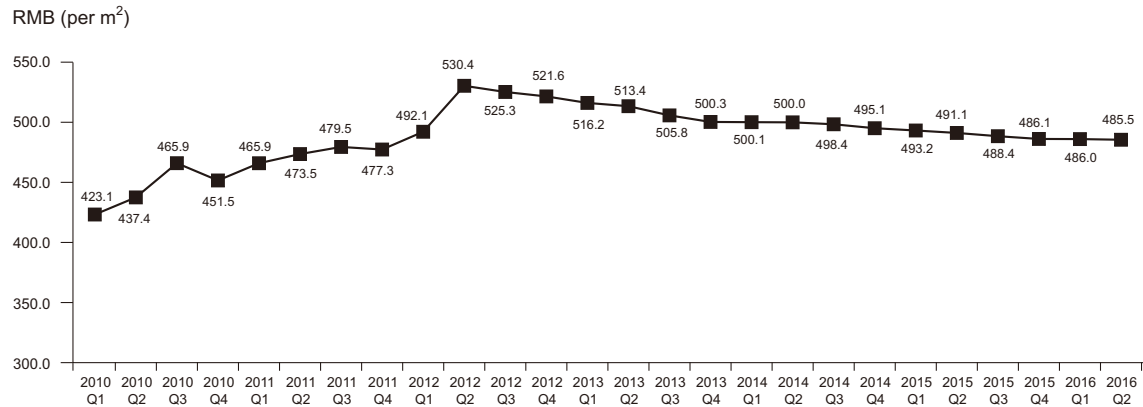
Price Curve of Stainless Steel (304/NO.1flat: 6.0mm), 2010 Q1-2016 Q2



Source: Frost & Sullivan

The price of marble slab has experienced a gradual downturn since 2012. The average price for marble slab in the second quarter of 2016 reached RMB485.5 per sq. m. and is expected to go down further in the years to come.

Price Curve of Marble Slab (600*600mm) , 2010 Q1-2016 Q2

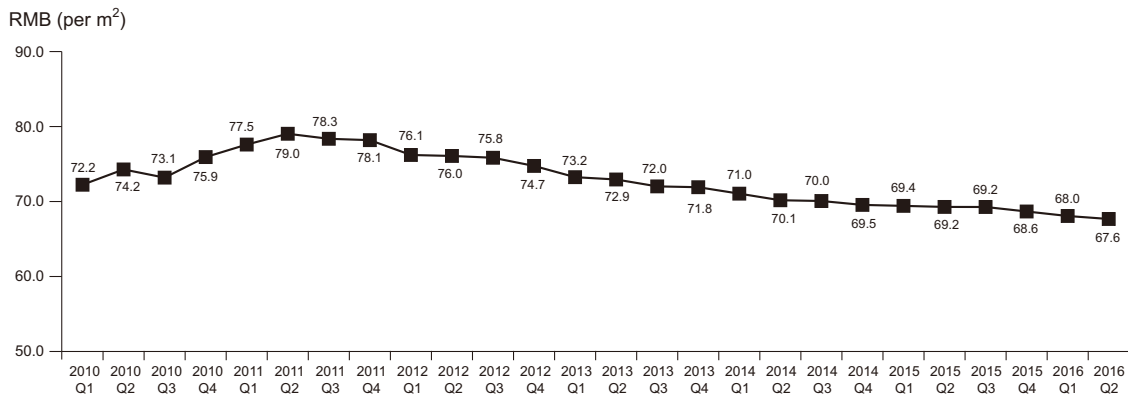


Source: Frost & Sullivan

INDUSTRY OVERVIEW

The price of plywood increased during the period from 2010 to 2011, as a result of the fast-growing infrastructure investments by the PRC Government. The price of plywood experienced a gradual downturn in recent years and reached RMB67.6 per sq. m. in the second quarter of 2016 and is expected to follow a gradual downward trend in the future.

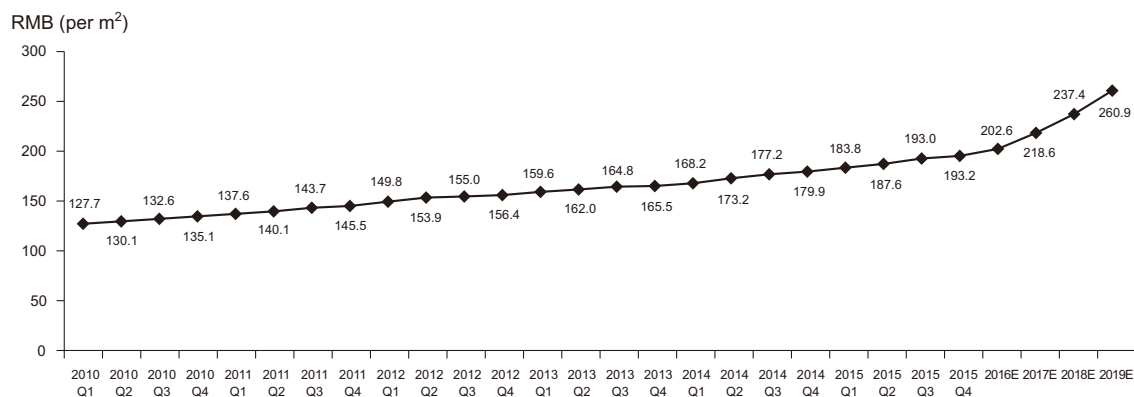
Price Curve of Plywood (1220*2440*9 mm), 2010 Q1-2016 Q2



Source: Frost & Sullivan

Labour cost is one of the major cost items of major industry participants of the China public building decoration market. The average labour cost of China public building decoration market has experienced a steady increase over the past few years and reached RMB193.2 per sq. m. in the fourth quarter of 2015. The average labour cost is expected to further increase in the coming years and reach RMB260.9 per sq. m. in 2019, representing a CAGR of 8.8% from 2016.

Average Labour Cost, 2010 Q1-2019E



Source: Frost & Sullivan

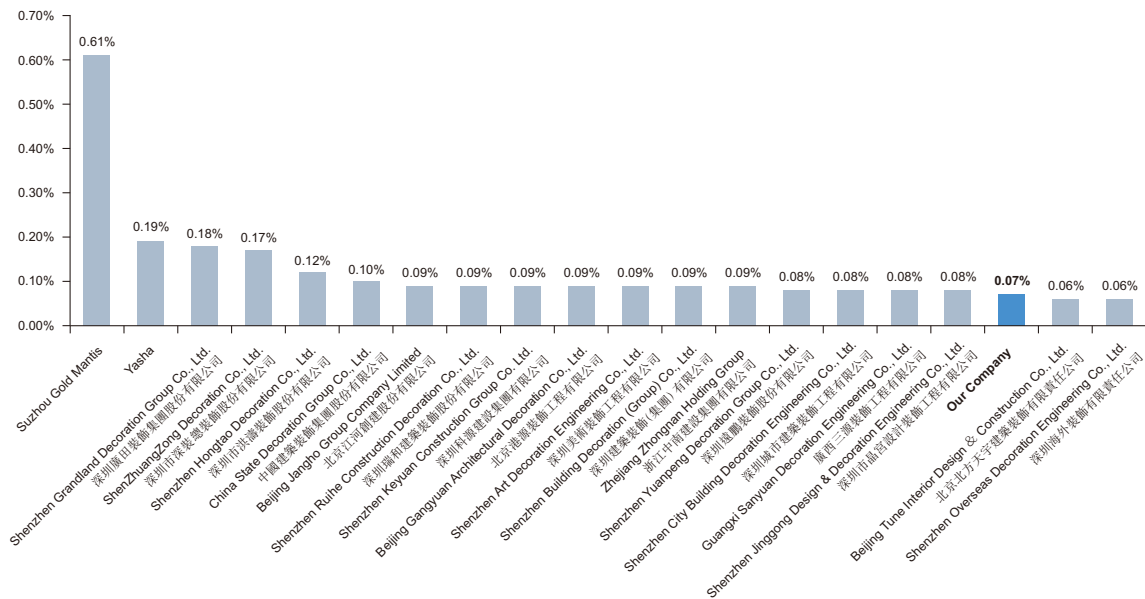
COMPETITIVE OVERVIEW OF CHINA PUBLIC BUILDING DECORATION MARKET

The participants of the PRC public building decoration industry compete in various aspects such as project design capability, quality control of services, product research and development as well as integration of "green" method. With the development of the PRC public building decoration industry, participants with multi-field expertise, such as dual capability in project design and execution, will be increasingly favoured by the clients from various industries.

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The public building decoration market in the PRC is highly fragmented with approximately 24,000 players as at 31 December 2015. The top 10 industry leaders by revenue accounted for less than 5% of the total market size in aggregate. Our Company ranked as the 18th largest building decoration service provider in terms of sales revenue in the PRC in 2015 with a market share of 0.07%. Despite the large number of players in the China public building decoration industry, there are less than 300 companies that are well recognised in the market and with established standards of project execution and sufficient business qualifications. Competition in the PRC public building decoration industry is expected to become more intense in the near future as the leading players are trying to expand their business nationwide.

China Public Building Decoration Market Ranking Analysis by Revenue, 2015



Source: Frost & Sullivan

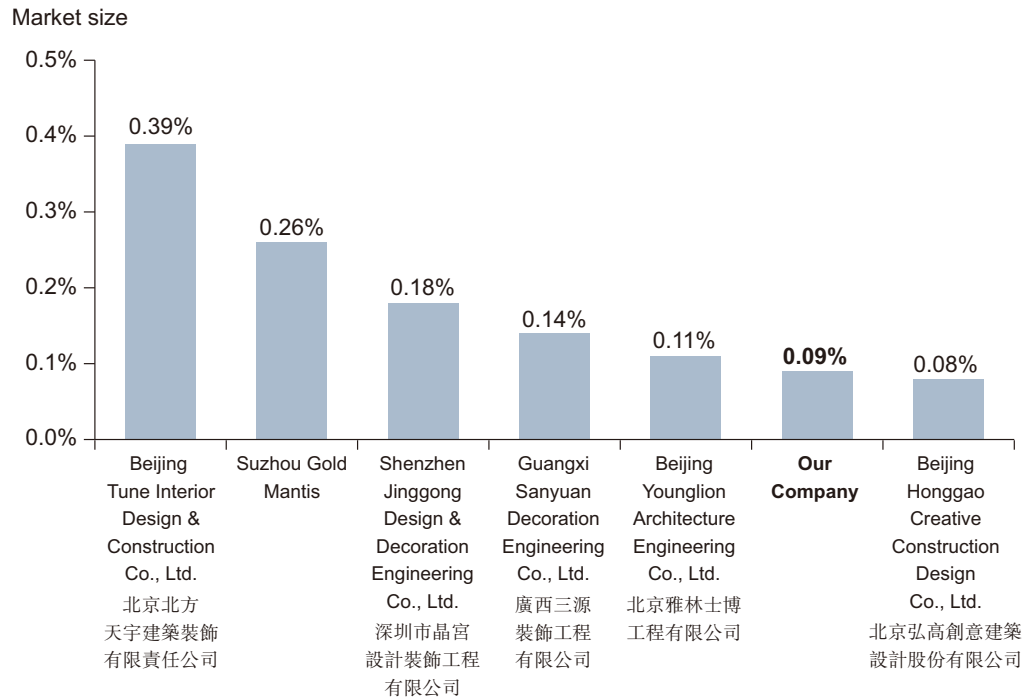
Note:

(1) The total revenue of the China public building decoration market in 2015 was RMB2,315.3 billion.

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Likewise, the medical building decoration market in the PRC is highly fragmented. We ranked as the 6th largest player in terms of sales revenue in 2015 with 0.09% market share of the total medical building decoration market.

China Medical Building Decoration Market Ranking Analysis by Revenue, 2015



Note:

(1) The total revenue of the China medical building decoration market in 2015 was RMB141.9 billion.

Source: Frost & Sullivan

ACCOUNTS RECEIVABLE PERFORMANCE OF CHINA PUBLIC BUILDING DECORATION MARKET

The details of the accounts receivable performance of different industries in China are set out as below:

Industries	Average accounts receivable turnover ratios in 2015	Average accounts receivable turnover days in 2015
Building Decoration	1.4	260.7
Financial Services	1.4	252.3
Hotel and Catering	2.2	166.5
Manufacturing	1.5	240.6
Mining and Quarrying	4.3	84.8
Public Services (electricity, natural gas and water supply, etc.)	4.3	84.1
Real Estate	1.7	209.3
Transportation	1.7	210.3

INDUSTRY OVERVIEW

Notes:

- (1) The accounts receivable performance in the above table is derived from data from leading listed and private companies of the selected industries, which were validated and cross checked via primary interviews with industry experts and secondary research approaches.
- (2) Accounts receivable turnover ratio = 365/accounts receivable turnover days
- (3) Accounts receivable turnover days = $\{365 * [(accounts\ receivable\ at\ the\ beginning\ of\ the\ year) + (accounts\ receivable\ at\ the\ end\ of\ the\ year)] / 2\} / revenue\ of\ the\ year$

Source: Frost & Sullivan

The accounts receivable turnover days of the China building decoration industry are relatively longer than those of other industries, such as financial services, hotel and catering, because building decoration service providers in China generally collect project payments from customers by installments on a monthly basis or upon completion of certain contract works, and it is common for customers to settle only a certain proportion of the completed project value (e.g. customers may only settle 50% of the total completed project value when the outstanding amount represents 70% to 90% of the total completed project value). The project payments are fully settled after final inspection of contract works by customers, which may take several months or even a year.

As mentioned in the paragraph headed "Key Drivers and Trend of China Public Building Decoration Market" in this section, investments into the stakeholders of the China building decoration industry are increasing, enabling them to receive more capital injection from both the public and private sectors. In addition, customers of the building decoration service providers in the PRC (such as owners or management entities of commercial buildings, government buildings, medical buildings, residential buildings, etc.) are likely to have better financial performance and higher decoration budgets. It is therefore expected that such customers will settle payments quicker and simplify their settlement process or mechanism, compared to when they were in lack of capital with a tight cash flow.

The following table sets forth the accounts receivable performance of the leading China public building decoration service providers, all of which (except for our Company) are listed companies in China:

Company	Accounts receivable turnover ratios			Accounts receivable turnover days		
	2013	2014	2015	2013	2014	2015
Suzhou Gold Mantis	2.0	1.6	1.2	184.5	228.6	308.0
Yasha	1.9	1.4	0.8	189.1	255.8	451.7
Shenzhen Grandland	2.3	1.8	1.2	159.4	208.0	309.2
Shenzhen Hongtao	1.9	1.2	0.9	197.0	300.2	414.9
Beijing Jangho	2.1	1.9	1.5	170.5	190.4	240.6
Shenzhen Ruihe	1.6	1.4	1.8	227.2	257.4	204.0
Average of the players above	1.9	1.5	1.1	188.0	240.1	321.4
Our Company	3.3	2.2	1.8	110.1	169.4	204.2

Note:

- (1) The accounts receivable used in the above calculation includes trade receivables and amounts due from customers for contract work as at the respective balance sheet date, which was in line with the basis adopted by leading players in the industry.

Source: Frost & Sullivan

INDUSTRY OVERVIEW

The following table sets forth the net profits attributable to owners of the company and operating cash flow performance of the leading China public decoration service providers for the three years ended 31 December 2015:

Company	2013–2015	2013–2015
	Aggregate net profit	Aggregate operating cash flow
	<i>RMB (million)</i>	<i>RMB (million)</i>
Suzhou Gold Mantis	5,043.2	736.3
Yasha	2,499.5	310.5
Shenzhen Grandland	1,338.4	-627.8
Shenzhen Hongtao	932.5	-209.5
Beijing Jangho	880.3	1,086.7
Shenzhen Ruihe	200.6	-290.1

Source: Frost & Sullivan

In addition to the relatively longer accounts receivable period, as public building decoration service providers in China generally collect project payments from customers by installments on a monthly basis or upon completion of certain contract works, it is not uncommon for them to have significant difference between the aggregate net profit and the aggregate amounts of operating cash outflow for the three years ended 31 December 2015 as a result of amounts due from customers for contract work and trade receivables. High net operating cash outflow and partial settlement of outstanding balances by customers are common phenomena in the China public building decoration industry and are also faced by other leading industry participants such as Suzhou Gold Mantis and Yasha.

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REGULATIONS RELATING TO OUR INDUSTRY

Qualifications for operations

Under the provisions of the Construction Law of the PRC (中華人民共和國建築法) (the "**Construction Law**"), which was initially promulgated by the Standing Committee of National People's Congress (the "**NPC**") on 1 November 1997, took effect on 1 March 1998 and was amended on 22 April 2011, construction enterprises, surveying units, design units and construction supervision units engaging in construction activities shall meet the following criteria: (1) having a registered capital in accordance with regulations in the PRC; (2) employing professional technical staff who possess the respective statutory licences for the construction activities they engage in; (3) having the technical equipment required by the related construction activities; and (4) other conditions required by laws and administrative regulations.

Construction enterprises, surveying units, design units and construction supervision units engaging in construction activities are classified into different qualification levels according to their qualification conditions such as their registered capital, professional technical staff, technical equipment and performance records of their completed construction work, etc. An enterprise engaging in construction, reconnaissance, design and supervision activities for construction work may only contract for the construction work that falls within the permitted scope of its qualification. It is an offence to contract for projects exceeding the limit of an enterprise's qualification and the offender may be subject to an order to cease the illegal act, fine, suspension of business or qualification downgrade; in more serious cases, an offender's qualification may be revoked and the illegal gains may be confiscated. If an enterprise contracts for a project without qualification, the offender may be banned and the illegal gains may be confiscated.

The general contractor of a project may contract out parts of the project to subcontractor with the corresponding qualifications. Enterprises which contract out illegally may be subject to an order of rectification, fine and confiscation of illegal gains, suspension of business and qualification downgrade; in more serious cases, an offender's qualification may be revoked.

The qualifications of contractors providing design and implementation of building decoration and fitting-out services are divided into three grades, namely A, B and C, according to the Grade Standards for Design and Construction of Building Decoration Qualification (建築裝飾裝修工程設計與施工資質標準) (the "**Grade Standards**") which was issued by the Ministry of Construction (the predecessor of Ministry of Housing and Urban-Rural Development) ("**MOHURD**") and became effective from 1 September 2006. The Grade Standards governs the indoor and outdoor decoration and fitting-out works (excluding the works for building facade). Contractors engaging in design and implementation of building decoration and fitting-out services can only undertake projects permitted within their grade, in terms of the single contract value. Building decoration contractors with Grade A qualification can undertake building decoration projects without scale limitation (excluding the projects for building facade); those with Grade B qualification can undertake building decoration projects with single contract value under RMB12 million (excluding the projects for building facade); and those with Grade C qualification can undertake building decoration projects with single contract value under RMB3 million (excluding the projects for building facade).

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According to the Grade Standards, the requirements for obtaining the Design and Construction of Building Decoration Qualifications are set out below:

Requirements for obtaining the Design and Construction of Building Decoration Qualifications

- | | | |
|---------|------------------------------------|---|
| Grade A | Enterprise Credit | <ol style="list-style-type: none">1. possessing independent legal capacity as an enterprise;2. possessing good social reputation and the corresponding economic power, with registered capital of not less than RMB10,000,000; with net assets of not less than RMB12,000,000;3. having independently undertaken not less than two decoration projects (design or construction or integrated design and construction) of which the single contract value is not less than RMB15,000,000; or not less than four decoration projects (design or construction or integrated design and construction) of which the single contract value is not less than RMB7,500,000 in the recent five years;4. having annual projects settlement revenue each year in the recent three years of not less than RMB40,000,000 in the recent three years. |
| | Technical Conditions | <ol style="list-style-type: none">1. having technical director with not less than eight years of experience in building decoration area, and with a class-one registered constructor qualification (class-one structural engineer, class-one architect, class-one project manager) or senior professional technical titles;2. having not less than six technical personnel with a class-one registered constructor qualification (class-one structural engineer, class-one project manager). |
| | Technical equipment and management | <ol style="list-style-type: none">1. possessing necessary technical equipment and fixed work place;2. possessing a sound quality control system in good operation; and having technical, security, management, personnel, finance and file management rules. |

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Grade B	Enterprise Credit	<ol style="list-style-type: none">1. possessing an independent legal capacity as an enterprise;2. possessing good social reputation and the corresponding economic capability, with registered capital of not less than RMB5,000,000; and with net assets of not less than RMB6,000,000;3. having independently undertaken not less than two decoration projects (design or construction or integrated design and construction) of which the single contract value is not less than RMB5,000,000; or not less than four decoration projects (design or construction or integrated design and construction) of which the single contract value is not less than RMB2,500,000 in recent five years;4. having an annual project settlement revenue of not less than RMB10,000,000 in the recent three years.
	Technical Conditions	<ol style="list-style-type: none">1. having a technical director with not less than six years of experience in building decoration area, and with a class-two or above registered constructor qualification (registered structural engineer, architect, project manager) or middle-level or above professional technical titles;2. having not less than five technical personnel with a class-two registered constructor qualification (structural engineer, project manager).
	Technical equipment and management	<ol style="list-style-type: none">1. possessing necessary technology and equipment and fixed work place;2. possessing a sound quality control system in good operation; and having technical, security, management, personnel, finance and file management rules.
Grade C	Enterprise Credit	<ol style="list-style-type: none">1. possessing an independent legal capacity as an enterprise;2. possessing good social reputation and the corresponding economic capability, with registered capital of not less than RMB500,000 and net assets of not less than RMB600,000;
	Technical Conditions	having a technical director with not less than three years of experience in building decoration area, and with a class-two or above registered constructor qualification (architect, project manager) or middle-level or above professional technical titles;
	Technical equipment and management	<ol style="list-style-type: none">1. possessing necessary technical equipment and fixed work place;2. possessing a sound quality control system in good operation; and having technical, security, management, personnel, finance and file management rules.

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According to the Circular of the Ministry of Housing and Urban-Rural Development on Matters relating to the Cancellation of Four Project Design and Construction Qualifications Including Intelligent Buildings (住房城鄉建設部關於取消建築智能化等4個工程設計與施工資質有關事項的通知) (the "**Circular**"), which was issued by MOHURD on 14 July 2015, the approval procedures for integrated design and construction of building decoration qualifications (the "**Integrated Qualifications**") have been cancelled. The existing Integrated Qualifications will remain valid until their respective expiry dates. Enterprises shall apply for individual design and/or construction qualifications with the grade and category corresponding to their respective Integrated Qualifications within 60 days prior to the expiration of their Integrated Qualifications. The Circular only aims to optimise the approval procedures of certain building decoration qualifications and enhance the management of the building decoration industry in the PRC. As advised by our PRC Legal Advisers, given that our Company has obtained the relevant individual design and/or construction qualifications to replace the Integrated Qualifications, the Circular does not and will not have any material adverse impact on our business and our Directors believe that the Circular will not have any material adverse impact on our competitiveness in the building decoration industry, in particular, given that there are certain entry barriers of the public building decoration industry in China, including but not limited to the requirements of financial capacity, service network and channels, design capacities, relationship with business partners and the requisite industry qualifications. Please refer to the section headed "Industry Overview – Entry Barriers to China Public Building Decoration Market" for further details on the relevant entry barriers.

Surveying and designing of construction projects

The Regulations on the Administration of Surveying and Designing of Construction Projects (建設工程勘察設計管理條例), promulgated on 25 September 2000 by the State Council and amended on 12 June 2015, provide a qualification control system to enterprises engaging in surveying or designing activities of construction projects. The competent administrative departments for construction and the relevant departments of the people's governments at or above the county level shall implement the supervision and control over the surveying and designing activities of construction projects in accordance with the provisions of the regulations. The entities engaging in the survey or design of construction projects must conduct the surveying or designing of construction projects according to the law, strictly implement the compulsory standards for construction projects, and be responsible for the surveying or designing quality of construction projects. The surveying or designing enterprises shall be engaged for the surveying or designing of construction projects within the approved scope of their respective qualifications. Where entities engaging in the survey or design of construction projects, in violation of the provisions of the regulations, fail to prepare the survey or design documents of construction projects in accordance with the project approval documents, urban and rural planning and professional planning, and fail to observe the depth requirements for the survey or design of construction projects as prescribed by the State, they shall be ordered to make rectification within a time limit; where they fail to make rectification within the time limit, they shall be subject to a fine of more than RMB100,000 but less than RMB300,000; where accidents are caused by poor construction quality, or environmental pollution or ecological damage is caused, such entities shall be ordered to suspend their business to make rectification, and shall have their qualifications downgraded; in the case of serious violations, their qualification certificates shall be revoked; where losses are caused, the entities shall assume the liability for compensation in accordance with the law.

Under the Regulations on the Management of the Survey and Design Qualifications of Construction Engineering (建設工程勘察設計資質管理規定), promulgated on 26 June 2007 by the Ministry of Construction (the predecessor of MOHURD) and amended on 4 May 2015, any enterprise, which is engaged in the construction engineering survey and design activities, shall apply for the relevant qualification based on its registered capital, professional and technical personnel, technical equipment, survey or design performances and other conditions, and the enterprise may be engaged in the construction engineering survey and design activities within the scope permitted by the

LAWS AND REGULATIONS

qualifications after receipt of the construction engineering survey and design qualifications if it becomes qualified through examination. If the enterprise fails to apply for alteration of qualification certificate, the qualification licensing authority shall order the enterprise to make an application within a certain time limit. Failure to apply within the time limit shall result in a fine of more than RMB1,000 but less than RMB10,000.

Supervision on the quality of construction projects

Under the Regulations on the Quality Management of Construction Projects (建設工程質量管理條例), which was issued by the State Council and became effective from 30 January 2000, sponsoring enterprises, reconnaissance firms, designers, construction enterprises and project supervisory enterprises shall be responsible for the quality of construction projects. For construction projects, where all works are governed by a main contract, the main contractor shall be responsible for the quality of the whole construction project and, where it subcontracts part of the project work, the subcontractors will be jointly and severally responsible for the quality of the construction work. Contracting parties should present quality guarantee and maintenance certificates to the sponsoring enterprises when tendering the project completion report to the sponsoring enterprises. Where a construction entity commences a project without obtaining the construction work commencement permits or approvals for its construction commencement report, it shall be ordered to cease the construction work, carry out remedial actions within a prescribed time limit and pay a fine of not less than 1% but not exceeding 2% of the construction price. Where a construction contractor, in violation of these regulations, does a shoddy work and uses inferior materials in the course of construction activities, uses unqualified building materials, components, fittings or equipment, or carries out construction activities in any other ways which are not consistent with design drawings for the relevant project or technical standards for construction, such construction contractor shall be ordered to take remedial action and be subject to a fine of between 2% and 4% of the contractual price for such project; where the quality of such project fails to meet the required quality criteria as a result, such construction contractor shall be responsible for the reconstruction or repair of such project and compensate any loss as a result thereof; where the circumstances involved are serious, an order shall be issued to suspend the business of such construction contractor for internal rectification, and its qualification grade shall be lowered or its certificate of qualifications shall be revoked.

Tenders and bidding of the construction projects survey and design

Pursuant to the Tender and Bidding Law of the PRC (中華人民共和國招標投標法), which was promulgated by the Standing Committee of the NPC and became effective as from 1 January 2000 (the "**Tender and Bidding Law**"), the Regulations on the Implementation of the Tender and Bidding Law of the PRC (中華人民共和國招標投標法實施條例), which was promulgated by the State Council and became effective as from 1 February 2012, and the Measures for Survey and Design Bidding of Construction Projects (工程建設項目勘察設計招標投標辦法), which was promulgated by NDRC, the State Administration of Radio Film and Television, Ministry of Construction (the predecessor of MOHURD), Ministry of Railways, Ministry of Communications, Ministry of Information Industry (predecessor of Ministry of Industry and Information Technology), Ministry of Water Resources and Civil Aviation Administration of China, which was effective as from 1 August 2003, amended on 11 March 2013 and effective as from 1 May 2013, a bid inviter may, on the basis of different characteristics of each construction project, conduct an once-and-only overall survey and design bidding; or conduct phased or itemised biddings according to the technical requirements, provided that the integrity and continuity of the project is ensured. A bid inviter may not conduct phased or itemised biddings for the purpose of limiting or excluding potential bidders or avoiding the bidding process for a project which shall be subject to bidding according to the law. With respect to a construction project which shall be subject to bidding according to the law, the bid inviter may invite bids for contracting the whole survey, design, or construction of the project, or purchase of the important equipment and materials related to the project construction. The tender and bidding process includes five phases: invitation for tender, bid submission, bid opening, bid evaluation and bid granting.

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Invitations for tender are categorised as public tender and tender by invitation. Construction projects in which the investment of state-owned funds take the controlling or leading position, the State key projects determined by the Development and Reform Department under the State Council, as well as the local key projects determined by the people's governments of the provinces, autonomous regions and municipalities directly under the PRC central government, must be subject to open bidding, except those meeting the relevant laws and regulations and having obtained the approval according to the law. For a construction project which shall be subject to survey and design bidding according to the law, selected bidding may be carried out under any of the following circumstances:

- (1) The project is very technical or professional, or the environment and resource conditions are special, and thus there are a limited number of tenderers meeting the conditions; or
- (2) The funds needed for open bidding would account for too large a proportion of the total investment of the construction project.

A bidder shall have the capability to undertake the project subject to the tender; if any PRC regulations or the documents of the invitation for tender set forth any qualification conditions for the bidder, the bidder shall meet the required qualifications.

When the winning bidder is selected, the bid inviter shall issue a bid winning notice to the winning bidder and notify all other bidders of the tender results. The bid winning notice is legally binding on both the bid inviter and the winning bidder.

Work safety regulations and rules

According to the Work Safety Law of the PRC (中華人民共和國安全生產法) (the "**Work Safety Law**"), which was promulgated by the Standing Committee of the NPC on 29 June 2002, amended on 27 August 2009 and further amended on 31 August 2014, the Department of the Supervision and Administration of Work Safety of the State Council (國務院安全生產監督管理部門) is in charge of the overall administration of work safety nationwide. The Work Safety Law provides that a production entity must meet the state's legal or industrial standards on work safety and provide work conditions set out in the relevant laws, administrative rules and state or industry standards. An entity that cannot provide the required work conditions may not engage in production and business operation activities. The production and business operation entities shall set up eye-catching safety warning signs at the production or business operation sites that have substantial dangerous elements or on the relevant facilities or equipment. Safety equipment shall be designed, manufactured, installed, used, tested, maintained, renovated and abandoned in compliance with the national or industrial standards. Where a production or operation entity fails to establish a work safety management office or be staffed with work safety management personnel as required, or fails to faithfully record the checking and controlling of hidden dangers of accidents or failing to notify the employees of the same, such entity is to be ordered to rectify within a time limit, and may be fined not more than RMB50,000; in the event of failure to rectify within a time limit, such entity is to be ordered to suspend its production or operation for rectification, and be fined not less than RMB50,000 but not more than RMB100,000, and the persons-in-charge bearing direct responsibility and other persons subject to direct liability are to be fined not less than RMB10,000 but not more than RMB20,000.

According to the Work Safety Licence Regulations (安全生產許可證條例), which became effective on 13 January 2004, amended on 18 July 2013 and further amended on 29 July 2014, a construction entity without a work safety licence should not engage in construction activities. Enterprises engaging in production without work safety licences in violation of the Work Safety Licence Regulations may be subject to an order of suspension of production and confiscation of illegal gains, and a fine of RMB100,000 to RMB500,000.

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According to the Regulations on Administration of Work Safety of Construction Projects (建設工程安全生產管理條例), which was promulgated by the State Council on 24 November 2003 and came into effect on 1 February 2004, where a general contract is concluded for a construction project, the general contractor shall assume the overall responsibility for work safety on the construction site. When the general contractor subcontracts the construction project out to other units in accordance with law, the rights and obligations in relation to work safety of each party shall be defined clearly in the subcontracts. The general contractor and the subcontractors shall bear joint and several liability in respect of work safety in the subcontracted project. The subcontractors shall be subject to the work safety management of the general contractor. Where an accident occurs due to a lack of work safety and as a result of a subcontractor's violation of the management, the subcontractor shall assume principal responsibility.

According to the Administrative Provisions on the Work Safety Licence of Construction Enterprises (建築施工企業安全生產許可證管理規定), which came into effect on 5 July 2004 and amended on 22 January 2015, any construction enterprise that fails to obtain a work safety licence shall not undertake construction activities.

EMPLOYMENT AND SOCIAL INSURANCE

The Labour Contract Law of the PRC (中華人民共和國勞動合同法) (the "**Labour Contract Law**"), which was promulgated by the Standing Committee of the NPC on 29 June 2007, became effective on 1 January 2008, amended on 28 December 2012 and came into effect on 1 July 2013, governs the relationship between employers and employees and provides for specific provisions in relation to the terms and conditions of an employment contract. The Labour Contract Law stipulates that employment contracts must be in writing and signed if labour relationships are to be or have been established between enterprise or entities on one hand and the labourers on the other hand. It imposes more stringent requirements on employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees.

According to the Labour Contract Law, where a labour despatch entity despatches an employee, it shall conclude a labour despatch agreement with the accepting entity in the form of labour despatch. A labour despatch agreement shall stipulate the despatch position, the number of despatched labourers, the term of despatch, the labour remuneration, and the amount and payment method of social insurance, as well as the liability for breach of the agreement. Interim Provisions on Labour Despatch (勞務派遣暫行規定) (the "**Interim Provisions**"), which was promulgated by Ministry of Human Resources and Social Security on 24 January 2014 and came into effect on 1 March 2014, specified the scope and proportion of the usage of labourer, execution and performance of labour despatch agreements and legal liability. Employers may use despatched labourers only for temporary, auxiliary or substitutable positions and the number of despatched labourers shall not exceed 10% of the total number of the employer's workers. Where the number of despatched labourers used by an employer prior to the implementation of these provisions exceeds 10% of its total number of workers, the employer shall make a plan for the adjustment of such labour usage, and reduce the percentage to the required proportion within two years from the date of the implementation, i.e. before 1 March 2016.

Labour subcontracting and labour despatch are two different kinds of labour relationship and are governed by different laws and regulations. Set out below is a summary of the key features of and major differences between labour subcontracting and labour despatch:

- labour subcontracting refers to the arrangement where a construction enterprise subcontracts the labour-related works involved in its project to a labour subcontracting agency, pursuant to which a contractual relationship is established between the construction enterprise and the labour subcontracting agency. Such relationship is

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governed by the Contract Law and the Administrative Measures on Subcontracting of Building Construction and Municipal Infrastructure Works Construction (房屋建築和市政基礎設施工程施工分包管理辦法) (the "**Administrative Measures**"), which was implemented on 1 April 2004, and labour subcontracting agencies are licensed by the competent construction administrative departments. The main feature of labour subcontracting is that while the requirements, schedule and progress of the project are specified by the construction enterprise, workers sourced under labour subcontracting are managed and supervised by the labour subcontracting agency instead of by the construction enterprise;

- labour despatch refers to the arrangement where a construction enterprise enters into a labour despatch agreement with a labour despatch agency, pursuant to which the labour despatch agency despatches workers to the project site of the construction enterprise and the despatched workers are expected to undertake works assigned by the construction enterprise. A labour relationship is established between the construction enterprise and each of the despatched workers and such relationship is governed by the Labour Contract Law and the Interim Provisions, and labour despatch agencies are licensed by the competent labour management departments. The main feature of labour despatch is that the construction enterprise directly manages and supervises the despatched workers according to the requirements, schedule and progress of the project;
- subcontracting labour agencies and despatch labour agencies have different obligations towards their workers as required by the relevant laws and regulations as well as government authorities, for example:
 - o subcontracting labour agencies are responsible for verifying the identity and technical skills of workers, ensuring their suitability, providing relevant training to workers and ensuring that the works completed by such workers are conducted in accordance with construction drawings and instructions from the construction enterprise;
 - o despatch labour agencies are responsible for selecting and despatching eligible workers, managing the records of workers and handling occupational injury matters and recovery of loss suffered by despatched workers;
- subcontracting labour agencies and despatch labour agencies are required to hold different licences in respect of provision of workers under subcontracting contracts and despatch contracts, respectively, whereby subcontracting labour agencies are required to hold licenses issued by government authorities governing construction matters and despatch labour agencies are required to hold licenses issued by government authorities governing labour matters; and
- terms and conditions under subcontracting contracts and despatch contracts are different, as the labour relationship established thereunder are different.

Pursuant to the Administrative Measures, subcontracted housing and municipal infrastructure construction projects are classified into specialised subcontracted projects and subcontracted labour services. The contractor of a subcontracted project shall have the corresponding qualifications and undertake business within the scope of its qualification grade.

As required under the Regulations of Insurance for Labour Injury (工傷保險條例), which was implemented on 1 January 2004, amended on 20 December 2010 and came into effect on 1 January 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (企業職工生育保險試行辦法), which was implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (國務院關於建立統一的企業職工

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基本養老保險制度的決定), which was issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (國務院關於建立城鎮職工基本醫療保險制度的決定), which was promulgated on 14 December 1998, the Unemployment Insurance Measures (失業保險條例), which was promulgated on 22 January 1999, and the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was implemented on 1 July 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance. Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a 0.05% overdue fine. If the overdue amount is still not settled within the stipulated time period, an additional fine in an amount of three to five times of the overdue amount will be imposed.

According to the Regulations concerning the Administration of Housing Provident Fund (住房公積金管理條例), which was promulgated by the State Council on 3 April 1999, became effective on the same day and was amended on 24 March 2002, enterprises must register with the competent managing centre for housing funds and, upon the examination by such managing centre of housing fund, complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Employers are required to contribute, on behalf of their employees, to housing funds. The payment is required to be made to local administrative authorities. Any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

VALUE-ADDED TAX

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (Cai Shui [2016] No. 36) (關於全面推開營業稅改徵增值稅試點的通知), which was promulgated by the Ministry of Finance and the State Administration of Taxation on 23 March 2016, the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide with effect from 1 May 2016, and all taxpayers of business tax engaged in the building industry, real estate industry, financial industry and life service industry shall be included in the scope of the pilot program. The value-added tax rate to be imposed on construction services, which refer to business activities such as construction, renovation and decoration of various buildings, structures and ancillary supporting facilities thereof, installation of lines, pipes, equipment and facilities, and other engineering operations, including engineering, installation, renovation, decoration and other construction services, shall be 11%.

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HISTORY AND DEVELOPMENT

Our origin dated back to 1996 when our Executive Director, Chairman and chief executive officer and Controlling Shareholder, Mr. Ye Yujing, founded Guangdong Yahe Decoration Construction Company Limited* (廣東雅和裝飾工程有限公司) with his brother, Mr. Ye Yuling⁽¹⁾, with a registered capital of RMB5,000,000, sourced from their personal funds to carry out installation of water and electricity utilities and air-conditioner works, decoration and design construction works and selling of construction and decoration materials. In 1997, we obtained the qualification of Grade II Professional Contractor of Building Renovation and Decoration Engineering* (建築裝飾裝修工程施工貳級).

In 2007, to further enhance our competitiveness, we obtained the qualification of Grade I Professional Contractor of Building Renovation and Decoration Engineering* (建築裝修裝飾工程專業承包壹級) and the qualification of Grade A Professional Building Decoration Engineering and Design* (建築裝飾工程設計專項甲級). We also commenced providing fire safety engineering works for commercial and residential buildings.

In 2007, we converted ourselves into a joint stock limited liability company under the PRC law and changed our name to Guangdong Adway Construction (Group) Holdings Company Limited* (廣東愛得威建設(集團)股份有限公司). From 2003 to 2013, we had capital contribution for five times and increased our registered capital from RMB5,000,000 to RMB158,287,000 through funding from our shareholders and introduction of new investors.

As at the Latest Practicable Date, our business scope covers the following areas:

- Grade I Professional Contractor of Building Renovation and Decoration Engineering* (建築裝修裝飾工程專業承包壹級)
- Grade I Professional Contractor of Curtain Wall Engineering* (建築幕牆工程專業承包壹級)
- Grade I Professional Contractor of Electrical and Mechanical Installation and Engineering (機電設備安裝工程專業承包壹級)
- Grade I Professional Contractor of Fire Safety Equipment Engineering* (消防設施工程專業承包壹級)
- Grade I Professional Contractor of Building Intelligent Engineering* (建築智能化工程專業承包壹級)
- Grade II Professional Contractor of Steel Structure Engineering* (鋼結構工程專業承包貳級)
- Grade A Professional Building Decoration Engineering and Design* (建築裝飾工程設計專項甲級)
- Grade A Professional Curtain Wall Engineering and Design* (建築幕牆工程設計專項甲級)
- Grade B Professional Fire Safety Equipment Engineering and Design* (消防設施工程設計專項乙級)
- Design, Installation and Maintenance of Security Prevention Systems* (安全技術防範系統設計、施工、維修)

⁽¹⁾ Mr. Ye Yuling deceased in 2008.

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- Development and application in computer software and hardware product technology, intelligence engineering system, solar energy construction technology, energy-saving product technology, fire and security equipment technology, green environmental friendly materials, and construction intelligence products (計算機軟硬件產品技術、智能工程系統、太陽能光伏建築技術、節能產品技術、消防安防產品技術、綠色環保材料、建築智能產品技術開發及應用)
- Development, application and sale of construction and decoration materials, mechanical and electrical equipment, fire safety equipment, environmental-friendly filtration system (建築材料、裝潢材料、機電設備、消防器材、環保淨化設備的研發、應用、銷售)
- Lease of self-owned properties (自有房產租賃)
- Operation of medical equipment business and production of medical equipment (醫療器械生產、經營)

Our Directors believe that with our extensive business scope, we are able to provide one-stop comprehensive and customised building decoration solutions to our customers ranging from building decoration works, electrical and mechanical installation works, curtain wall engineering works to fire safety engineering works.

The following table sets forth a summary of the important developments in our Group's corporate and business development history since its establishment:

1996	Guangdong Yahe Decoration Construction Company Limited* (廣東雅和裝飾工程有限公司) was incorporated in Luohu District, Shenzhen with a registered capital of RMB5,000,000.
1997	In February 1997, we changed our name from Guangdong Yahe Decoration Construction Company Limited* (廣東雅和裝飾工程有限公司) to Guangdong Adway Decoration Construction Company Limited* (廣東愛得威裝飾工程有限公司). We obtained the qualification of Grade II Professional Contractor of Building Renovation and Decoration Engineering* (建築裝飾裝修工程施工貳級).
2003	We changed our name from Guangdong Adway Decoration Construction Company Limited* (廣東愛得威裝飾工程有限公司) to Guangdong Adway Construction Decoration Installation Engineering Company Limited* (廣東愛得威建築裝飾安裝工程有限公司).
2004	We obtained ISO9001 International Quality Control Systems Authentication, ISO14001 Environmental Management System Certification and OHSAS18001 Occupational Health and Safety Management System Certification. We were awarded "Top 100 Enterprises in the PRC Building Decoration Industry*" (中國建築裝飾行業百強企業)" for the first time, ranked 7th in "The Enterprise Delivering Construction Work (Decoration) with the Strongest Comprehensive Strength*" (綜合實力最強的建築施工(裝飾)企業)" and the title of "Credible Enterprise in the PRC*" (中國守合同重信用企業稱號)".

We also established our first branch in Chongqing.

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- 2005 We were first awarded "National Green Building Decoration Construction Demonstration Unit* (全國綠色裝飾裝修施工示範單位)".
- 2006 We were awarded "China's Famous Brand Enterprise* (中國著名品牌企業)", "Credible Enterprise in the PRC* (全國守合同重信用企業)", "National AAA Grade Credit Rating Enterprise* (全國AAA級資信等級企業)", "National Customer Satisfaction Enterprise* (全國用戶滿意企業)", "National Low Carbon Living Engineering Demonstration Enterprise* (國家級低碳宜居工程示範企業)" and "Pre-selected Constructor of Shenzhen City Government* (深圳市政府工程預選承包企業)".
- We established our branch in Guangzhou.
- 2007 We moved our head office to 22E, Shenmao Commercial Centre, Xinwen Road, Futian District, Shenzhen, with a total gross area of 1,225.24 m².
- We obtained the qualifications of Grade I Professional Contractor of Building Renovation and Decoration Engineering* (建築裝修裝飾工程專業承包壹級), National Grade I Professional Contractor of Electrical and Mechanical Equipment Installation and Engineering* (機電設備安裝工程專業承包壹級) and National Grade A Construction Curtain Wall Design* (建築幕牆設計國家甲級).
- In May 2007, we further expanded our scope of business to cover sales of construction and decoration materials, machinery and power-generating equipment, fire safety engineering equipment and environmental-friendly filtration system.
- In December 2007, we were converted from limited liability company into a joint stock limited liability company. We also changed our name from Guangdong Adway Construction Decoration Installation Engineering Company Limited* (廣東愛得威建築裝飾安裝工程有限公司) to Guangdong Adway Construction (Group) Holdings Company Limited* (廣東愛得威建設(集團)股份有限公司).
- We established our branch in Changsha.
- 2008 We obtained the qualifications of National Grade I in Curtain Wall Construction, Building Intelligent Construction and Construction of Fire Safety Equipment* (建築幕牆、建築智能化、消防設施施工國家壹級).
- We established our branches in Taiyuan, Chengdu and Huizhou.
- 2009 We obtained the qualifications of Grade II Professional Contractor in Steel Structure Engineering* (鋼結構工程專業承包貳級) and Grade B Professional Fire Safety Equipment Engineering and Design* (消防設施工程設計專項乙級).
- We established our branches in Wuhan and Kunming.
- 2010 We obtained the qualifications of Grade III in Professional Contractor of Metal Doors and Windows Engineering* (金屬門窗工程專業承包參級).
- We established our branches in Haikou, Zhuhai and Yinchuan.
- We further extended our business scope to cover design, construction and maintenance of security technology precaution system.

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- 2011 We established our branch in Nanchang.
- 2012 We obtained licenses of design of security technology precaution, construction and maintenance* (安全技術防範設計、施工、維修資格證).
- We were again awarded "National AAA Grade Credit Rating Enterprise* (全國AAA級資信等級企業)".
- We established two branches in Xining and Zhongshan.
- 2013 We obtained Permit for Operating Medical Equipment* (醫療器械經營企業許可證).
- We moved our head office to Pengyi Garden, Bagua No.1 Road, Futian District, Shenzhen, PRC which has a total gross area of 3,790.44 m².
- We were awarded "Best Specialised Decoration Enterprise in the Medical and Health Segment of the National Building Decoration Industry* (全國建築裝飾行業醫療衛生類最佳專業化裝飾企業)", "100 Innovative Enterprises with Outstanding Technology* (百家優秀科技創新型企業)", "Shenzhen's Famous Brand Enterprise* (深圳知名品牌企業)" and "High-tech Enterprise* (高新技術企業)".
- We established our branch in Beijing.
- 2014 We were awarded "Top Hundred Specialised Enterprises (in the category of hotels)* (專業化百強企業(酒店空間類))" "Guangdong Province Credible Enterprise* (廣東省守合同重信用企業)", and "Star Enterprise of National Construction Engineering and Decoration Award* (全國建築工程裝飾獎明星企業)" as we have won the national prize for decoration construction projects for five consecutive years since 2008.
- We were assigned AAA grade in credit rating by Shenzhen Nanfang Credit Rating Co., Limited* (深圳南方資信評估有限公司).
- We established three branches respectively in Foshan, Hefei and Wuxi.
- 2015 We obtained the title of "The 13th Session of the Innovative Record of the Enterprises in Shenzhen – Innovative Environmental Protection Project* (第十三屆深圳企業創新紀錄環保創新項目獎)" promulgated by the Federation of Shenzhen Industries (深圳工業總會) in recognition of our innovation in environmental protection.

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OUR SUBSIDIARIES AND BRANCHES

As at the Latest Practicable Date, we had three subsidiaries the details of which are set forth in the following table:

No.	Name of Subsidiary	Place of Incorporation	Date of Establishment	Registered Capital <i>(in millions RMB)</i>	Percentage of our Shareholding <i>(%)</i>	Principal Business Scope
1.	Huidong Yip's Development Company Limited* (惠東葉氏實業發展有限公司)	Huidong, Guangdong, the PRC	30 November 2012	0.5	100	Development and construction of industrial park, leasing and management of properties, development, design and sale of construction materials, decoration materials, electrical machinery equipment and environmental friendly filtration systems; investment into industry.
2.	Huidong Shikuan Decorative Furniture Creative Culture Company Limited* (惠東士寬裝飾家私創藝文化有限公司)	Huidong, Guangdong, the PRC	27 February 2014	0.5	100	Design and sale of mobile and fixed furniture suitable for the use of construction decoration works (including raw materials such as plywood veneer, wooden decoration products), soft decoration products (including statues, ceramics, decorative articles, calligraphy and painting, folk arts and crafts).
3.	Shenzhen City Jingdi Gardening Construction Engineering Company Limited* (深圳市景帝園林建設工程有限公司)	Shenzhen, the PRC	7 August 2007	10.1	100	Garden landscaping, design and construction work of construction engineering, development of technology in garden construction materials and sale of garden construction materials, sale of nursery stock, flowers, birds and gardening tools.

As at the Latest Practicable Date, our Company had 18 branches and we had conducted our business through our headquarters in Shenzhen. We had 18 branch offices in major cities and regions across the PRC such as Beijing, Chongqing, Guangzhou, Wuhan, Chengdu, Xining, Yinchuan, Wuxi and Huizhou, and five representative offices in Tianjin, Nanjing, Zhengzhou, Urumqi and Dunhuang. We had operated the above branches within the business scope of our Company set forth above as at the Latest Practicable Date.

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MAJOR CHANGES IN OUR SHAREHOLDING STRUCTURE

Incorporation of our Company in 1996

Our Company was incorporated in Luohu District, Shenzhen, PRC on 18 December 1996 under its former name, Guangdong Yahe Decoration Construction Company Limited* (廣東雅和裝飾工程有限公司) as a limited liability company with a total registered capital of RMB5,000,000 by way of RMB4,000,000 cash contributed by Mr. Ye Yujing and RMB1,000,000 in-kind contribution contributed by Mr. Ye Yuling, being the younger brother of Mr. Ye Yujing.

The structure of the registered capital of our Company upon incorporation was as follows:

Shareholder	Amount of Registered Capital (RMB)	Percentage in the Registered Capital of our Company (%)
Ye Yujing	4,000,000	80.00
Ye Yuling	1,000,000	20.00
Total	5,000,000	100.00

Increase of registered capital in 2003

On 27 May 2003, our Company had its registered capital increased by RMB10,000,000 from RMB5,000,000 to RMB15,000,000 with additional capital contributions made by the original shareholders, Mr. Ye Yujing as to RMB5,750,000 and Mr. Ye Yuling as to RMB2,000,000, and a new shareholder, Ms. Ye Jinmei, who is the spouse of Mr. Ye Yujing as to RMB2,250,000, all in form of cash. After the capital contribution, the registered capital of our Company was contributed as to 65.00% by Mr. Ye Yujing, 20.00% by Mr. Ye Yuling and 15.00% by Ms. Ye Jinmei in the following manner:

Shareholder	Amount of Registered Capital (RMB)	Percentage in the Registered Capital of our Company (%)
Ye Yujing	9,750,000	65.00
Ye Yuling	3,000,000	20.00
Ye Jinmei	2,250,000	15.00
Total	15,000,000	100.00

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Increase of registered capital in 2006

On 27 March 2006, our Company had its registered capital further increased by RMB15,800,000 from RMB15,000,000 to RMB30,800,000 by way of capital contribution from its then existing shareholders pro rata to their respective holding in the registered capital in our Company, in the form of cash. After the capital contribution, the percentage of capital contributed by each shareholder of our Company remained unchanged. The registered capital of our Company was contributed as to 65.00% by Mr. Ye Yujing, 20.00% by Mr. Ye Yuling and 15.00% by Ms. Ye Jinmei in the following manner:

Shareholder	Amount of Registered Capital (RMB)	Percentage in the Registered Capital of our Company (%)
Ye Yujing	20,020,000	65.00
Ye Yuling	6,160,000	20.00
Ye Jinmei	4,620,000	15.00
Total	30,800,000	100.00

Conversion into a joint stock limited liability company in 2007

On 3 December 2007, our Company was converted into a joint stock limited liability company in accordance with the PRC laws and renamed as Guangdong Adway Construction (Group) Holdings Company Limited* (廣東愛得威建設(集團)股份有限公司).

The shareholding structure of our Company upon the conversion had remained unchanged as follows:

Shareholder	No. of Shares	Amount of Issued Share Capital (RMB)	Percentage of Shareholding (%)
Ye Yujing	20,020,000	20,020,000	65.00
Ye Yuling	6,160,000	6,160,000	20.00
Ye Jinmei	4,620,000	4,620,000	15.00
Total	30,800,000	30,800,000	100.00

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Change of Shareholders in 2008

On 14 July 2008, all the equity interests held by Mr. Ye Yuling in our Company were transferred by way of inheritance to Mr. Ye Xian and Mr. Ye Bingquan in equal shares due to the pass away of Mr. Ye Yuling. After such transfer, the share capital of our Company was held as to 65.00% by Mr. Ye Yujing, 15.00% by Ms. Ye Jinmei, 10.00% by Mr. Ye Xian and 10.00% by Mr. Ye Bingquan in the following manner:

Shareholder	No. of Shares	Amount of Issued Share Capital (RMB)	Percentage of Shareholding (%)
Ye Yujing	20,020,000	20,020,000	65.00
Ye Jinmei	4,620,000	4,620,000	15.00
Ye Xian ¹	3,080,000	3,080,000	10.00
Ye Bingquan ¹	3,080,000	3,080,000	10.00
Total	30,800,000	30,800,000	100.00

Note 1: Ye Xiaomei was the guardian of Ye Xian and Ye Bingquan as at 14 July 2008.

Increase in issued share capital in 2009

On 21 August 2009, our Company increased its issued share capital by RMB30,000,000 from RMB30,800,000 to RMB60,800,000 by issuing and allotting Shares to each of the then existing shareholders in proportion to their respective shareholding percentage in our Company. After the share capital increase, the shareholding structure of our Company remained the same and the shares of our Company were held as to 65.00% by Mr. Ye Yujing, 15.00% by Ms. Ye Jinmei, 10.00% by Mr. Ye Xian and 10.00% by Mr. Ye Bingquan in the following manner:

Shareholder	No. of Shares	Amount of Issued Share Capital (RMB)	Percentage of Shareholding (%)
Ye Yujing	39,520,000	39,520,000	65.00
Ye Jinmei	9,120,000	9,120,000	15.00
Ye Xian ¹	6,080,000	6,080,000	10.00
Ye Bingquan ¹	6,080,000	6,080,000	10.00
Total	60,800,000	60,800,000	100.00

Note 1: Ye Xiaomei was the guardian of Ye Xian and Ye Bingquan as at 21 August 2009.

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Share transfer in 2010

On 30 August 2010, Ms. Ye Jinmei transferred her interests in our Company to Ms. Ye Xiujin for a consideration of RMB10,000 pursuant to a share transfer agreement entered into on 14 July 2010. As advised by our PRC Legal Advisers, Ms. Ye Jinmei cancelled her residency in her home town Luoxi Town (螺溪镇) in Shanwei (汕尾), Guangdong and established new residency in Shenzhen in October 2012 and at the same time changed her name to Ye Xiujin. Prior to the above share transfer, we were advised by the local administrative bureau for industry and commerce that Ms. Ye could transfer the Shares held by "Ye Jinmei" to her currently registered name "Ye Xiujin" by way of a share transfer. Further, we were also advised by our PRC Legal Advisers that since (i) Ms. Ye, being the owner of the above transferred Shares, had the right of disposal of such Shares; (ii) the above share transfer from Ms. Ye Jinmei and Ms. Ye Xiujin was performed by Ms. Ye with her genuine intention to properly solve the issues relating to the change of her register of residence and; (iii) the above share transfer was unanimously approved by our then existing shareholders, the above share transfer did not violate any PRC laws or regulations.

After the above share transfer, the Shares were held as to 65.00% by Mr. Ye Yujing, 15.00% by Ms. Ye Xiujin, 10.00% by Mr. Ye Xian and 10.00% by Mr. Ye Bingquan in the following manner:

<u>Shareholder</u>	<u>No. of Shares</u>	<u>Amount of Issued Share Capital</u> (RMB)	<u>Percentage of Shareholding</u> (%)
Ye Yujing	39,520,000	39,520,000	65.00
Ye Xiujin	9,120,000	9,120,000	15.00
Ye Xian ¹	6,080,000	6,080,000	10.00
Ye Bingquan ¹	6,080,000	6,080,000	10.00
Total	60,800,000	60,800,000	100.00

Note 1: Ye Xiaomei was the guardian of Ye Xian and Ye Bingquan as at 30 August 2010.

HISTORY AND DEVELOPMENT

Increase in issued share capital and change of Shareholders in 2012

On 30 May 2012, our Company increased its issued share capital by RMB32,310,000 from RMB60,800,000 to RMB93,110,000 by issuing and allotting Shares to a total number of 17 new investors. The investors were constituted of (i) 14 individual investors who are Independent Third Parties prior to their investment into our Company; (ii) a limited partnership entity, the ultimate partners (including general partners and limited partners) of which are to the best knowledge, information and belief of our Directors, Independent Third Parties prior to their investment into our Company; and (iii) two limited partnership entities incorporated in Shenzhen, PRC wholly-owned by our senior employees and senior management respectively. Please refer to the paragraph headed "[REDACTED] Investments" in this section for more details of such new investors.

The shareholding structure of our Company upon the increase in issued share capital was as follows:

Shareholder	No. of Shares	Amount of Issued Share Capital (RMB)	Approximate Percentage of Shareholding (%)
Ye Yujing	39,520,000	39,520,000	42.44
South China Sea LP	10,000,000	10,000,000	10.74
Ye Xiujin	9,120,000	9,120,000	9.79
Ye Xian	6,080,000	6,080,000	6.53
Ye Bingquan ¹	6,080,000	6,080,000	6.53
Shenzhen Gong Xiang Li	4,750,000	4,750,000	5.10
Huang Na	3,600,000	3,600,000	3.87
Ye Zhiwu	3,000,000	3,000,000	3.22
Shenzhen Gong Fen Li ²	2,260,000	2,260,000	2.43
Xia Shujie	1,500,000	1,500,000	1.61
Luo Biao	1,350,000	1,350,000	1.45
Qiu Jiabao	1,000,000	1,000,000	1.07
Zeng Fang	1,000,000	1,000,000	1.07
Li Guangbin	750,000	750,000	0.81
Qiu Wenjin	750,000	750,000	0.81
Yu Taomei	750,000	750,000	0.81
Li Mingzhu	600,000	600,000	0.64
Feng Junsan	300,000	300,000	0.32
Liu Yi	300,000	300,000	0.32
Zeng Bo	200,000	200,000	0.22
Wen Kaiwen	200,000	200,000	0.22
Total	93,110,000	93,110,000	100.00

Note 1: Ye Xiaomei was the guardian of Ye Bingquan as at 30 May 2012.

Note 2: Ye Diyuan, one of the ultimate partners of Shenzhen Gong Fen Li, is the elder brother of Ye Xiujin, one of our Controlling Shareholders and an Executive Director.

HISTORY AND DEVELOPMENT

Share transfer and increase in issued share capital in 2013

On 26 August 2013, Mr. Xia Shujie transferred 1,500,000 Shares which represented approximately 1.61% of our then issued share capital prior to the issue and allotment of Shares as described below to Mr. Zhou Hang, an Independent Third Party.

On 26 August 2013, our Company further increased its issued share capital by RMB65,177,000 from RMB93,110,000 to RMB158,287,000 through issuing and allotting Shares to the then existing shareholders in proportion to their respective shareholding percentage in our Company by way of conversion of capital reserves.

The shareholding structure of our Company upon the share transfer and the increase in issued share capital was as follows:

Shareholder	No. of Shares	Amount of Issued Share Capital (RMB)	Approximate Percentage of Shareholding (%)
Ye Yujing	67,184,000	67,184,000	42.44
South China Sea LP	17,000,000	17,000,000	10.74
Ye Xiujin	15,504,000	15,504,000	9.79
Ye Xian	10,336,000	10,336,000	6.53
Ye Bingquan ¹	10,336,000	10,336,000	6.53
Shenzhen Gong Xiang Li	8,075,000	8,075,000	5.10
Huang Na	6,120,000	6,120,000	3.87
Ye Zhiwu	5,100,000	5,100,000	3.22
Shenzhen Gong Fen Li ²	3,842,000	3,842,000	2.43
Zhou Hang	2,550,000	2,550,000	1.61
Luo Biao	2,295,000	2,295,000	1.45
Qiu Jiabao	1,700,000	1,700,000	1.07
Zeng Fang	1,700,000	1,700,000	1.07
Li Guangbin	1,275,000	1,275,000	0.81
Qiu Wenjin	1,275,000	1,275,000	0.81
Yu Taomei	1,275,000	1,275,000	0.81
Li Mingzhu	1,020,000	1,020,000	0.64
Feng Junsan	510,000	510,000	0.32
Liu Yi	510,000	510,000	0.32
Zeng Bo	340,000	340,000	0.22
Wen Kaiwen	340,000	340,000	0.22
Total	158,287,000	158,287,000	100.00

Note 1: Ye Xiaomei was the guardian of Ye Bingquan as at 26 August 2013.

Note 2: Ye Diyuan, one of the ultimate partners of Shenzhen Gong Fen Li, is the elder brother of Ye Xiujin, one of our Controlling Shareholders and an Executive Director.

HISTORY AND DEVELOPMENT

Share transfers in May and December 2014

On 29 May 2014, our then existing shareholder, Mr. Feng Junsan transferred 510,000 Shares which represented approximately 0.32% of our then issued share capital to Mr. Wu Ming, an Independent Third Party.

On 29 December 2014, our then existing shareholders Mr. Ye Zhiwu and Mr. Wu Ming transferred 5,100,000 Shares which represented approximately 3.22% of our then issued share capital and 510,000 Shares which represented approximately 0.32% of our then issued share capital to Ms. Yu Taomei and Mr. Zeng Bo respectively.

The shareholding structure of our Company upon the above share transfers was as follows:

Shareholder	No. of Shares	Amount of Issued Share Capital (RMB)	Approximate Percentage of Shareholding (%)
Ye Yujing	67,184,000	67,184,000	42.44
South China Sea LP	17,000,000	17,000,000	10.74
Ye Xiujin	15,504,000	15,504,000	9.79
Ye Xian	10,336,000	10,336,000	6.53
Ye Bingquan ¹	10,336,000	10,336,000	6.53
Shenzhen Gong Xiang Li	8,075,000	8,075,000	5.10
Yu Taomei	6,375,000	6,375,000	4.03
Huang Na	6,120,000	6,120,000	3.87
Shenzhen Gong Fen Li ²	3,842,000	3,842,000	2.43
Zhou Hang	2,550,000	2,550,000	1.61
Luo Biao	2,295,000	2,295,000	1.45
Qiu Jiabao	1,700,000	1,700,000	1.07
Zeng Fang	1,700,000	1,700,000	1.07
Li Guangbin	1,275,000	1,275,000	0.81
Qiu Wenjin	1,275,000	1,275,000	0.81
Li Mingzhu	1,020,000	1,020,000	0.64
Zeng Bo	850,000	850,000	0.54
Liu Yi	510,000	510,000	0.32
Wen Kaiwen	340,000	340,000	0.22
Total	158,287,000	158,287,000	100.00

Note 1: Ye Xiaomei was the guardian of Ye Bingquan as at 29 December 2014.

Note 2: Ye Diyuan, one of the ultimate partners of Shenzhen Gong Fen Li, is the elder brother of Ye Xiujin, one of our Controlling Shareholders and an Executive Director.

HISTORY AND DEVELOPMENT

Share transfer in August 2015

On 21 August 2015, our then existing shareholder, Ms. Zeng Fang transferred 510,000 Shares which represented approximately 0.32% of our then issued share capital to Mr. Ye Yujing.

Following the above share transfer, the shareholding structure of our Company became as follows:

Shareholder	No. of Shares	Amount of Issued Share Capital (RMB)	Approximate Percentage of Shareholding (%)
Ye Yujing	67,694,000	67,694,000	42.77
South China Sea LP	17,000,000	17,000,000	10.74
Ye Xiujin	15,504,000	15,504,000	9.79
Ye Xian	10,336,000	10,336,000	6.53
Ye Bingquan ¹	10,336,000	10,336,000	6.53
Shenzhen Gong Xiang Li	8,075,000	8,075,000	5.10
Yu Taomei	6,375,000	6,375,000	4.03
Huang Na	6,120,000	6,120,000	3.87
Shenzhen Gong Fen Li ²	3,842,000	3,842,000	2.43
Zhou Hang	2,550,000	2,550,000	1.61
Luo Biao	2,295,000	2,295,000	1.45
Qiu Jiabao	1,700,000	1,700,000	1.07
Li Guangbin	1,275,000	1,275,000	0.81
Qiu Wenjin	1,275,000	1,275,000	0.81
Zeng Fang	1,190,000	1,190,000	0.74
Li Mingzhu	1,020,000	1,020,000	0.64
Zeng Bo	850,000	850,000	0.54
Liu Yi	510,000	510,000	0.32
Wen Kaiwen	340,000	340,000	0.22
Total	158,287,000	158,287,000	100.00

Note 1: Ye Xiaomei was the guardian of Ye Bingquan as at 21 August 2015.

Note 2: Ye Diyuan, one of the ultimate partners of Shenzhen Gong Fen Li, is the elder brother of Ye Xiujin, one of our Controlling Shareholders and an Executive Director.

Our PRC Legal Advisers, Jingtian & Gongcheng, have confirmed that all the changes in relation to the share capital and shareholding structure of our Company since its establishment, including but not limited to its establishment, the transfers of equity interests, the increase of registered capital and the conversion of our Company into a joint stock limited liability company, have complied with all applicable PRC laws and regulations in all material aspects, and our Company has obtained all necessary approvals and consents for such corporate changes as required under the applicable PRC laws and regulations in all material aspects.

HISTORY AND DEVELOPMENT

Shareholding structure as at the Latest Practicable Date

As at the Latest Practicable Date, the shareholding structure of our Company was as follows:

Shareholder	No. of Shares	Amount of Issued Share Capital (RMB)	Approximate Percentage of Shareholding (%)
Ye Yujing	67,694,000	67,694,000	42.77
South China Sea LP	17,000,000	17,000,000	10.74
Ye Xiujin	15,504,000	15,504,000	9.79
Ye Bingquan ¹	10,336,000	10,336,000	6.53
Ye Xian	10,336,000	10,336,000	6.53
Shenzhen Gong Xiang Li	8,075,000	8,075,000	5.10
Yu Taomei	6,375,000	6,375,000	4.03
Huang Na	6,120,000	6,120,000	3.87
Shenzhen Gong Fen Li ²	3,842,000	3,842,000	2.43
Zhou Hang	2,550,000	2,550,000	1.61
Luo Biao	2,295,000	2,295,000	1.45
Qiu Jiabao	1,700,000	1,700,000	1.07
Li Guangbin	1,275,000	1,275,000	0.81
Qiu Wenjin	1,275,000	1,275,000	0.81
Zeng Fang	1,190,000	1,190,000	0.74
Li Mingzhu	1,020,000	1,020,000	0.64
Zeng Bo	850,000	850,000	0.54
Liu Yi	510,000	510,000	0.32
Wen Kaiwen	340,000	340,000	0.22
Total	158,287,000	158,287,000	100.00

Note 1: Ye Xiaomei was the guardian of Ye Bingquan as at the Latest Practicable Date.

Note 2: Ye Diyuan, one of the ultimate partners of Shenzhen Gong Fen Li, is the elder brother of Ye Xiujin, one of our Controlling Shareholders and an Executive Director.

HISTORY AND DEVELOPMENT

MAJOR DISPOSALS AND DEREGISTRATION OF COMPANIES DURING THE TRACK RECORD PERIOD UP TO THE LATEST PRACTICABLE DATE

1. Shenzhen Poem Oxidation Industry Science Technology Company Limited* (深圳市鉑鍍氧化板業科技有限公司) ("**Shenzhen Poem**")

Shenzhen Poem, incorporated on 28 June 2012, was our subsidiary since its incorporation. Shenzhen Poem was mainly engaged in the sale of anodised aluminium plates. Upon its establishment, the equity interests of Shenzhen Poem were held as to 51% by our Company and 49% by Shenzhen Pacific Building Materials Technology Company Limited * (深圳市太平洋建材技術有限公司) ("**Pacific Building Materials**"), an Independent Third Party. Pacific Building Materials and our Company entered into a cooperation agreement and a project investment cooperation agreement on 26 June 2012 and 24 July 2012 respectively (the "**Cooperation Agreements**").

In 2014, both our Company and Pacific Building Materials decided to dispose of the respective equity interests in Shenzhen Poem due to the fact that the performance of Shenzhen Poem fell short of its original target. As at 31 October 2014, Shenzhen Poem had an approximate accumulated loss of RMB4,470,000.

Accordingly, on 5 May 2014, Pacific Building Materials transferred all its equity interests in Shenzhen Poem, representing 49% of the shareholding in Shenzhen Poem to Mr. Ye Zhiwu, one of our then existing Shareholders, at the consideration of RMB7,350,000 pursuant to an equity transfer agreement entered into between Pacific Building Materials and Mr. Ye Zhiwu dated 18 April 2014. On 3 March 2015, our Company transferred all its equity interests in Shenzhen Poem, representing 51% of the shareholding in Shenzhen Poem to Mr. Ye Zhiwu at a consideration of RMB7,650,000 pursuant to an equity transfer agreement entered into between our Company and Mr. Ye Zhiwu dated 3 March 2015. As advised by our PRC Legal Advisers, the above disposals of the equity interests in Shenzhen Poem (the "**Disposals**") were duly completed and in full compliance with the PRC laws and regulations.

In addition, our Company, Pacific Building Materials and Mr. Ye Zhiwu entered into a termination of the Cooperation Agreements dated 1 November 2014, pursuant to which the parties agreed to terminate the Cooperation Agreements effective from 31 October 2014 (the "**Termination Agreement**"). According to the Termination Agreement, Mr. Ye Zhiwu agreed to pay approximately RMB5,370,000 to our Company after deducting RMB2,280,000 which was the amount equivalent to the accumulated loss for which our Company was responsible in respect of its investment in Shenzhen Poem as at 31 October 2014. Pacific Building Materials, Shenzhen Poem and Dongguan Poem Commerce Company Limited* (東莞市鉑鍍實業有限公司) which is a subsidiary wholly-owned by Shenzhen Poem jointly guaranteed the payment obligations of Mr. Ye Zhiwu under the Termination Agreement.

Given the fact that Shenzhen Tongmaoyuan Building Materials Company Limited* (深圳市通茂源建築材料有限公司) ("**Shenzhen Tongmaoyuan**"), an Independent Third Party, was then indebted to Shenzhen Poem, Shenzhen Tongmaoyuan, our Company and Shenzhen Poem entered into an agreement relating to the return of invested capital and loan repayment dated 23 November 2014 pursuant to which Shenzhen Tongmaoyuan agreed to repay to our Company on Shenzhen Poem's behalf Shenzhen Poem's payment obligations of RMB5,367,735.15 and a separate additional RMB2,000,000 loan owed by Shenzhen Poem to our Company. Following the offset, Shenzhen Poem's payment and debt obligations to our Company were settled. As confirmed by our PRC Legal Advisors, the aforesaid payment arrangement was not in breach of any PRC laws and regulations.

HISTORY AND DEVELOPMENT

2. Shenzhen Aihong Investment Development Company Limited (深圳市愛泓投資發展有限公司) ("Shenzhen Aihong")

Shenzhen Aihong was our subsidiary since its incorporation on 11 September 2007 which was owned as to 99% by our Company and 1% by Ms. Ye Xiaomei, the mother of Mr. Ye Xian, one of our shareholders and our Supervisor and Mr. Ye Bingquan, one of our Shareholders, and sister in law of Mr. Ye Yujing and Ms. Ye Xiujin, our Controlling Shareholders. Shenzhen Aihong did not engage in any significant business.

Our Company decided to close down Shenzhen Aihong due to its lack of significant business activities. Shenzhen Aihong was deregistered on 25 March 2013 and was solvent at the time of deregistration. As advised by our PRC Legal Advisors, the deregistration of Shenzhen Aihong was duly completed and was in full compliance with the applicable PRC laws and regulations.

3. Guangdong Adway Construction (Group) Dalian Holdings Company Limited* (廣東愛得威建設(集團)大連有限公司) ("Guangdong Adway Dalian")

Guangdong Adway Dalian, incorporated on 21 September 2011, is our wholly-owned subsidiary. Guangdong Adway Dalian was mainly engaged in the building decoration business. Our Company decided to close down Guangdong Adway Dalian due to its unsatisfactory financial performance. Guangdong Adway Dalian was deregistered on 24 November 2015 and was solvent at the time of deregistration. As advised by our PRC Legal Advisors, the deregistration of Guangdong Adway Dalian was in full compliance with the applicable PRC laws and regulations.

[REDACTED] INVESTMENTS

Investments from South China Sea LP

On 23 March 2012, our Company and Mr. Ye Yujing, our Executive Director and Controlling Shareholder, entered into a subscription agreement with South China Sea LP, pursuant to which South China Sea LP agreed to subscribe for 10,000,000 Shares at a total cash consideration of RMB35,100,000, which was determined based on the net asset value of our Company in the audited financial statements of our Company for the year ended 31 December 2010. The subscription price of RMB3.51 per Share represented an amount three times of the net asset value per Share in accordance with the audited financial statements of our Company for the year ended 31 December 2010. A supplemental agreement to the subscription agreement was entered into among our Company, Mr. Ye Yujing and Ms. Ye Xinjin, our Executive Directors and Controlling Shareholders, and South China Sea LP on even date which further set out the rights of South China Sea LP in respect of its investment in our Company.

Before completion of the [REDACTED], the issued share capital of our Company is owned as to 10.74% by South China Sea LP.

Background of South China Sea LP

South China Sea LP, a limited partnership entity established under PRC laws on 13 April 2011, is controlled by four general partners who, as at the Latest Practicable Date, were (i) Shenzhen Co-Win Jinxiu Asset, (ii) Zheng Wei He (鄭偉鶴); (iii) Huang Li (黃荔); and (iv) Ding Bao Yu (丁寶玉). Shenzhen Co-Win Jinxiu Asset Management Limited (深圳同創錦繡資產管理有限公司), a limited liability company established under PRC laws on 24 December 2014, is a wholly-owned subsidiary of Shenzhen Co-Win Asset. Shenzhen Co-Win Asset, a limited liability company established under PRC laws on 27 December 2010 is owned as to 35.6% by Shenzhen Co-Win Venture Capital, 15.9% by Zheng Wei He, 15.9% by Huang Li, 10.5% by Shenzhen Co-Win Victory LP, 7.1% by Shenzhen

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Co-Win South China Asset Management Company Limited (深圳市同創偉業南海資產管理有限公司) which is a limited liability company established under PRC laws on 5 February 2013 and is wholly owned by Shenzhen Co-Win Venture Capital, 4.5% by Ding Bao Yu, 2.6% by Ma Weiguo (馬衛國), 1.2% by Tang Zhongcheng (唐忠誠), with the remaining 6.7% owned by other shareholders. Shenzhen Co-Win Venture Capital, a limited liability company established under PRC laws on 26 June 2000, is owned as to 45% by Zheng Wei He and 55% by Huang Li. The executive partner of South China Sea LP is currently Zheng Wei He. To the best knowledge, information and belief of our Directors, other than its investment in our Group, South China Sea LP and its ultimate partners are Independent Third Parties. The investment objective of South China Sea LP is to maximise the profits of the partners by investing in new industry or developing unlisted share equities.

South China Sea LP was introduced to our Group through our business contact, who is an Independent Third Party and mutually knew our Group and South China Sea LP. Given that our Group was at the time of exploring the possibility of seeking [REDACTED] on the Shenzhen Stock Exchange or the Stock Exchange, which met the investment objective of South China Sea LP, South China Sea LP agreed to participate in the [REDACTED] investment. As confirmed by our Directors, as at the Latest Practicable Date, save for the submission of the application to the Stock Exchange for the [REDACTED] of, and permission to deal in, the [REDACTED] being offered under the [REDACTED] (including the additional [REDACTED] which may be made available under the exercise of the [REDACTED]), our Company had not submitted any application to any stock exchange (including Shenzhen Stock Exchange) for [REDACTED] or trading of any of our Shares or securities.

Further details of South China Sea LP's investment

Set out below is a summary of the details of the [REDACTED] investment by South China Sea LP mentioned above:

Name of investor:	South China Sea Selected (Tianjin) Equity Investment Fund Limited Partnership Corporation (Limited Partnership)* (南海成長精選(天津)股權投資基金合夥企業(有限合夥))
Date of capital increase agreement:	23 March 2012
Capital contribution made by South China Sea LP:	RMB10,000,000
No. of Shares subscribed:	10,000,000 Shares which represented approximately 10.74% of the then enlarged issued share capital of Company
Consideration:	RMB35,100,000
Basis of determination of consideration:	The net asset value of our Company in the audited financial statements of our Company for the year ended 31 December 2010. The subscription price of RMB3.51 per Share represented an amount three times of the net asset value per Share in accordance with the audited financial statements of our Company for the year ended 31 December 2010
Consideration payment date:	5 April 2012

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Investment cost per Share:	RMB3.51
Effective investment cost per Share:	RMB2.06, calculated based on the investment cost per Share and taking into account the increase of the registered capital from RMB93,110,000 to RMB158,287,000 through each of the then existing shareholders in proportion to their respective shareholding percentage in our Company by way of conversion of capital reserves on 26 August 2013

[REDACTED]

On 20 August 2015, South China Sea LP issued a confirmation letter, effective from 20 August 2015, to our Company pursuant to which it agreed to waive all its preferential rights under the subscription agreement and the supplemental agreement dated 23 March 2012 in respect of its investment in our Company including but not limited to rights on profit guarantee, compensation, redemption and corporate governance. South China Sea LP therefore does not have any special shareholders' rights as at the date of this document and upon [REDACTED]. Set forth below are the details of the special shareholder's rights, other restrictions and undertakings under the abovementioned subscription agreement and the supplemental agreement:

Right of nomination of Director:	After completion of the [REDACTED] investment, the Board shall be made up of five directors, including one Director nominated by South China Sea LP.
Performance compensation:	If the net profits of our Company during the audited financial years of 2012 and 2013 fail to achieve the agreed target, our Controlling Shareholders shall compensate South China Sea LP accordingly in cash.
Redemption rights:	<p>If any of the following events occur, then South China Sea LP will be entitled to request our Controlling Shareholders to redeem its Shares:</p> <ul style="list-style-type: none">• our Company fails to obtain [REDACTED] status on Shenzhen Stock Exchange by 31 December 2015;• if our Company has fulfilled the requirements for [REDACTED] on the Shenzhen Stock Exchange (as advised by the investment bank or the securities house our Company may hire) but the [REDACTED] procedures fail to commence due to our Controlling Shareholder's voting against the proposed [REDACTED];• our Company fails to meet the requirements of [REDACTED] on the Shenzhen Stock Exchange by 31 December 2015;• the Controlling Shareholders breach any clause of the subscription agreement;

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- breach of the supplemental agreement by our Controlling Shareholders who fail to rectify the breach within 30 days of the written notice from South China Sea LP;
- the net profit of any of the financial years of 2012 or 2013 is lower than 80% of the committed financial performance;
- our Controlling Shareholders hold less than 40% of shareholding of our Company, or invest or operate any business that is the same as or similar to the principal business of our Company, or resign as Directors;
- our Company is in breach of any laws or regulations in relation to industry and commerce, tax, land, environment, customs etc.;
- our Company or our Controlling Shareholders are in material breach of any administrative or criminal laws or regulations;
- there is a material change of principal business activities of our Company within three years of this investment (except with the written consent of South China Sea LP).

Reserved Matters:

The following matters shall be approved by 2/3 of the Directors (including the Director nominated by South China Sea LP):

- amend or approve the overall business strategies and principal business;
- approve or amend the yearly budget of our Company;
- approve any expenses that exceed RMB5,000,000 of the yearly budget;
- any subsequent plans of financing after the investment from South China Sea LP;
- purchase of material fixed assets (any transportation equipment, large-size equipment that exceed RMB10,000,000), construction of buildings such as factories and office towers;
- any mergers and acquisitions;
- any investment, guarantee or borrowings to third parties that equal to RMB5,000,000 or more;

HISTORY AND DEVELOPMENT

- profit distribution policy;
- employ or dismiss any employees of our Company who are the relatives of the individual Shareholders or senior management whose annual remuneration exceeds RMB500,000;
- remuneration policy, options, share awards of the senior management;
- future capital operation of our Company;
- any donation more than RMB1,000,000.

Restrictions on transfer and right of first refusal:

There is no restriction on transfer and right of first refusal on the shareholding owned by South China Sea LP.

Other restrictions and undertakings:

Our Controlling Shareholders undertake to procure:

- the key persons of our Company to enter into employment contracts with our Company with at least 5 years of employment period;
- the key persons of our Company to enter into non-competition agreement with our Company to undertake that they shall not compete with our Company in the same or similar line of business within two years from the day they ceased to be employees of our Company;
- the key persons or other relevant employees of our Company to enter into agreement to agree that all the inventions and other intellectual property rights during their employment shall belong to our Company without compensation to them.

Public float:

The Shares held by South China Sea LP are considered as part of the public float as South China Sea LP (i) is not a connected person of our Company; (ii) the acquisition of its interest in the Shares was not financed directly or indirectly by any connected person of our Company; and (iii) is not accustomed to take instructions from a connected person in relation to the acquisition, disposal, voting or other disposition of securities our Company registered in its name or otherwise held by it.

Individual Independent Third Party investors

From 8 December 2011 to 16 April 2012, 14 individual Independent Third Party investors had separately entered into subscription agreements with our Company under the same terms and conditions.

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Pursuant to the subscription agreements entered into between our Company and the aforesaid 14 individual Independent Third Party investors, all the 14 individual Independent Third Party investors have no preferential right in our Company. The consideration of RMB3.51 per Share was determined based on the net asset value of our Company in the audited financial statements of our Company for the year ended 31 December 2010. The subscription price of RMB3.51 per Share represented an amount three times of the net asset value per Share in accordance with the audited financial statements of our Company for the year ended 31 December 2010 of our Company and was the same as the consideration per Share of South China Sea LP's investment into our Company in March 2012 as described above.

Set out below is a summary of the details of the [REDACTED] investment by the 14 individual Independent Third Party investors mentioned above:

Name of the investor	Date of signing	No. of Shares	Amount of issued share capital held by the investor ²	Approximate percentage of shareholding ²	Consideration	Consideration payment date	Investment cost per Share	Effective investment cost per Share ²	[REDACTED] ³	
			(RMB)	(%)	(RMB)		(RMB)	(RMB)		
1.	Huang Na	8 December 2011	3,600,000	3,600,000	3.87	12,636,000	12 March 2012	3.51	2.06	[REDACTED]
2.	Ye Zhiwu	13 April 2012	3,000,000	3,000,000	3.22	10,530,000	29 May 2012	3.51	2.06	[REDACTED]
3.	Xia Shujie / Zhou Hang ¹	10 April 2012	1,500,000	1,500,000	1.61	5,265,000	29 May 2012	3.51	2.06	[REDACTED]
4.	Luo Biao	29 May 2012	1,350,000	1,350,000	1.45	4,738,500	29 May 2012	3.51	2.06	[REDACTED]
5.	Qiu Jlabao	12 December 2011	1,000,000	1,000,000	1.07	3,510,000	16 April 2012	3.51	2.06	[REDACTED]
6.	Zeng Fang	8 December 2011	1,000,000	1,000,000	1.07	3,510,000	10 April 2012	3.51	2.06	[REDACTED]
7.	Yu Taomei	11 April 2012	750,000	750,000	0.81	2,632,500	12 April 2012	3.51	2.06	[REDACTED]
8.	Qiu Wenjin	10 April 2012	750,000	750,000	0.81	2,632,500	16 April 2012	3.51	2.06	[REDACTED]
9.	Li Guangbin	20 March 2012	750,000	750,000	0.81	2,632,500	17 April 2012	3.51	2.06	[REDACTED]
10.	Li Mingzhu	13 April 2012	600,000	600,000	0.64	2,106,000	13 April 2012	3.51	2.06	[REDACTED]
11.	Liu Yi	29 May 2012	300,000	300,000	0.32	1,053,000	29 May 2012	3.51	2.06	[REDACTED]
12.	Feng Junsan	16 April 2012	300,000	300,000	0.32	1,053,000	16 April 2012	3.51	2.06	[REDACTED]
13.	Zeng Bo	10 April 2012	200,000	200,000	0.22	702,000	16 April 2012	3.51	2.06	[REDACTED]
14.	Wen Kaiwen	29 May 2012	200,000	200,000	0.22	702,000	29 May 2012	3.51	2.06	[REDACTED]
Total:			15,300,000	15,300,000	16.44	53,703,000				

Note 1: Xia Shujie transferred all of his Shares, i.e. 1,500,000 Shares to Zhou Hang on 26 August 2013.

Note 2: Calculated based on the investment cost per Share and taking into account the increase of the registered capital from RMB93,110,000 to RMB158,287,000 through each of the then existing shareholders in proportion to their respective shareholding percentage in our Company by way of conversion of capital reserves on 26 August 2013.

Note 3: [REDACTED]

HISTORY AND DEVELOPMENT

Investment from our employees and senior management

On 29 May 2012, Shenzhen Gong Xiang Li and Shenzhen Gong Fen Li, two limited partnership entities established in accordance with PRC laws on 13 March 2012 and 16 March 2012 respectively, separately entered into subscription agreements with our Company. The shareholders of Shenzhen Gong Xiang Li are our Directors, senior management and senior employees. All shareholders of Shenzhen Gong Fen Li were our employees as at the date of the signing of the subscription agreement. The consideration of the subscription of Shares was also RMB3.51 per Share, which was the same as the consideration per Share in the investments from South China Sea LP and the 14 individual Independent Third Party investors. The consideration was also determined based on the net asset value of our Company in the audited financial statements of our Company for the year ended 31 December 2010. The subscription price of RMB3.51 per Share represented an amount three times of the net asset value per Share in accordance with the audited financial statements of our Company for the year ended 31 December 2010.

As at the Latest Practicable Date, the executive partner of Shenzhen Gong Xiang Li is Ye Weiqing (葉偉青), holding 3.15% interest in Shenzhen Gong Xiang Li, and the executive partner of Shenzhen Gong Fen Li is Ye Weiping (葉偉平), holding 27.43% interest in Shenzhen Gong Fen Li.

Name of the investor	No. of Shares	Amount of issued share capital held by the investor (RMB)	Approximate percentage of shareholding ¹ (%)	Consideration (RMB)	Consideration payment date	Investment cost per Share ¹ (RMB)	Effective investment cost per Share (RMB)	[REDACTED] ²
Shenzhen Gong Xiang Li	4,750,000	4,750,000	5.10	16,672,500	29 May 2012	3.51	2.06	[REDACTED]
Shenzhen Gong Fen Li	2,260,000	2,260,000	2.43	7,932,600	29 May 2012	3.51	2.06	[REDACTED]

Note 1: Calculated based on the investment cost per Share and taking into account the increase of the registered capital from RMB93,110,000 to RMB158,287,000 through each of the then existing shareholders in proportion to their respective shareholding percentage in our Company by way of conversion of capital reserves on 26 August 2013.

Note 2: [REDACTED]

Set forth below is the interests of the investors in Shenzhen Gong Xiang Li as at the Latest Practicable Date:

Name of the investors in Shenzhen Gong Xiang Li	Position with our Company at of the Latest Practicable Date	Capital contribution made in Shenzhen Gong Xiang Li (RMB)	Shareholding in Shenzhen Gong Xiang Li
Ye Guofeng ¹	Executive Director and Vice President	11,056,500	66.32%
Huang Ye	Vice President	4,036,500	24.21%
Ye Niangting	Executive Director and Vice President	1,053,000	6.32%
Ye Weiqing	Senior employee	526,500	3.15%
	Total:	<u>16,672,500</u>	<u>100.00%</u>

Note 1: Ye Guofeng is the son of Mr. Ye Yujing and Ms. Ye Xiujin, both are our Controlling Shareholders and Executive Directors.

HISTORY AND DEVELOPMENT

Set forth below is the interests of the investors in Shenzhen Gong Fen Li as at the Latest Practicable Date:

<u>Name of the investors in Shenzhen Gong Fen Li</u>	<u>Capital contribution made in Shenzhen Gong Fen Li</u> (RMB)	<u>Shareholding in Shenzhen Gong Fen Li</u>
1. Ye Weiping	2,176,200	27.43%
2. Ye Niangyu	1,755,000	22.12%
3. Lin Xiumei	1,614,600	20.35%
4. Zeng Muyuan	526,500	6.64%
5. Yang Liujun	526,500	6.64%
6. Wan Junda	351,000	4.43%
7. Huang Zitong	351,000	4.43%
8. Zhong Huaxin	175,500	2.21%
9. Wan Yunhua	175,500	2.21%
10. Peng Lijun	70,200	0.89%
11. Ye Diyuan ¹	70,200	0.89%
12. Li Ping	35,100	0.44%
13. Quan Guofu	35,100	0.44%
14. Li Tujin	35,100	0.44%
15. Li Xiaoming	17,550	0.22%
16. Liu Weidong	17,550	0.22%
 Total:	 <u>7,932,600</u>	 <u>100.00%</u>

Note 1: Ye Diyuan is the elder brother of Ye Xiujin, one of our Controlling Shareholders and an Executive Director.

Our Group considered the [REDACTED] investments as beneficial to our Group and our Shareholders as our Group could apply the proceeds from the [REDACTED] investments to our working capital, operational expenses and business expansion. No commission was paid to any third party in relation to the [REDACTED] investment.

Following the [REDACTED] investments, our registered capital increased from RMB60,800,000 to RMB93,110,000. The proceeds received from the investors were mainly for use in working capital business expansion, as well as our daily operation. As at the Latest Practicable Date, the proceeds had been fully utilised. Please refer to the shareholding structure of our Company following the [REDACTED] investments under the paragraph headed "Major Changes in our Shareholding Structure — Increase in issued share capital and change of Shareholders in 2012" in this section.

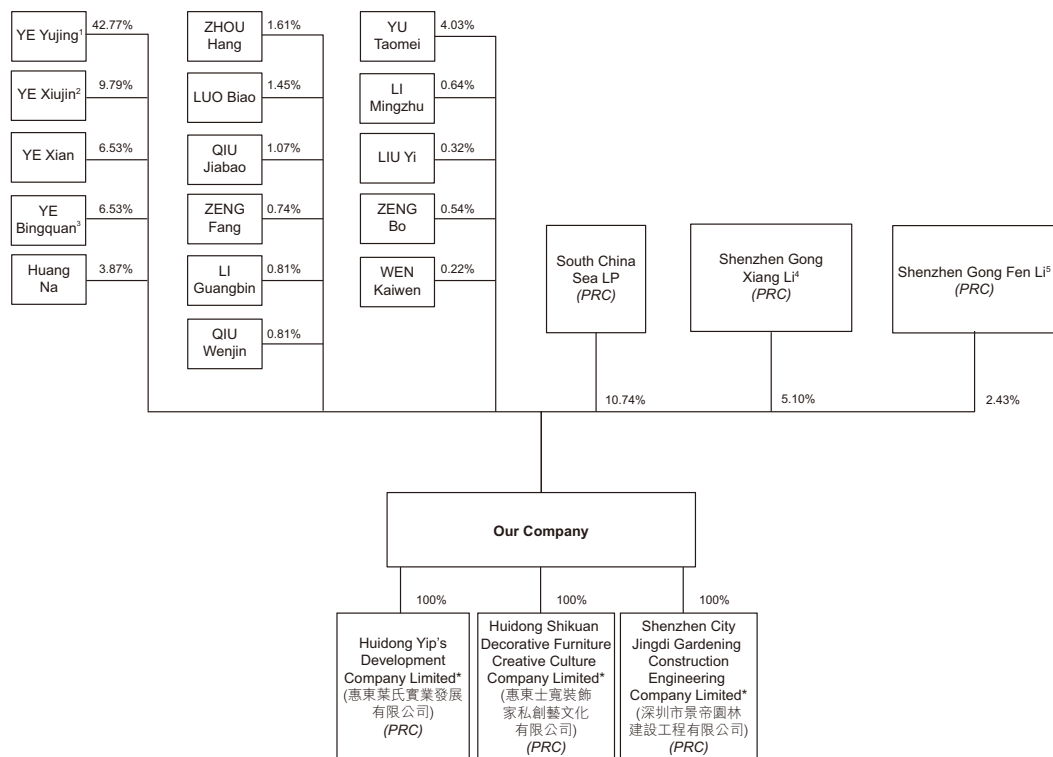
HISTORY AND DEVELOPMENT

Sponsor's confirmation

On the above basis and since all the consideration under the [REDACTED] investments was settled before 9 May 2012, which was more than 28 clear days before the date of the first submission of the [REDACTED] to the [REDACTED] of the Stock Exchange in relation to the [REDACTED], the Sole Sponsor is not aware of any terms of the [REDACTED] investments, which is not in compliance with Guidance Letters HKEx-GL29-12, HKEx-GL43-12, HKEx-GL44-12 issued by the Stock Exchange.

CORPORATE STRUCTURE

The following chart set out our corporate structure as at the Latest Practicable Date:



Note 1: Ye Yujing is the husband of Ye Xiujin, and the father of Ye Guofeng.

Note 2: Ye Xiujin is the wife of Ye Yujing and the mother of Ye Guofeng.

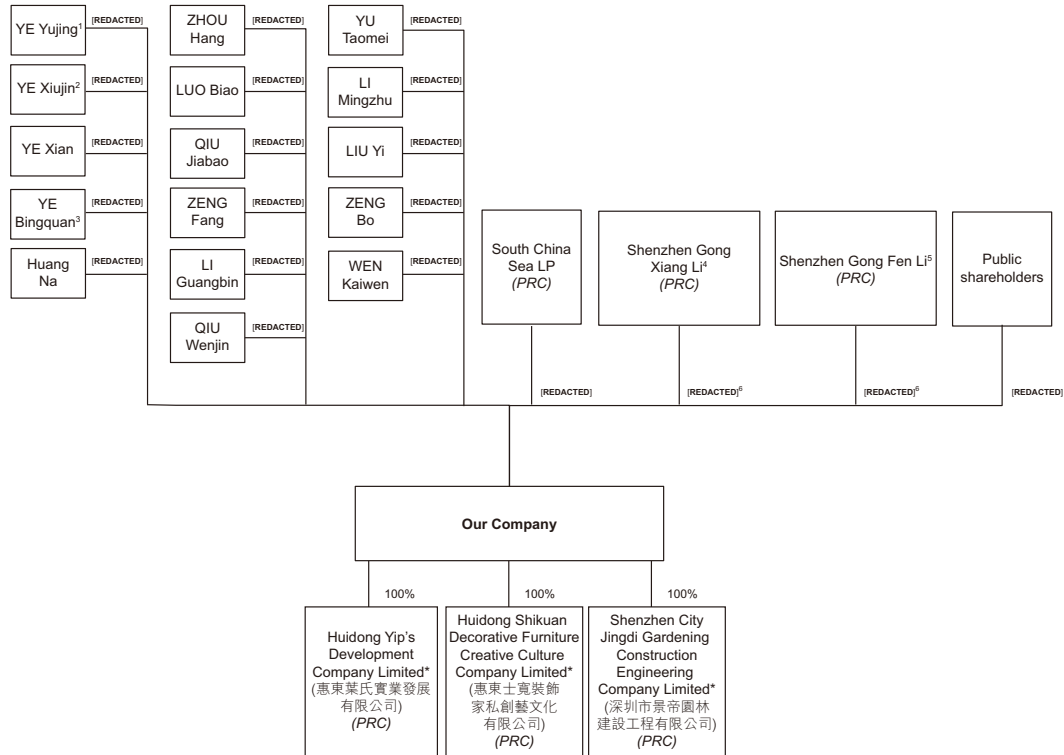
Note 3: Ye Xiaomei was the guardian of Ye Bingquan as at the Latest Practicable Date.

Note 4: Ye Niangting and Ye Guofeng, two of the ultimate partners of Shenzhen Gong Xiang Li, are both our Executive Directors. Ye Guofeng is the son of Mr. Ye Yujing and Ms. Ye Xiujin, both are our Controlling Shareholders and Executive Directors.

Note 5: Ye Diyuan, one of the ultimate partners of Shenzhen Gong Fen Li, is the elder brother of Ye Xiujin, one of our Controlling Shareholders and an Executive Director.

HISTORY AND DEVELOPMENT

The following chart sets out our corporate structure immediately after the completion of the [REDACTED] (assuming the [REDACTED] is not exercised):



Note 1: Ye Yujing is the husband of Ye Xiujin, and the father of Ye Guofeng.

Note 2: Ye Xiujin is the wife of Ye Yujing and the mother of Ye Guofeng.

Note 3: Ye Xiaomei will continue to be the guardian of Ye Bingquan immediately after the completion of the [REDACTED].

Note 4: Ye Niangting and Ye Guofeng, two of the ultimate partners of Shenzhen Gong Xiang Li, are both our Executive Directors. Ye Guofeng is the son of Mr. Ye Yujing and Ms. Ye Xiujin, both are our Controlling Shareholders and Executive Directors.

Note 5: Ye Diyuan, one of the ultimate partners of Shenzhen Gong Fen Li, is the elder brother of Ye Xiujin, one of our Controlling Shareholders and an Executive Director.

Note 6: The Shares held by Shenzhen Gong Xiang Li and Shenzhen Gong Fen Li are Domestic Shares and shall not be calculated in the public float.

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BUSINESS OVERVIEW

We are one of the top 20 building decoration service providers in the PRC in 2015 according to the Frost & Sullivan Report, with our headquarters located in Shenzhen, Guangdong Province. With almost 20 years of operating history, we have gained substantial experience and established a solid reputation in the building decoration industry in the PRC, with a broad range of the highest level of qualifications and licences in the building decoration industry. According to the Frost & Sullivan Report, there were approximately 24,000 players in the building decoration industry in the PRC as at 31 December 2015, and we ranked 18th with a market share of 0.07% in the building decoration industry and 6th with a market share of 0.09% in the medical building decoration industry in terms of sales revenue in the PRC in 2015. The medical building decoration sector accounted for 6.1% of the entire China public building decoration market in terms of revenue in 2015. We had been recognised by CBD Association and China Construction News (中華建築報社) as "Top 100 Enterprises in the PRC Building Decoration Industry" (中國建築裝飾行業百強企業)" for 11 consecutive years during the period from 2004 to 2014. In 2014, we were awarded "Star Enterprise of National Construction Engineering and Decoration Award" (全國建築工程裝飾獎明星企業)" by CBD Association and our brand name "Adway (愛得威)" was recognised as "Shenzhen Top Brand (深圳知名品牌)" by Shenzhen Top Brand Evaluation Committee (深圳知名品牌評價委員會). We believe that, with our extensive experience and expertise in the building decoration industry, we are well positioned to capture growth opportunities in the PRC.

We provide our customers with professional and comprehensive building decoration services that mainly cover four areas: (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works. Since our establishment, we have undertaken building decoration projects for customers in both public and private sectors in the PRC, including state-owned enterprises, governmental authorities and institutions, listed companies, foreign-owned enterprises, property developers and property management companies. Our projects encompass a wide range of building and property types, including commercial buildings, office buildings, industrial buildings, residential buildings, public buildings and infrastructure, and hotels. During the Track Record Period, we acted as a subcontractor and were engaged in approximately 867 projects (each with a contract value of more than RMB1 million) in the PRC, the total contract value of which amounted to approximately RMB7,380.9 million and among which approximately 169 and 23 projects were each with a contract value of more than RMB10 million and RMB50 million, respectively. Some of the notable building decoration projects we completed over the years or that are on-going include: (i) air-conditioning installation works for Luohu Border Footbridge* (羅湖口岸跨境人行橋); (ii) ventilation and air-conditioning installation works for the new site of Guangzhou Television Station* (廣州電視台); (iii) interior decoration and building intelligent system engineering works for Tower A of Chongqing Publishing & Media Creative Centre* (重慶出版傳媒創意中心); (iv) building decoration works for The University of Hong Kong-Shenzhen Hospital (previously known as Shenzhen Binhai Hospital (深圳濱海醫院)); and (v) curtain wall works for the first phase of Chenggong First Affiliated Hospital of Kunming Medical University (昆明醫學院第一附屬醫院呈貢新區醫院). In 2014, our building decoration project for Shenzhen Binhai Hospital (深圳濱海醫院) was awarded "China Construction Engineering Lu Ban Prize" (中國建設工程魯班獎)" by the Ministry of Construction (建設部) and China Construction Industry Association (中國建築業協會), which is an award for construction work with the highest quality at a national level in the PRC. In recognition of our professional and quality services, we were awarded "National Construction Engineering Decoration Prize" (全國建築工程裝飾獎)" by CBD Association for construction excellence in respect of seven projects undertaken by us during the Track Record Period.

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In order to expand the geographical coverage of our services and enhance our market presence outside Guangdong Province, we have established an extensive service network by setting up 23 branch offices and representative offices in 18 provinces, autonomous regions and municipalities in the PRC. As at the Latest Practicable Date, we had 18 branch offices in major cities and regions across the PRC such as Beijing, Chongqing, Guangzhou, Wuhan, Chengdu, Xining, Yinchuan, Wuxi and Huizhou, and five representative offices in Tianjin, Nanjing, Zhengzhou, Urumqi and Dunhuang. Our widely distributed service network covers Southern China, Eastern China, South-western China, North-western China, Northern China, Central China and North-eastern China, which has allowed us to promptly identify potential and profitable tenders and projects in the local regions and obtain up-to-date market intelligence and industry information, thus enabling us to make well-informed business decisions and capture nationwide market opportunities in an efficient manner. Our service network also allows us to generate quick responses and provide timely support to our existing and prospective customers so that we can better cater for their needs and explore business opportunities.

In order to keep ourselves abreast of the evolving technological advancements in the building decoration industry and differentiate ourselves from our competitors, our Group places great emphasis on research and development. We have a strong research and development team comprising 47 members as at the Latest Practicable Date (of which 37 had duties in other departments), primarily focusing on improving and developing building decoration technologies, work process and materials which we believe will enhance our on-site work efficiency and represent the trend of the building decoration industry. Our Group has obtained more than 60 utility patents in respect of various building decoration technologies in the PRC. During the Track Record Period, our research and development team successfully developed various new technologies and techniques and some of our research and development achievements were awarded "National Award of Technology Innovation Achievements in the Building Decoration Industry*" (全國建築裝飾行業科技創新成果獎) by CBD Association. As a result of our research and development capabilities, initiatives and achievements, since 2013, our Company has been awarded the status as "High and New Technology Enterprise*" (高新技術企業) by relevant PRC governmental authorities and has been enjoying a preferential EIT of 15%. While our certificate of "High and New Technology Enterprise*" (高新技術企業) expired in October 2016, given that (i) we have completed the necessary filings for re-examination of our status as "High and New Technology Enterprise*" (高新技術企業) with the relevant authorities in August 2016; (ii) there has been no major change to the laws and regulations relating to the certification since the last certification; and (iii) our corporate status and research and development credentials have been enhanced since the last certification, our Directors believe that we will continue to be qualified as a "High and New Technology Enterprise*" (高新技術企業) and be granted the preferential EIT treatment upon re-examination of our status as "High and New Technology Enterprise*" (高新技術企業) which is expected to be completed by the relevant authorities in December 2016. According to the Frost & Sullivan Report, as at 31 December 2015, among approximately 24,000 players in the building decoration industry in the PRC, we were one of the 20 building decoration service providers which have been awarded the status as "High and New Technology Enterprise*" (高新技術企業)". For further details of our business strategies in respect of our research and development, please refer to the paragraph headed "Business Strategies – Strengthen our research and development capabilities and establish a research and development laboratory" in this section. For further details of our research and development capabilities and achievements, please refer to the paragraphs headed "Research and Development" and "Awards and Accreditations" in this section.

As part of our comprehensive building decoration services and with the highest level of design qualifications and licences, we also provide customised and professional interior design and curtain wall design services to our customers. Our design team comprised 27 members as at the Latest Practicable Date, primarily focusing on the formulation of design solutions based on customers' requests and specifications. According to the Frost & Sullivan Report, building decoration and design capabilities are complementary to each other and the provision of design services will enhance the

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competitiveness of a building decoration service provider. Since some of the projects require design capabilities as a pre-requisite for tendering, our Directors believe that our qualifications and expertise in the provision of design services will enable us to obtain more contracts, thereby strengthening our market position.

We endeavour to maintain a high standard of quality management, environmental management, occupational health and safety control during the course of project implementation. In recognition of our quality and environmental management system, we have obtained certifications to ISO 9001, GB/T50430 and ISO 14001. Our occupational health and safety management system has also obtained certification to OHSAS 18001. Our Directors believe that an effective quality, environmental, occupational health and safety management system will ensure the high quality of our works, prevent the occurrence of industrial accidents and reduce construction risks, thereby enhancing our customers' confidence in our services and creating a positive corporate image. For some of our customers and potential customers, compliance with workplace safety is one of the assessment criteria in the selection of building decoration service providers, and our Directors believe that a proven track record of compliance and an effective management system will increase our chances in obtaining or winning future contracts.

During the Track Record Period, we achieved considerable growth in our revenue and profit. For each of the three years ended 31 December 2013, 2014 and 2015, our revenue was approximately RMB1,484.6 million, RMB1,479.7 million and RMB1,659.7 million, respectively, representing a CAGR of approximately 5.7%; whereas for each of the six months ended 30 June 2015 and 2016, our revenue was approximately RMB705.2 million and RMB746.2 million, respectively, representing a year-on-year growth of approximately 5.8%. For each of the three years ended 31 December 2013, 2014 and 2015, the profit attributable to equity holders of our Company was approximately RMB61.7 million, RMB79.6 million and RMB100.7 million, respectively, representing a CAGR of approximately 27.7%; whereas for each of the six months ended 30 June 2015 and 2016, the profit attributable to equity holders of our Company was approximately RMB43.6 million and RMB44.3 million, respectively, representing a year-on-year growth of approximately 1.6%.

COMPETITIVE STRENGTHS

Our Directors believe that we possess the following competitive strengths:

We are one of the top 20 building decoration service providers in the PRC.

According to the Frost & Sullivan Report, the building decoration industry in the PRC is highly fragmented with intense regionalisation, and as at 31 December 2015, there were approximately 24,000 players in the building decoration industry in the PRC. We ranked 18th with a market share of 0.07% in the building decoration industry and 6th with a market share of 0.09% in the medical building decoration industry in terms of sales revenue in the PRC in 2015. The medical building decoration sector accounted for 6.1% of the entire China public building decoration market in terms of revenue in 2015. We provide our customers with professional and comprehensive building decoration services. During the Track Record Period, we were engaged in approximately 867 projects (each with a contract value of more than RMB1 million) in the PRC, the total contract value of which amounted to approximately RMB7,380.9 million and among which approximately 169 and 23 projects were each with a contract value of more than RMB10 million and RMB50 million, respectively. Some of the notable building decoration projects we completed over the years or that are on-going include: (i) air-conditioning installation works for Luohu Border Footbridge* (羅湖口岸跨境人行橋); (ii) ventilation and air-conditioning installation works for the new site of Guangzhou Television Station* (廣州電視台); (iii) interior decoration and building intelligent system engineering works for Tower A of Chongqing Publishing & Media Creative Centre* (重慶出版傳媒創意中心); (iv) building decoration works for The University of Hong Kong-Shenzhen Hospital (previously known as Shenzhen Binhai Hospital (深圳濱海醫院)); and (v) curtain wall works for the first phase of Chenggong First Affiliated Hospital of Kunming Medical University (昆明醫學院第一附屬醫院呈貢新區醫院). For further details of our completed and

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on-going projects, please refer to the paragraph headed "Our Business Operations – Our projects" in this section. We believe our successful completion of these projects has enhanced our reputation in the industry and given us a competitive edge in securing new projects and business opportunities in both public and private sectors. Owing to our commitment to deliver quality works on time and within budget and our substantial industry experience, we often receive invitations to bid for new projects.

Our professional and quality services have been well recognised in the building decoration industry in the PRC. We were recognised by CBD Association and China Construction News (中華建築報社) as "Top 100 Enterprises in the PRC Building Decoration Industry*" (中國建築裝飾行業百強企業)" for 11 consecutive years during the period from 2004 to 2014. In 2014, our building decoration project for The University of Hong Kong-Shenzhen Hospital (previously known as Shenzhen Binhai Hospital (深圳濱海醫院)) was awarded "China Construction Engineering Lu Ban Prize*" (中國建設工程魯班獎) by the Ministry of Construction (建設部) and China Construction Industry Association (中國建築業協會), which is an award for construction work with the highest quality at a national level in the PRC. We were awarded "China Construction Engineering Decoration Prize*" (全國建築工程裝飾獎) by CBD Association in respect of seven projects undertaken by us during the Track Record Period. In addition, in 2014, we were awarded "Star Enterprise of National Construction Engineering and Decoration Award*" (全國建築工程裝飾獎明星企業)" by CBD Association and our brand name "Adway (愛得威)" was recognised as "Shenzhen Top Brand*" (深圳知名品牌)" by Shenzhen Top Brand Evaluation Committee (深圳知名品牌評價委員會). Please refer to the paragraph headed "Awards and Accreditations" in this section for further details of the awards granted to our Group.

In addition, our broad scope of services has allowed us to attract customers in both public and private sectors and undertake building decoration projects for various types of buildings and properties, such as commercial buildings, office buildings, industrial buildings, residential buildings, public buildings and infrastructure, and hotels. Our Directors believe that our diversified clientele will broaden our sources of revenue and prevent us from over-relying on a particular customer, thereby minimising our operational risks.

We believe that our proven track record and solid reputation in the industry have well positioned us to capture new business opportunities in the building decoration industry, which will continue to enhance our market position in the PRC.

We possess a broad range of the highest level of qualifications and licences and provide our customers with a broad scope of building decoration services.

Our Group possesses a broad range of the highest level of qualifications and licences in the building decoration industry in the PRC, including Grade I Professional Contractor of Building Renovation and Decoration Engineering* (建築裝修裝飾工程專業承包壹級), Grade A Professional Building Decoration Engineering and Design* (建築裝飾工程設計專項甲級), Grade I Professional Contractor of Curtain Wall Engineering* (建築幕牆工程專業承包壹級), Grade A Professional Curtain Wall Engineering and Design* (建築幕牆工程設計專項甲級), Grade I Professional Contractor of Electrical and Mechanical Installation and Engineering* (機電設備安裝工程專業承包壹級), Grade I Professional Contractor of Building Intelligent Engineering* (建築智能化工程專業承包壹級), Grade I Professional Contractor of Fire Safety Equipment Engineering* (消防設施工程專業承包壹級) and Work Safety Licence* (安全生產許可證). In addition, we also possess the Permit for Operating Medical Equipment* (醫療器械經營企業許可証) which is essential for undertaking building decoration projects for hospitals and medical institutions in the PRC. Owing to the broad range of qualifications and licences we possess, we are able to undertake a wide variety of projects, ranging from building decoration projects, electrical and mechanical installation projects, curtain wall engineering projects, fire safety engineering projects to general building decoration projects.

As a professional building decoration service provider, our scope of services ranges from project planning, project design, procurement of raw materials, project implementation, quality management,

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and after-sales services. Our capabilities, coupled with our broad range of highest qualifications and licences, have allowed us to offer a comprehensive range of building decoration services to our customers, which reduces their need to engage multiple contractors in completing a project. In addition, due to such broad range of highest qualifications and licences, we are qualified to submit tenders for a wide range of projects in both public and private sectors. Our Directors believe that our ability to carry out a diversified scope of building decoration works has broadened our sources of revenue and customer base, thus supporting our continuous business growth and development.

We have an extensive service network in the PRC.

While we are headquartered in Shenzhen, we have established an extensive service network in the PRC by setting up 23 branch offices and representative offices in 18 provinces, autonomous regions and municipalities. As at the Latest Practicable Date, we had 18 branch offices in major cities and regions across the PRC such as Beijing, Chongqing, Guangzhou, Wuhan, Chengdu, Xining, Yinchuan, Wuxi and Huizhou, and five representative offices in Tianjin, Nanjing, Zhengzhou, Urumqi and Dunhuang, covering Southern China, Eastern China, South-western China, North-western China, Northern China, Central China and North-eastern China. Our branch offices and representative offices are mainly responsible for sales and marketing, identifying potential projects and business opportunities, gathering the latest market information, and liaising with our customers. We believe that the strategic location of our branch offices and representative offices has allowed us to promptly identify potential business opportunities and has facilitated us in obtaining projects where local presence or establishment is a pre-requisite. The market intelligence and industry information obtained by our regional offices has also enabled us to formulate competitive tenders. In addition, we are able to maintain close contact with our existing and prospective customers and provide timely technical support and assistance to them, thereby allowing us to better cater for the needs of our customers and increasing their confidence in our services.

Please see below a map showing our service network in the PRC:



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For more analysis in relation to our projects by geographical region, please refer to the paragraph headed "Sales and Marketing" in this section for further details. We believe that our widely distributed service network has successfully enabled us to capture new business opportunities throughout the PRC in a timely manner, which will expand our market share, solidify our market position, and allow us to further penetrate into second-tier and third-tier cities in the PRC.

We have strong research and development capabilities.

Our Group places great emphasis on research and development. We have a strong research and development team comprising 47 members as at the Latest Practicable Date (of which 37 had duties in other departments), primarily focusing on improving and developing building decoration technologies, work process and materials which we believe will enhance our on-site work efficiency and represent the trend of the building decoration industry. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our research and development expenditure amounted to approximately RMB48.5 million, RMB50.4 million, RMB64.5 million and RMB26.2 million, respectively.

Our Group has obtained more than 60 utility patents in respect of various building decoration technologies in the PRC. During the Track Record Period, our research and development team successfully developed various new technologies and techniques, including a remote monitoring system installed and used in power substations* (一種變配電安裝使用的遠程監控系統), a multifunctional smart monitoring and management system for garages* (一種多功能智能車庫監控管理系統), a type of curtain wall for construction purposes with embedded solar panels* (一種太陽能與建築一體化玻璃幕牆), and disinfection apparatus in operating theatres* (用於手術室消毒設備). Some of our research and development achievements have been awarded "National Award of Technology Innovation Achievements in the Building Decoration Industry*" (全國建築裝飾行業科技創新成果獎)". Our Directors believe that our strong research and development capabilities will enable us to keep ourselves abreast of the evolving technological advancements in the building decoration industry and differentiate ourselves from our competitors, thereby strengthening our market position. For further details of our research and development capabilities and achievements, please refer to the paragraphs headed "Research and Development" and "Awards and Accreditations" in this section.

In addition, as a result of our research and development capabilities, initiatives and achievements, since 2013, our Company has been awarded the status as "High and New Technology Enterprise*" (高新技術企業)" by relevant PRC governmental authorities and has been enjoying a preferential EIT of 15%. According to the Frost & Sullivan Report, as at 31 December 2015, among approximately 24,000 players in the building decoration industry in the PRC, we were one of the 20 building decoration service providers which have been awarded the status as "High and New Technology Enterprise*" (高新技術企業)".

We have a dedicated management team with extensive industry experience and a team of experienced project managers.

We are led by an experienced and dedicated management team, which has strong technical expertise and substantial experience in, and in-depth knowledge of, the building decoration industry in the PRC. Our Executive Directors have an average of approximately 10 years of experience in the building decoration industry. In particular, Mr. Ye Yujing, the founder of our Group, our Chairman and one of our Executive Directors, has more than 28 years of experience in the civil engineering and construction industries, and his substantial experience and strong leadership are well recognised in the industry. Mr. Ye was awarded as "National Outstanding Entrepreneur of Building Decoration Industry*" (全國建築裝飾行業優秀企業家)" by CBD Association in December 2009. Please refer to the section headed "Directors, Supervisors and Senior Management" for more information on the experience and qualifications of our Executive Directors and members of our senior management.

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In addition, our projects are generally managed by our experienced project managers. As at the Latest Practicable Date, we had more than 110 project managers overseeing our projects and more than 40 of them had more than five years of relevant industry experience. Over the years, more than 15 of our project managers had been awarded as "National Outstanding Project Manager of Building Decoration Industry* (全國建築裝飾行業優秀項目經理)" by CBD Association.

We believe that our management team's extensive industry experience and knowledge will enable us to formulate competitive tenders, manage and implement our projects effectively, and control the costs of our projects. In addition, the industry insight and strategic vision of our management team will allow us to develop sustainable business strategies and seize market opportunities, thereby strengthening our presence in the industry. We further believe that the close supervision by our experienced project managers over our projects will allow us to consistently deliver quality works to our customers in a timely manner and ensure that our works comply with the regulatory and contractual requirements.

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In order to achieve sustainable growth in our business and increase long-term shareholder value, we will continue to actively seek business opportunities in the building decoration industry in both private and public sectors in the PRC. Our strategies to achieve our business goals include the following:

Further expand our service network in the PRC and continue to expand our existing business

During the Track Record Period, we were engaged in approximately 867 projects (each with a contract value of more than RMB1 million) in the PRC, the total contract value of which amounted to approximately RMB7,380.9 million and among which approximately 169 and 23 projects were each with a contract value of more than RMB10 million and RMB50 million, respectively. According to the Frost & Sullivan Report, the steady growth of the PRC economy, the expected increase and enhanced governmental support in investment in real estate and infrastructure, and the need to carry out building decoration renewal and upgrading works once every few years will continue to drive the development and growth of the building decoration industry in the PRC. According to the Frost & Sullivan Report, the public building decoration market in the PRC has experienced continuous and considerable growth at a CAGR of 14.2% from 2010 to 2015, and is expected to further expand at a CAGR of 16.9% from 2016 to 2019. As the PRC building decoration industry continues to evolve and become mature, we believe we will have ample opportunities to expand our business operations in the future.

While we are headquartered in Shenzhen, Guangdong Province, our revenue during the Track Record Period was derived from various regions across the PRC, including Southern China, Eastern China, South-western China, North-western China, Northern China, Central China, and North-eastern China. Please refer to the paragraph headed "Sales and Marketing" in this section for further details of our total revenue derived from building decoration contracts during the Track Record Period by geographical region.

In order to seize market opportunities and strengthen our position in the building decoration industry in the PRC, we intend to further expand the geographical coverage of our services. We intend to establish up to 15 branch offices in cities and regions such as Shanghai, Wenzhou, Ganzhou, Guizhou Province and Guangxi Province to capture growth potential of the building decoration industry in these cities and regions. With our substantial experience and solid reputation in the industry, our Directors believe that we will be able to penetrate into more second-tier and third-tier cities in the PRC, which our Directors believe will experience significant business growth in the near future. We also intend to optimise our branch network by upgrading all of our five existing

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representative offices in Tianjin, Nanjing, Zhengzhou, Urumqi and Dunhuang to branch offices. Our Directors believe that the upgrade from representative offices to branch offices will not only enhance the confidence of our existing and prospective customers, by reason that branch offices will be registered with the local authorities, but also increase the number of potential projects that our Group is able to undertake as having a local branch office is a pre-requisite for tendering in some cities in the PRC.

Our Directors believe that, after [REDACTED], our market presence will be significantly enhanced and we will have more resources and capacity to undertake more building decoration projects, thereby allowing us to capture future business opportunities and strengthening our market position in the building decoration industry in the PRC. Our Directors further believe that such a [REDACTED] platform and our enhanced brand image will allow us to reach out to more customers in the PRC, expand our business locally, and enable us to undertake more building decoration and engineering projects for new real estate developments.

We intend to utilise approximately HK\$[REDACTED], which includes approximately HK\$[REDACTED], representing [REDACTED]% of the [REDACTED] from the [REDACTED], to further expand our service network in the PRC as well as optimise our branch network. The remaining balance is intended to be financed by our internal resources generated from business operations and obtained from external sources such as bank borrowings. The expansion of our service network and the upgrade of our existing representative offices are expected to be carried out in stages in four years' time. The amount designated for the expansion of our service network is approximately HK\$[REDACTED] and the average cost for the establishment of each branch office is approximately HK\$[REDACTED]. The amount designated for the upgrade of our existing representative offices is approximately HK\$[REDACTED] and the average cost for the upgrade of each representative office is approximately HK\$[REDACTED].

Establish an internal online platform for central procurement of raw materials and a logistics centre to facilitate the storage and delivery of raw materials

A significant portion of our cost of sales is composed of costs relating to raw materials. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the costs of raw materials and consumables used amounted to approximately RMB813.1 million, RMB810.8 million, RMB924.5 million and RMB432.7 million, respectively, representing approximately 61.2%, 61.6%, 63.2% and 66.1% of our total cost of sales, respectively.

In order to effectively reduce the costs of raw materials and maintain our profit margins in our projects, we have established a central procurement system for the purchase of our major raw materials. To further manage the costs of raw materials and enhance our effectiveness in the procurement process, we intend to internally develop an internal online supply-chain management platform which aims to serve as a centralised procurement online platform for our existing and prospective suppliers, and a logistics centre to facilitate the storage and delivery of raw materials.

Our Directors believe that the online platform and the logistics centre will enhance and contribute to our business operations in the following aspects:

(i) *Enhancing procurement flexibility*

Through the use of the online platform, our project management team will be able to utilise different procurement channels to cater for the actual needs of different projects. We will enjoy greater flexibility in logistics and payment arrangements, as well as in respect of the quantity and types of raw materials to be purchased. With such flexibilities, our Directors believe that the efficiency of our procurement process will be enhanced.

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(ii) Reducing operational costs

Through the use of the online platform, the logistics arrangements in relation to the procurement and delivery of raw materials will be centralised. The logistics centre, which will be used for storage and as a transfer hub of raw materials, will enable us to efficiently coordinate and manage the delivery of raw materials to our project sites located in different cities and regions across the PRC, thus ensuring cost-savings.

In addition, the online platform will enable us to conveniently specify the specifications and quantity of the raw materials we intend to procure, set out our expected delivery schedule, and review and compare the quotations submitted by our suppliers. The online platform will simplify the logistics arrangements, payment mechanism and clearance procedures of the procurement of raw materials, thereby reducing our operational costs and enhancing our control in the supply-chain of our business.

(iii) Enhancing our cash flow management

The online platform will allow us to carry out large-scale procurement of raw materials and manage and obtain latest information of our purchases. Our Directors believe that this will enhance our cash flow management and shorten our cash flow turnaround time. The online platform and the centralised procurement process will also reduce our use of project reserve funds as well as the amount of project reserve funds provided to our project managers, since our project management team will be required to make use of the online platform for procurement of and/or request for ad hoc raw materials.

Our Directors believe that the online platform will allow us to not only obtain a more favourable price from our suppliers through centralised bulk purchases, thereby effectively managing the costs of raw materials and maintaining our profit margins, but also deploy our internal resources more efficiently.

We intend to utilise approximately HK\$[REDACTED], which includes approximately HK\$[REDACTED], representing [REDACTED]% of the [REDACTED] from the [REDACTED], to establish an internal online supply-chain management platform. The remaining balance is intended to be financed by our internal resources generated from business operations and obtained from external sources such as bank borrowings. The online platform and the logistics centre are expected to be completed in stages in four years' time and construction of the logistics centre is expected to commence in 2017. The estimated amount of annual depreciation expenses is approximately HK\$[REDACTED]. Out of the total expected expenses of approximately HK\$[REDACTED], approximately HK\$[REDACTED], HK\$[REDACTED], HK\$[REDACTED] and HK\$[REDACTED] will be utilised as procurement prepayment, construction costs of the logistics centre, development costs and operating expenses of the online platform, respectively.

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We will utilise our parcel of land in Huizhou, Guangdong Province, the PRC for the construction of the logistics centre. The size of the land is approximately 39,406.3 sq. m. The following table sets out the breakdown of the construction costs of the logistics centre:

	2018	2019	2020
	(HK\$ million)	(HK\$ million)	(HK\$ million)
Costs			
Construction	11.3	24.4	24.4
Purchase of equipment	7.2	45.1	18.1
Total	<u>18.5</u>	<u>69.5</u>	<u>42.5</u>

Strengthen our research and development capabilities and establish a research and development laboratory

As a result of our research and development capabilities, initiatives and achievements, since 2013, our Company has been awarded the status as a "High and New Technology Enterprise*" (高新技術企業) by relevant PRC governmental authorities and has been enjoying a preferential EIT of 15%. According to the Frost & Sullivan Report, as at 31 December 2015, among approximately 24,000 players in the building decoration industry in the PRC, we were one of the 20 building decoration service providers which have been awarded the status as "High and New Technology Enterprise*" (高新技術企業). For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our research and development expenditure amounted to approximately RMB48.5 million, RMB50.4 million, RMB64.5 million and RMB26.2 million, respectively, representing 3.3%, 3.4%, 3.9% and 3.7% of our total revenue, respectively.

Due to increasing awareness of environmental protection in the PRC in recent years, our customers are beginning to request for the use of materials that are safer and more environmentally friendly when we carry out our building decoration works. In order to respond to changes in customer preferences and anticipate the trend of the building decoration industry, we intend to strengthen our research and development capabilities, with a particular focus on the research and development of (i) materials, work techniques and procedures that are safer and more environmentally friendly; and (ii) cutting-edge and innovative technologies that will enhance our work efficiency and the quality of our works. In addition, we intend to enhance the synergies between the new products and technologies developed by us and our on-site application of such products and technologies. Our Directors believe that all of the above will serve to promote the corporate image of our Group and enhance the overall competitiveness of our services.

In order to achieve these purposes, we intend to establish a research and development laboratory in our headquarters, which will act as a hub of research and development, standardised management and engineering solutions formulation. The research and development laboratory is expected to be completed in four years' time and its construction is expected to commence in 2017 after obtaining all requisite licences and approvals. In preparation for the establishment of the research and development laboratory, our Group intends to attract and recruit more experienced professionals with expertise in the research and development in the building decoration industry, as well as improve our existing research and development hardware. We will also seek research and business collaboration opportunities in respect of building decoration with universities and institutions in the PRC.

We intend to utilise approximately HK\$[REDACTED], which includes approximately HK\$[REDACTED], representing [REDACTED]% of the [REDACTED] from the [REDACTED], to strengthen our research and development capabilities and establish a research and development

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laboratory. The remaining balance is intended to be financed by our internal resources generated from business operations and obtained from external sources such as bank borrowings. The amount designated for strengthening our research and development capabilities, the establishment and the operating expenses of the research and development laboratory is approximately HK\$[REDACTED], HK\$[REDACTED] and HK\$[REDACTED], respectively. The estimated amount of annual depreciation expenses of the research and development laboratory is approximately HK\$[REDACTED].

Strengthen our internal design capabilities

Our Group possesses Grade A Professional Building Decoration Engineering and Design* (建築裝飾工程設計專項甲級) and Grade A Professional Curtain Wall Engineering and Design* (建築幕牆工程設計專項甲級). These qualifications and licences allow us to undertake interior, exterior design and curtain wall design works without limitations on the contract value.

Our design team comprised 27 members as at the Latest Practicable Date. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the contribution of revenue from our design and other income amounted to approximately RMB7.5 million, RMB8.0 million, RMB12.9 million and RMB4.1 million, respectively, representing 0.5%, 0.5%, 0.8% and 0.6% of our total revenue, respectively. In order to better cater for the needs of our customers and make full use of our design qualifications and licences, we intend to strengthen our in-house design capabilities by upgrading our design system and recruiting more design professionals. Our Directors believe that, with our enhanced in-house design capabilities, we will be able to offer a wider variety of interior and building decorative styles and designs to our customers, which will enable us to attract more customers and obtain more design projects. Our Directors believe that all these will enhance our performance and increase our income from our design services, thereby enabling us to strengthen our market position and maintain our competitiveness in the building decoration industry in the PRC.

We intend to utilise approximately HK\$[REDACTED], which includes approximately HK\$[REDACTED], representing [REDACTED]% of the [REDACTED] from the [REDACTED], to strengthen our in-house design capabilities. The remaining balance is intended to be financed by our internal resources generated from business operations and obtained from external sources such as bank borrowings.

Enhance the efficiency of our internal IT system

Our Directors believe that the upgrade of our internal integrated IT infrastructure for business management is essential for the improvement of our efficacy and management, as well as for the reduction of operational costs. In order to manage our projects more efficiently, we plan to improve and upgrade our internal integrated IT infrastructure for business management, including our enterprise office automation system, remote project scheduling and management system, accounting system, and information system for engineering design. Our Directors believe that such improvements and upgrades will significantly contribute to the improvement of our management capabilities.

We intend to utilise approximately HK\$[REDACTED], representing [REDACTED]% of the [REDACTED] from the [REDACTED], to enhance the efficiency of our internal IT system.

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OUR BUSINESS OPERATIONS

Scope of services

We provide our customers with building decoration services, which mainly cover four areas: (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works. Apart from our building decoration services, we offer customised interior design and curtain wall design services.

Set out below are further details of our building decoration services:

(i) Building decoration works

Our building decoration works generally include (i) plastering, painting and finishing works; (ii) installation of decorative panels and tiles, and papering works; (iii) flooring decoration and ceiling works; (iv) installation of doors, windows and light partitions works; and (v) minor decoration works.

(ii) Electrical and mechanical installation works

Our electrical and mechanical installation works generally cover (i) supply, installation and maintenance of power supply, lighting and earthing systems; (ii) supply and installation of switchboards, power outlets and related electrical equipment and accessories; (iii) supply, installation and maintenance of air-conditioning, heating, mechanical ventilation and exhaust air systems; and (iv) design of electrical and mechanical systems. We also ensure that such systems meet the requirements of our customers and comply with the relevant safety standards.

(iii) Curtain wall engineering works

Curtain walls constitute the exterior structure of a building and are generally made of granite, glass facades, aluminium extrusions and other cladding materials. Our curtain wall engineering works generally cover (i) assembly of curtain wall products based on the design drawings; and (ii) installation and fixing of curtain wall panels and other related components on various types of buildings through the use of installation equipment.

(iv) Fire safety engineering works

Our fire safety engineering works generally cover the supply, installation and maintenance of fire prevention and fire-fighting systems in various buildings, such as sprinklers, fire hydrants, hose reels, fire detectors and alarms, gas extinguishing systems and intelligent fire safety systems. We also ensure such systems meet the applicable fire safety requirements and standards.

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Our projects

Our projects encompass a wide range of building and property types in the PRC, including commercial buildings, office buildings, industrial buildings, residential buildings, public buildings and infrastructure, and hotels. The following table sets out a breakdown of our revenue derived from construction contracts during the Track Record Period by building and property type:

	For the year ended 31 December						For the six months ended 30 June 2016	
	2013		2014		2015		30 June 2016	
	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%
Commercial buildings ^{(1)#^}	338.8	23.1	337.2	23.0	598.9	36.6	419.8	56.6
Office buildings [#]	283.4	19.3	238.1	16.2	110.2	6.7	81.9	11.0
Industrial buildings [#]	158.6	10.8	130.4	8.9	168.0	10.3	80.8	10.9
Residential buildings ^{(2)#}	243.1	16.6	317.4	21.6	377.5	23.0	43.7	5.9
Public buildings and infrastructure ^{(3)#}	184.2	12.6	278.7	19.1	131.0	8.0	42.9	5.8
Hotels [#]	131.0	8.9	64.4	4.4	110.1	6.7	14.6	2.0
Miscellaneous contracts ^Δ	127.8	8.7	100.8	6.8	142.5	8.7	58.4	7.8
Total	1,466.9	100.0	1,467.0	100.0	1,638.2	100.0	742.1	100.0

Notes:

⁽¹⁾ Commercial buildings include shopping malls, department stores, bank buildings and exhibition centres, etc.

⁽²⁾ Residential buildings refer to the public or common areas in residential properties.

⁽³⁾ Public buildings and infrastructure include hospitals, educational institutions, cultural centres, recreational facilities and public transport infrastructure, etc.

[#] Contracts under this category are each of a contract value of more than RMB1 million.

^Δ Miscellaneous contracts refer to contracts each of a contract value of less than RMB1 million.

[^] Revenue from commercial building projects increased significantly for the six months ended 30 June 2016 due to the recognition of revenue in the amount of approximately RMB133.2 million, RMB61.1 million and RMB46.4 million, respectively, for three commercial building projects located in Shandong Province, Shenzhen and Guangdong Province.

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During the Track Record Period, we were engaged in approximately 867 projects (each with a contract value of more than RMB1 million) in the PRC, the total contract value of which amounted to approximately RMB7,380.9 million and among which approximately 169 and 23 projects were each with a contract value of more than RMB10 million and RMB50 million, respectively. The following table sets out the five largest projects that we completed during the Track Record Period:

No.	Customer profile	Scope of works	Location	Project completion	Approximate contract period ⁽¹⁾ (months)	Approximate contract value (RMB million)
1.	A PRC company engaging in property management and marketing activities	Fire safety engineering works for an exhibition centre	Zhongshan	November 2014	4	61.8
2.	A PRC company engaging in the investment, development, operation and management of cruise ships	Decoration works for a cruise ship	Chongqing	June 2014	7	61.8
3.	A PRC company engaging in the provision of electrical and mechanical installation services and steel structure fabrication and installation services	Ventilation and air-conditioning installation works for an office building	Guangzhou	September 2015	5	57.1
4.	A PRC hospital	Curtain wall and steel structure installation works for a medical building	Chongqing	September 2015	6	55.1
5.	A PRC hospital	Interior decoration works for an education building of a hospital	Chongqing	October 2015	6	45.7

Note:

⁽¹⁾ *The actual time required to complete a project may differ significantly from the contract period.*

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The following table sets out the five largest projects that were ongoing as at the Latest Practicable Date:

No.	Customer profile	Scope of works	Location	Expected completion	Approximate contract period ⁽¹⁾ (months)	Approximate contract value (RMB million)
1.	A PRC property developer	Various works including curtain wall engineering, electrical and mechanical installation, fire safety engineering and interior decoration works for a commercial building	Linyi	December 2017	N/A ⁽²⁾	312.0
2.	A PRC company engaging in the sale of automobiles	Interior building decoration works for a commercial building	Shenzhen	June 2017	11	150.0
3.	A PRC construction company	Various works including curtain wall engineering, air-conditioning installation and fire safety engineering works for a shopping mall	Shenzhen	December 2016	8	131.6
4.	A PRC company engaging in the provision of convention and exhibition services	Fire safety engineering works for a multi-purpose building	Zhongshan	March 2017	7.5	117.0
5.	A PRC company engaging in the development, sale and leasing of properties	Interior decoration and building intelligent system engineering works for an office building	Chongqing	December 2016	5	95.2

Notes:

⁽¹⁾ The actual time required to complete a project may differ significantly from the contract period.

⁽²⁾ No contract period was specified in the relevant contract.

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As at 30 September 2016, our Group had approximately 446 projects on hand (each of contract value of more than RMB1 million), the total contract value of which was approximately RMB4,485.6 million. The revenue of the projects on hand expected to be recognised for the year ending 31 December 2016 is approximately RMB1,312.7 million. The table below sets out the details of our projects on hand, each of a contract value of more than RMB1 million, as at 30 September 2016:

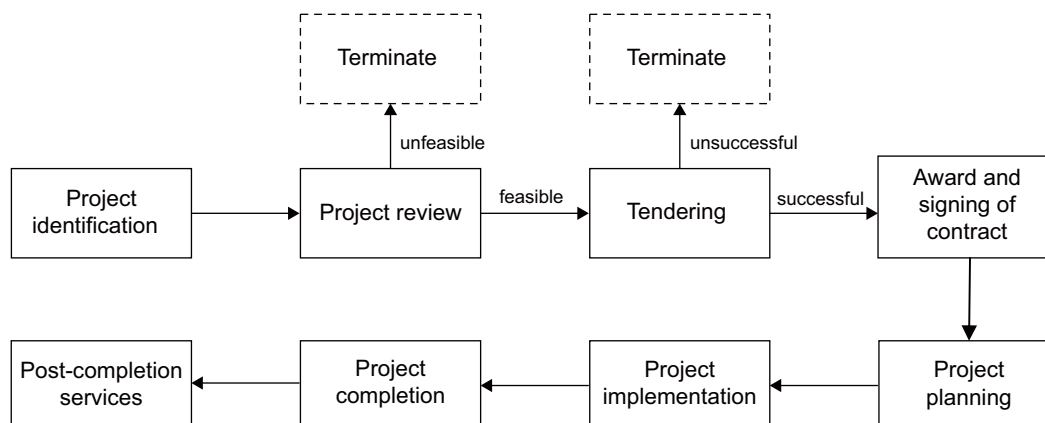
	Number of projects on hand	Contract value RMB (million)	Revenue recognised up to	Revenue expected to be recognised for the year ending	Percentage of completion as at 30 September 2016 ⁽⁴⁾	Expected percentage of completion as at 31 December 2016
			30 September 2016 RMB (million)	31 December 2016 RMB (million)		
Commercial buildings ⁽¹⁾	126	1,639.5	1,301.1	830.0	79.4	87.9
Office buildings	60	594.3	445.1	164.2	74.9	80.8
Industrial buildings	57	341.2	273.4	125.2	80.1	86.1
Residential buildings ⁽²⁾	108	938.0	710.7	79.8	75.8	79.2
Public buildings and infrastructure ⁽³⁾	79	674.0	499.2	78.6	74.1	78.7
Hotels	16	298.6	194.1	34.9	65.0	71.3
Total	446	4,485.6	3,423.6	1,312.7	76.3	82.5

Notes:

- (1) Commercial buildings include shopping malls, department stores, bank buildings and exhibition centres, etc.
- (2) Residential buildings refer to the public or common areas in residential properties.
- (3) Public buildings and infrastructure include hospitals, educational institutions, cultural centres, recreational facilities and public transport infrastructure, etc.
- (4) The percentage represents the quotient of the revenue recognised up to 30 September 2016 divided by the contract value of the relevant category of projects.

Project workflow

The key steps of our project workflow are as follows:



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We have established a comprehensive project management system covering the entire process of building decoration projects. We track and identify potential projects and business opportunities in advance of the tendering process through the information collection by our extensive sales and marketing network. The process from award of a contract to completion of the building decoration works takes three months to two years, with most of them generally taking less than one year, depending on a variety of factors, including size of the building decoration area, technical features and complexity of the building decoration works involved, and timelines specified by our customers.

(i) Project identification

We identify potential projects through the market intelligence and information gathered by our sales and marketing department. We generally become aware of tenders through publicly available sources such as governmental procurement websites, websites and announcements of trading centres and tender agents, and notices in the official websites of our customers from the private sector. In addition, we often receive invitations for tenders or request for quotations from customers who had previously engaged us or by referral.

(ii) Project review

Once we identify a potential project, our business development personnel, our business manager and our technical department will make an assessment as to whether to proceed for approval by our supervising vice-president. In our assessment, we will consider various factors, including: (i) profitability of the project; (ii) scope of works; (iii) our business strategies; (iv) our qualifications, capacity and available resources; and (v) fees chargeable. In addition, we will analyse the feasibility and risks of undertaking the project with reference to the features and technical requirements of the project.

(iii) Tendering

If we decide to submit a bid, we will form a tender team, typically comprising members of our project management team, budget team, quality and safety team and engineering team. The tender team will be responsible for preparing the tender proposal, which will generally set out our target profitability and include details relating to the costs of raw materials and labour.

During the course of tender review by our customers, we may be required to attend interviews or participate in discussions with our customers. In some circumstances, we may need to revise our tender proposal based on recommendations or comments from our customers.

Pricing strategy

Our service fees are generally determined on a cost plus margin basis, taking into consideration the preliminary quotations obtained from our raw material suppliers and the licensed labour agencies. As the fees charged by us under a contract are generally fixed with limited price adjustment mechanism (e.g. in circumstances such as when our customers request for variation in the scope of works or in the quantity or specifications of materials to be used in the project), we may need to bear the risks of increased costs during the course of project implementation. To mitigate the risks of cost fluctuations, we carefully consider our tender price and generally take into account a number of factors in deciding our proposed tender price, including: (i) prevailing market reference prices; (ii) our recent project quotations; and (iii) quotations for similar projects.

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Tender success rate

The following table sets out the approximate number and contract value of tenders submitted and contracts awarded to our Group during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June 2016	
	2013		2014		2015		Number	Contract value
	Number	Contract value	Number	Contract value	Number	Contract value		
		RMB (million)		RMB (million)		RMB (million)		RMB (million)
Tenders submitted	2,905	5,132.3	2,497	5,033.8	2,625	5,899.9	1,065	2,332.6
Contracts awarded	1,148	1,392.0	1,080	1,409.1	1,186	1,741.5	492	637.4
Success rate ⁽¹⁾	<u>39.5%</u>	<u>27.1%</u>	<u>43.3%</u>	<u>28.0%</u>	<u>45.2%</u>	<u>29.5%</u>	<u>46.2%</u>	<u>27.3%</u>

Note:

⁽¹⁾ The tender success rate is an approximate percentage calculated for illustration purpose by dividing the number or value of contracts awarded by the number or value of tenders submitted during the relevant year or period.

During the Track Record Period, almost all of our revenue was derived from construction contracts which were awarded to us on successful tenders.

(iv) Award and signing of contract

In general, the process from submitting a tender to the award of a contract takes approximately two to six weeks. We will enter into a formal contract with our customers upon being successful in our tender. The contracts with our customers generally contain terms relating to the scope of services, contract period, contract price, payment terms, and defect liability period. Some of our customers may require us to provide performance bonds. Please refer to the paragraph headed "Our Customers – General terms of contracts with customers" in this section for further details.

(v) Project planning

Formation of project management team

Once we are awarded with a contract, we will appoint a project manager and form a project management team. Based on the experience of our management, the size of our project management team will depend on the scope of services, complexity of the project and our available resources. The project management team will be led by the project manager and typically consist of a technical director, construction officer, quality officer, material officer, cost officer and safety officer.

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The following table sets out the major responsibilities and duties of each key member of the project management team:

Key member	Major responsibilities and duties
Project manager	<ul style="list-style-type: none">• Responsible for overall project management and coordination• Monitoring the implementation and progress of the project• Overseeing the implementation of the quality and safety management systems• Liaising with customers
Technical director	<ul style="list-style-type: none">• Participating in the formulation of construction plan, technical measures and quality requirements and supervising the implementation thereof• Reviewing construction drawings• Providing technical support and resolving technical issues• Participating in quality inspections
Construction officer	<ul style="list-style-type: none">• Assisting the project manager in supervising and monitoring the quality of works• Participating in quality inspections
Quality officer	<ul style="list-style-type: none">• Responsible for the implementation of national technical standards, quality inspection and evaluation standards, and quality control measures• Performing quality inspections on incoming raw materials• Conducting regular quality inspections on worksites• Investigating, analysing and reporting all quality issues
Material officer	<ul style="list-style-type: none">• Formulating a raw material requirements plan• Performing quality inspections on incoming raw materials
Cost officer	<ul style="list-style-type: none">• Controlling the cost of the project and ensuring that the project will be completed within budget
Safety officer	<ul style="list-style-type: none">• Promoting safety awareness on worksites• Performing safety checks on worksites• Carrying out accident investigations

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Preparation of project plans and designs

Prior to commencement of a project, the project management team will conduct on-site visit and formulate a construction plan. The construction plan will include details relating to the execution and implementation of the project, such as scope of works, work schedules, construction methods and procedures, manpower planning, allocation of work duties, quality standards and control, safety planning, and site layout.

In addition to our building decoration services, we may provide interior design and curtain wall design services to our customers upon request. If we undertake project design works, we will prepare design drawings based on project specifications and requirements for our customers' review and approval.

Procurement of raw materials

The raw materials required for our projects are normally sourced through our suppliers in the PRC. Please refer to the paragraph headed "Our Suppliers" in this section for further details of our suppliers.

The project management team will, based on the construction plan and the construction drawings, formulate a raw material requirements plan, which will specify the quantity, brand, model number and specifications of the raw materials to be purchased. Our procurement department will, in accordance with the raw material requirements plan, obtain quotations from at least three suppliers and the manager of our procurement department will review the quotations. Upon confirming the selection of supplier, we will submit a purchase order to the supplier.

All raw materials purchased will be directly delivered to the relevant worksites. The material officer and the quality officer will perform quality inspection on the raw materials to ensure that their specifications, appearance and functionality meet our standards and requirements.

Engagement of licensed labour agencies

Similar to many building decoration service providers in the PRC, in order to maintain a stable supply of skilled workers, enhance the cost-effectiveness of our projects and achieve a higher degree of operational flexibility, we generally engage licensed labour agencies in the PRC which will provide us with sufficient number of workers to complete the works as specified in the relevant contracts. Based on the experience of our management, the number of workers required for a project generally depends on the complexity of works, the size of the building decoration area and the target completion date. Please refer to the paragraph headed "Our Arrangements with Licensed Labour Agencies" in this section for further details.

Engagement of temporary workers

We also engage temporary workers to assist our workers sourced from licensed labour agencies. Please refer to the paragraph headed "Our Arrangements with Temporary Workers" in this section for further details.

Provision of project reserve funds

In order to facilitate our project managers in managing their projects efficiently and flexibly, during the Track Record Period, in respect of projects located outside Shenzhen, our Group provided project reserve funds to our project managers, the amount of which depended on the contract value and the size of the project. Such project reserve funds were used by our project managers for limited

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purposes, in urgent situations and based on project progress strictly in compliance with our internal policies for application of project reserve funds, mainly including: (i) procurement of ad hoc and piecemeal raw materials and engagement of temporary workers; and (ii) payment of other ad hoc and miscellaneous expenses. According to the Frost & Sullivan Report, the provision of project reserve funds to project managers in the course of the implementation of construction projects is an industry norm of the building decoration industry in the PRC, the practice of which is also adopted by other leading industry participants such as Suzhou Gold Mantis and Yasha.

Although there had not been any incident of misappropriation of project reserve funds during the Track Record Period, in order to pave our way for a more centralised procurement system of raw materials, enhance our internal control over the use of our financial resources and ensure that the project reserve funds are used properly, we have adopted the following additional measures and policies since September 2015:

- project managers who have been with us for more than three years will be entrusted with project reserve funds after undergoing an internal assessment by our Group; in relation to project managers who have been with us for less than three years, resumes and reference letters or written guarantees from our senior management are required to be provided before they will be entrusted with such funds;
- project managers are required to make an application to our Group for project reserve funds by specifying the use of such funds in details; our project management department, finance department, person-in-charge of our business department and person-in-charge of our finance department will review the application, taking into consideration factors such as the actual circumstances of project implementation, actual needs of the project, current use of project reserve funds, expenses to be incurred in respect of the project and risk management; the application will be submitted to our president for approval;
- the amount of project reserve funds provided to a project manager in respect of a project will be determined with reference to the estimated cost of the project and the expected project schedule; the amount of project reserve funds should, in general, not exceed 5% of the estimated cost of the project, and approval from the Chairman or the president of our Group is required should the amount of such funds exceeds 5% of the estimated cost of the project;
- the deputy project manager or a finance officer appointed by our Group will monitor and supervise the use of project reserve funds by the project manager;
- original receipts in relation to the expenses that have been paid with the project reserve funds, together with the expense reports, shall be submitted to our finance department, and such receipts and reports will be reviewed by our finance department, project management department, vice-president of our business department and vice-president of our finance department and approved by our president; and
- our finance department monitors and reviews the use of project reserve funds on an on-going basis.

As at 30 June 2016, the total amount of project reserve funds provided to our project managers amounted to approximately RMB0.9 million, out of which approximately RMB0.4 million in relation to projects under construction had been settled as at 30 September 2016. Our Directors believe that allocating a small amount of project reserve funds to our project managers is essential for maintaining the efficiency of project management and therefore a comparatively small amount of project reserve funds will continue to be allocated to our project managers under stringent scrutiny by our Company. Going forward, we will limit the amount of project reserve funds to up to 5% of the estimated cost of a particular project and restrict the use of such funds to purchase of miscellaneous raw materials and engagement of temporary workers.

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Our Directors believe that after the establishment of our internal online supply-chain management platform which aims to enhance our effectiveness in the procurement process of raw materials, we will be able to further minimise the use of project reserve funds in our projects. Please refer to the paragraph headed "Business Strategies – Establish an internal online platform for central procurement of raw materials and a logistics centre to facilitate the storage and delivery of raw materials" in this section for further details of our strategy for establishing the internal online supply-chain management platform.

(vi) Project implementation

Project monitoring and quality management

In order to ensure that the project will be completed in a timely manner and in accordance with the contractual specifications and our customers' requirements, the project manager of each project will closely monitor the implementation and progress of the project as well as oversee the implementation of the quality management system. In addition, in order to ensure the quality of workmanship, the quality officer and the construction officer will closely supervise and conduct regular quality inspections on the works carried out by the workers.

Interim payment applications

During the project implementation stage, we will, based on the terms of the contracts entered into with our customers, submit interim payment applications, together with details of works completed, to our customers. Please refer to the paragraph headed "Our customers – General terms of contracts with customers – Prepayment, progress money and retention money" in this section for further details.

(vii) Project completion

Upon completion of the project, our customers, together with the designated project supervision unit (if any), will inspect our works. We will fine-tune and touch-up our works if necessary and as required by our customers. Practical completion will take place on the day when our customers acknowledge that the works to be completed under the relevant contract have been duly completed by endorsing on the certificate of completion, upon which we will deliver the completion documents and drawings to them for record.

(viii) Post-completion services

After completion of the project, we are generally subject to a defect liability period during which we are responsible for rectifying defects identified by our customers without charge. In respect of building decoration and engineering works, the defect liability period is normally two years from the date of acceptance of project completion, whereas the defect liability period for waterproofing works is generally five years. We typically send our workers to the site within 12 to 24 hours after receiving our customers' requests.

Seasonality

For each of the three years ended 31 December 2013, 2014 and 2015, the average revenue generated during the period from July to December was higher than the revenue generated during the period from January to June. Our Directors believe that this was due to (i) major national holidays such as Chinese New Year, Qingming Festival and Labour Day in the first half of the year; and (ii) customers' preferences to have their projects completed by the end of the year.

Our Directors further believe that such pattern is likely to continue in the foreseeable future.

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RESEARCH AND DEVELOPMENT

In order to keep ourselves abreast of the evolving technological advancements in the building decoration industry and anticipate changes in customer preferences and market demand, our Group places great emphasis on research and development. As a result of our research and development capabilities, initiatives and achievements, since 2013, our Company has been awarded the status as “High and New Technology Enterprise* (高新技術企業)” by relevant PRC governmental authorities and has been enjoying a preferential EIT of 15%. While our certificate of “High and New Technology Enterprise* (高新技術企業)” expired in October 2016, given that (i) we have completed the necessary filings for re-examination of our status as “High and New Technology Enterprise* (高新技術企業)” with the relevant authorities in August 2016; (ii) there has been no major change to the laws and regulations relating to the certification since the last certification; and (iii) our corporate status and research and development credentials have been enhanced since the last certification, our Directors believe that we will continue to be qualified as a “High and New Technology Enterprise* (高新技術企業)” and be granted the preferential EIT treatment upon re-examination of our status as “High and New Technology Enterprise* (高新技術企業)” which is expected to be completed by the relevant authorities in December 2016. According to the Frost & Sullivan Report, as at 31 December 2015, among approximately 24,000 players in the building decoration industry in the PRC, we were one of the 20 building decoration service providers which have been awarded the status as “High and New Technology Enterprise* (高新技術企業)”.

As at the Latest Practicable Date, our research and development team consisted of 47 members (of which 37 had duties in other departments). Almost all of our research and development personnel have obtained professional qualifications and more than half of them have more than six years of experience in the building decoration industry.

Our research and development efforts primarily focus on improving existing building decoration technologies, work process and materials and developing new building decoration technologies, work process and materials, so that we can reduce our costs, enhance our on-site work efficiency and improve the quality of our works. Our Group has obtained more than 60 utility patents in the PRC and some of our research and development achievements have been awarded “National Award of Technology Innovation Achievements in the Building Decoration Industry* (全國建築裝飾行業科技創新成果獎)”. For further details of these awards, please refer to the paragraph headed “Awards and Accreditations” in this section.

The following table sets out some of our major research and development achievements:

Research and development achievement	Description
A remote monitoring system installed and used in power substations* (一種變配電安裝使用的遠程監控系統)	This is mainly used for the remote monitoring of power substations, which enables timely maintenance in relation to faults occurring at power substations.
A multifunctional smart monitoring and management system for garages* (一種多功能智能車庫監控管理系統)	This is mainly used for the smart monitoring of garages and serves to enhance the monitoring, security and management levels at various types of garages.
A smart indoor monitoring system for fire sprinklers* (一種室內消防智能監控噴淋系統)	This is mainly used for the monitoring of fire sprinkler systems. Through smart monitoring, fire-related incidents can be immediately identified for timely activation of sprinkler systems.

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Research and development achievement	Description
A type of curtain wall for construction purposes with embedded solar panels* (一種太陽能與建築一體化玻璃幕牆)	This is mainly used in curtain wall works. The curtain wall is assembled with solar thermal collectors into one single unit in order to leverage solar power, which results in a high utilisation rate of solar power and has a good decorative effect.
Disinfection apparatus in operating theatres* (用於手術室消毒設備)	This is mainly used for disinfection in operating theatres in hospitals and can shorten the time required for disinfection.
Dust removal and purification systems in operating theatres* (手術室除塵淨化系統)	These are mainly used for dust removal and purification in operating theatres. They overcome the deficiencies inherent in existing dust removal and purification systems and are able to deliver good results in dust removal and purification.
High temperature device in engine rooms* (機房高溫裝置)	This is mainly used for the removal of heat from telecommunications engine room equipment which operates at high temperatures. It utilises outdoor ambient temperature to alter and regulate the temperature of telecommunications engine rooms in an energy-saving and environmentally friendly manner.

Our research and development team will continue to improve, develop and commercialise building decoration technologies, work process and materials to be applied in our projects. Our Directors believe that our research and development achievements and capabilities have differentiated us from our competitors and enhanced our competitiveness in the building decoration industry in the PRC.

For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our research and development expenditure amounted to approximately RMB48.5 million, RMB50.4 million, RMB64.5 million and RMB26.2 million, respectively. No research and development expenditure was capitalised during the Track Record Period. Our research and development expenditure was mainly incurred for the development of utility models and utility patents in respect of construction materials and techniques, which are catered for the specific requirements of different projects. As a result, the possibility of such utility models and utility patents being continuously applied in future projects cannot be reasonably assessed and there are uncertainties as to whether they can bring inflow of future economic benefits to our Company. As our research and development expenditure does not meet the relevant criteria under Hong Kong Accounting Standard 38 for capitalisation of research and development expenditure, such expenditure was recognised as expenses or cost of sales as incurred.

In order to strengthen our research and development capabilities, we intend to set up a research and development laboratory and recruit more experienced professionals with expertise in the research and development in the building decoration industry. Please refer to the paragraph headed "Business Strategies" in this section for further details.

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QUALITY CONTROL

We believe that our success is largely attributable to our ability to consistently deliver quality works to our customers. The project manager of each project is responsible for overseeing and the supervision of the quality of works. We have in place quality control and monitoring procedures and undertake quality management at various stages of our work process, from project planning, selection of suppliers and licensed labour agencies, procurement of raw materials, project implementation to completion of projects. This helps to ensure that the quality of our works adheres to contractual requirements and specifications and meets the expectation of our customers. In recognition of our quality management system, we were first accredited with ISO 9001 by Universal Certification Centre Co., Limited in 2004 and our existing certification to ISO 9001 is valid until 14 September 2018.

Our major quality control measures and procedures cover the following aspects:

- *Sufficient planning prior to project implementation:* Prior to the project implementation stage, the project management team will formulate a construction plan, which will specify the quality standards and requirements to which our works shall adhere. The construction plan will also set out the methods and procedures in carrying out certain types of engineering and installation works in order to ensure that the works completed will be of satisfactory quality.
- *Careful selection of suppliers:* We maintain a list of approved suppliers and, unless otherwise requested by our customers, we procure raw materials from suppliers which have been approved by us. Our suppliers are selected based on certain criteria and we review their performance periodically. Please refer to the paragraph headed "Our Suppliers – Selection and evaluation of suppliers" in this section for further details.
- *Careful selection of licensed labour agencies:* We maintain a list of approved labour agencies and we only engage licensed labour agencies which have been approved by us. The licensed labour agencies are selected based on certain criteria and we review their performance periodically. Please refer to the paragraph headed "Our Arrangements with Licensed Labour Agencies – Selection and evaluation of licensed labour agencies" in this section for further details.
- *Raw materials:* We have established rules and procedures for inspection of incoming raw materials. In order to ensure that the raw materials meet our project requirements, technical specifications and quality standards, we check and inspect the raw materials based on the raw material requirements plan prepared by the project management team and the national quality standards. Raw materials that are defective or do not meet our requirements, specifications or standards will be returned to suppliers.
- *Close supervision during project implementation:* During the project implementation stage, the project manager will closely monitor the implementation and progress of the project to ensure timely and satisfactory completion. The project manager will also oversee the quality control of the project. In addition, the construction officer and the quality officer will perform regular quality inspections on the works carried out by the workers to ensure that such works comply with the contractual requirements and technical specifications.
- *Upon completion of projects:* Before we arrange our customers and/or the designated project supervision unit to perform an acceptance inspection, we will internally conduct quality and safety inspections to ensure that all works meet our customers' requirements and contractual specifications.

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During the Track Record Period and up to the Latest Practicable Date, our Group did not receive any material complaint relating to the quality of our works from our customers.

SALES AND MARKETING

Given that almost all of our contracts are obtained through tendering, in order to promptly identify potential tenders and projects in the local regions and obtain up-to-date market intelligence and industry information, we have established an extensive sales and marketing network, covering 18 provinces, autonomous regions and municipalities in the PRC. As at the Latest Practicable Date, we had 18 branch offices in major cities and regions across the PRC such as Beijing, Chongqing, Guangzhou, Wuhan, Chengdu, Xining, Yinchuan, Wuxi and Huizhou, and five representative offices in Tianjin, Nanjing, Zhengzhou, Urumqi and Dunhuang. Our sales and marketing team is mainly responsible for identifying potential tenders and business opportunities, collecting latest market intelligence and industry information, assisting in the tender process, providing customer services, and participating in the formulation of our business development plan and sales targets. As at the Latest Practicable Date, our sales and marketing team consisted of 33 members.

In addition, our Group leverages our well-established relationship with our existing customers, our proven track record, and solid reputation in the industry for referrals of new customers. In order to increase our brand awareness and market presence in the PRC, we also participate in industry seminars, issue periodic publications and place advertisements in industry magazines. In addition, Mr. Ye Yujing, the founder of our Group, our Chairman and one of our Executive Directors, occasionally attend media interviews.

With our extensive service network in the PRC, during the Track Record Period, we were engaged in approximately 867 projects (each with a contract value of more than RMB1 million) in the PRC, the total contract value of which amounted to approximately RMB7,380.9 million and among which approximately 169 and 23 projects were each with a contract value of more than RMB10 million and RMB50 million, respectively. The following table sets out a breakdown of our revenue derived from construction contracts during the Track Record Period by geographical region:

	For the year ended 31 December						For the six months ended	
	2013		2014		2015		30 June 2016	
	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%
Southern China ^{(1)#}	515.9	35.2	599.0	40.8	799.3	48.8	357.7	48.2
Eastern China ^{(2)#^}	46.1	3.1	134.5	9.2	134.0	8.2	197.7	26.6
South-western China ^{(3)#}	259.6	17.7	234.1	16.0	321.0	19.6	57.0	7.7
North-western China ^{(4)#}	154.9	10.6	85.0	5.8	97.5	6.0	23.4	3.2
Northern China ^{(5)#}	265.8	18.1	205.2	14.0	75.6	4.6	20.1	2.7
Central China ^{(6)#}	76.1	5.2	86.4	5.9	38.0	2.3	16.7	2.3
North-eastern China ^{(7)#}	20.7	1.4	22.0	1.5	30.3	1.8	11.1	1.5
Miscellaneous contracts ^Δ	127.8	8.7	100.8	6.8	142.5	8.7	58.4	7.8
Total	1,466.9	100.0	1,467.0	100.0	1,638.2	100.0	742.1	100.0

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Notes:

- (1) Southern China includes Shenzhen, Guangdong Province, Guangxi Province and Hainan Province.*
- (2) Eastern China includes Shanghai, Shandong Province, Jiangsu Province, Zhejiang Province, Fujian Province, Anhui Province and Jiangxi Province.*
- (3) South-western China includes Chongqing, Sichuan Province, Guizhou Province and Yunnan Province.*
- (4) North-western China includes Ningxia, Xinjiang Province, Qinghai Province, Gansu Province and Shaanxi Province.*
- (5) Northern China includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Province.*
- (6) Central China includes Henan Province, Hubei Province and Hunan Province.*
- (7) North-eastern China includes Liaoning Province and Heilongjiang Province.*
- # Contracts under this category are each of a contract value of more than RMB1 million.*
- △ Miscellaneous contracts refer to contracts each of a contract value of less than RMB1 million.*
- ^ Revenue from construction contracts increased significantly for the six months ended 30 June 2016 due to the recognition of revenue in the amount of approximately RMB133.2 million in respect of a project located in Shandong Province.*

OUR CUSTOMERS

Our Group has a broad clientele and our customers generally include state-owned enterprises, governmental authorities and institutions, listed companies, foreign-owned enterprises, property developers and property management companies.

For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our five largest customers accounted for approximately 19.3%, 16.4%, 27.1% and 45.5% of our total revenue, respectively, while our largest customer accounted for approximately 4.7%, 4.0%, 7.4% and 17.9% of our total revenue, respectively. The payments made by our customers to us are in Renminbi and primarily by way of bank transfer.

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The table below sets out the details of our five largest customers during the Track Record Period:

For the year ended 31 December 2013

	<u>Customer profile</u>	<u>Amount of revenue attributable</u> (RMB million)	<u>Approximate percentage of revenue attributable</u> (%)	<u>Approximate length of business relationship with us as at 31 December 2013</u>
Customer A	A PRC company engaging in retailing business in the PRC, the subsidiary of a company the shares of which are listed on the Shanghai Stock Exchange	69.7	4.7	1 year
Customer B	A PRC company engaging in the development, sale and leasing of properties, the subsidiary of a municipal-level energy group	64.5	4.3	0.5 year
Customer C	A state-owned conglomerate with operations in a diversified scope of businesses in both Hong Kong and the PRC, the shares of which are listed on the Hong Kong Stock Exchange	64.2	4.3	1 year
Customer D	A PRC coal-mining company, the subsidiary of a provincial-level energy group	49.3	3.3	1 year ⁽¹⁾
Customer E	A multinational conglomerate headquartered in Taiwan and engaging in the manufacturing of electronics products, the shares of which are listed on the Taiwan Stock Exchange, the Hong Kong Stock Exchange and the London Stock Exchange	39.6	2.7	7.5 years

Note:

⁽¹⁾ The project was completed in November 2013 and the length of business relationship was calculated up to November 2013.

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For the year ended 31 December 2014

	<u>Customer profile</u>	<u>Amount of revenue attributable</u> (RMB million)	<u>Approximate percentage of revenue attributable</u> (%)	<u>Approximate length of business relationship with us as at 31 December 2014</u>
Customer F	A PRC conglomerate engaging in a diversified scope of businesses in the PRC, the shares of which are listed on the Shanghai Stock Exchange	59.2	4.0	3 years
Customer G	PRC governmental body	52.9	3.6	1 year
Customer H	PRC governmental body	47.1	3.2	3 years
Customer C	A state-owned conglomerate with operations in a diversified scope of businesses in both Hong Kong and the PRC, the shares of which are listed on the Hong Kong Stock Exchange	46.7	3.2	2 years
Customer I	A PRC construction company	35.0	2.4	1.5 years ⁽¹⁾

Note:

⁽¹⁾ The project was completed in March 2014 and the length of business relationship was calculated up to March 2014.

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For the year ended 31 December 2015

	<u>Customer profile</u>	<u>Amount of revenue attributable</u> <i>(RMB million)</i>	<u>Approximate percentage of revenue attributable</u> <i>(%)</i>	<u>Approximate length of business relationship with us as at 31 December 2015</u>
Customer J	A PRC company engaging in building construction, the Shenzhen branch of a subsidiary of a state-owned enterprise the shares of which are listed on the Shanghai Stock Exchange	122.4	7.4	1 year
Customer F	A PRC conglomerate engaging in a diversified scope of businesses in the PRC, the shares of which are listed on the Shanghai Stock Exchange	112.5	6.8	4 years
Customer K	A PRC company engaging in the provision of convention and exhibition services	99.3	6.0	1 year
Customer C	A state-owned conglomerate with operations in a diversified scope of businesses in both Hong Kong and the PRC, the shares of which are listed on the Hong Kong Stock Exchange	59.3	3.6	3 years
Customer L	A PRC hotel management company	54.6	3.3	1 year

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For the six months ended 30 June 2016

	<u>Customer profile</u>	<u>Amount of revenue attributable</u> <i>(RMB million)</i>	<u>Approximate percentage of revenue attributable</u> <i>(%)</i>	<u>Approximate length of business relationship with us as at 30 June 2016</u>
Customer M	A PRC company engaging in property development	133.2	17.9	3 years
Customer N	A PRC company engaging in the sale of automobiles	61.1	8.2	0.5 year
Customer O	A PRC company engaging in domestic commercial trade and property development	50.0	6.7	0.5 year
Customer P	A state-owned conglomerate engaging in the manufacturing of electronic products, the shares of which are listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange	48.5	6.5	7 years
Customer Q	A PRC company engaging in building construction, the Shenzhen branch of a subsidiary of a state-owned enterprise, the shares of which are listed on the Shanghai Stock Exchange	46.4	6.2	4 years

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Our Directors confirmed that none of our Directors, their associates or Shareholders who own more than 5% of the share capital of our Company as at the Latest Practicable Date had any interest in any of our Group's top five customers during the Track Record Period. Our Directors further confirmed that none of our top five customers during the Track Record Period were our suppliers during the Track Record Period.

General terms of contracts with customers

We enter into contracts with our customers on a project basis and such contracts are non-recurring in nature. The contracts with our customers are legally binding and generally contain terms relating to the scope of services and contract period, contract price, payment terms, defect liability period and termination of contract. A summary of the major terms of the contracts is set forth below:

Scope of services and contract period

The contract will set out the scope of our services, the technical specifications and requirements of our works and the contract period of the project (which typically ranges from three months to two years). Depending on the project progress, the contract period of a small number of our projects may extend to up to four years. In addition, the contract normally specifies the requirements with respect to the construction materials to be procured by us, occupational safety, insurance arrangements, project progress monitoring, site management and our personnel involved in the project.

Service fees and payment terms

The contract will specify the amount of service fees chargeable by us and the payment terms. The agreed service fees are normally inclusive of all the relevant outgoing expenses such as transportation costs, testing fees, and taxes payable by us in connection with the project. The service fees are generally fixed with limited price adjustment mechanism in circumstances such as when our customers request for variation in the scope of works or in the quantity or specifications of materials to be used in the project.

Prepayment, progress money and retention money

We may require our customers to prepay an amount that generally equals to 10% of the total contract value upon signing of contract or prior to commencement of project. After commencement of our works, we normally receive progress payments from our customers in stages, based on the terms of the contracts entered into with them. The initial payment of progress money may be made when we commence our works in the worksite and/or upon our provision of performance bonds to our customers (if any). During the interim stage, we will generally submit interim payment applications, together with details of works completed, to our customers. Our customers, together with the designated project supervision unit (if any), will certify the value of works completed and are required to make payment to us after endorsing on the project progress report. The final payment of progress money is generally made after we have completed the undertaken works and obtained the required certificates with respect to the quality of our works or our works have passed the inspection conducted by our customers. According to the Frost & Sullivan Report, it is a common practice in the industry that customers hold up a portion of the contract value as retention money. The retention money normally represents 3% to 5% of the contract value and will be released to us without interest upon expiry of the defect liability period if there is no breach of contract on our part in general.

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The usual billing practices of our Group are set out below:

<u>Stage of project</u>	<u>Billing progress</u>
Upon signing of contract or prior to commencement of project	We may require our customers to prepay an amount that generally equals to 10% of the total contract value
During project implementation	We issue interim payment applications to our customers in respect of the value of contract works completed in stages, based on the terms of the contracts entered into with them. The amount of each progress payment received from our customers generally represents 70% to 90% of the value of contract works completed, and if our customers settle the requested amount in full, no significant amount of accounts receivable will remain outstanding
Upon completion of all contract works undertaken by us and inspection of contract works by customers	Total amount paid and/or payable by our customers (on an accumulative basis) generally represents 80% to 90% of the total contract value; in respect of certain large-scale construction projects commissioned by governmental authorities, large-scale corporations (including listed companies and large-scale conglomerates) or state-owned enterprises, we may offer more favourable payment terms on an individually assessed basis taking into account their scale of operations, financial conditions and payment history
Upon project completion	Total amount paid and/or payable by our customers (on an accumulative basis) generally represents 95% to 97% of the total contract value
Post-completion	The remaining 3% to 5% of the total contract value will be held by our customers as retention money and be released to us upon expiry of the defect liability period if there is no breach of contract on our part

During the Track Record Period and up to the Latest Practicable Date, in respect of four of our projects with a total contract value of approximately RMB90.7 million, we received the first progress payment from our customers upon completion of approximately 80% of the contract value (the "Relevant Projects"). For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the revenue contribution of the Relevant Projects to the total revenue of our Group was approximately 0.2%, 2.2%, 1.0% and nil, respectively. Our Directors believe that receiving the first progress payment from customers upon completion of approximately 80% of the contract value may not be in line with the prevailing market practice. Our Directors are of the view that the Relevant Projects were isolated incidents and the respective amounts of contract value were not considered material to our business operations or financial condition as a whole. Going forward, in order to minimise the recurrence of delayed settlement of progress payments by customers, our Company will devote more resources in collecting progress payments in accordance with the terms of contracts with our customers. We will also avoid adopting contract terms which allow our customers to settle the first progress payment only when a substantial part of the construction work is completed. Our Directors believe that upon [REDACTED], we will have stronger bargaining power to negotiate for more favourable contract terms with our customers.

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The following table sets out the details of the Relevant Projects during the Track Record Period and up to 30 September 2016:

No.	Customer profile	Property type	Location	Contract value	Revenue recognised					Percentage of recovered amount over total contract value as at	
					For the year ended 31 December			For the six months ended	During the Track Record	Recovered amount as at	30 September
					2013	2014	2015	30 June 2016	Period	30 September 2016	2016
				RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	%
1	A PRC bank	Commercial buildings	Shenzhen, Guangdong Province	4,787	2,747	1,642	398	-	4,787	4,787	100
2	A PRC construction company	Commercial buildings	Guangzhou, Guangdong Province	14,000	32	-	1,562	-	1,594	12,764	91.2
3	A PRC property company	Commercial buildings	Liu Panshui, Guizhou Province	45,716	-	31,608	14,108	-	45,716	22,300	48.8
4	A PRC governmental authority ⁽¹⁾	Public buildings and infrastructure	Shenzhen, Guangdong Province	26,178	-	-	-	-	-	26,178	100
				<u>90,681</u>	<u>2,779</u>	<u>33,250</u>	<u>16,068</u>	<u>-</u>	<u>52,097</u>		

Note:

(1) The project commenced in 2011 and was completed in 2012. The majority of revenue was recognised before the Track Record Period and approximately RMB12.0 million of trade receivables was recovered in 2013. Up to 30 June 2016, we had recovered the total outstanding amount and reversed the provision made in prior years.

Performance bonds

In order to ensure due performance and observance of our obligations under the contracts, some of our customers may require us to provide performance bonds that generally represents 5% to 10% of the total contract sum. Such performance bonds are issued in favour of our customers, who will be entitled to such performance bonds if we fail to duly perform our obligations under the contracts.

Variation orders

Our customers generally have the right to order for variation of works in the course of our performance of the relevant contracts. The fees for the works under such variation orders will normally be agreed between us and our customers.

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Defect liability period

The contract will set out the duration of the defect liability period. We are generally responsible for rectifying defects of our works at our own expense during the defect liability period. In respect of building decoration works, electrical and mechanical installation works, curtain wall engineering works, and fire safety engineering works, the defect liability period is normally two years from the date of acceptance of project completion, whereas the defect liability period for waterproofing works is generally five years.

During the Track Record Period, there was no material claim or complaint brought against our Group by our customers and the costs incurred for rectifying defective works were immaterial.

Liquidated damages

Our customers are generally entitled to claim liquidated damages against us if we fail to complete the project within the contract period. Such liquidated damages are determined on a daily basis with reference to the rate or amount specified in the contract.

Furthermore, our customers are generally entitled to claim liquidated damages if we breach a specific term of the contract, such as using sub-standard materials, failing to carry out certain safety measures and failing to cooperate with our customers in providing information relating to the work progress. Different amounts of liquidated damages may be imposed for different types of breaches in accordance with the relevant formula stipulated in the contract.

During the Track Record Period, the aggregate amount of liquidated damages paid by our Group was not material. Our Directors do not expect any material delay in the time of completion of projects in progress as at the Latest Practicable Date which is likely to cause material liquidated damages to be imposed on our Group.

Termination

Our customers are generally entitled to terminate the contract if our works are of unsatisfactory quality or we delay completion of the works, or upon the occurrence of force majeure events or major accidents. Any breach of such terms will give rise to, inter alia, our customers' right to terminate the contract unilaterally and/or our liability to pay a certain amount of money to our customers as liquidated damages.

OUR SUPPLIERS

Our major raw materials purchased include electrical and mechanical products, stone, ceramic materials, glass, metal, metal hardware and decoration boards. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the costs of raw materials amounted to approximately RMB813.1 million, RMB810.8 million, RMB924.5 million and RMB432.7 million, respectively, representing approximately 61.2%, 61.6%, 63.2% and 66.1% of our total cost of sales, respectively. For sensitivity analysis in relation to the costs of raw materials, please refer to the section headed "Financial Information – Description of Selected Items in Statements of Comprehensive Income – Cost of sales".

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Our major suppliers are located in the PRC, with whom we have had maintained business relationships for more than three years. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our five largest suppliers accounted for approximately 23.9%, 33.0%, 45.0% and 40.5% of our total cost of sales, respectively, while our largest supplier accounted for approximately 5.9%, 9.1%, 14.3% and 17.1% of our total cost of sales, respectively. The payments made to our suppliers are in Renminbi and primarily by way of telegraphic transfer. While the contracts with our suppliers do not generally specify the credit terms, during the Track Record Period, we generally settled payment with our suppliers within 180 days. During the Track Record Period, our Group had not encountered any major difficulty in the procurement of raw materials from our suppliers. Our Directors do not foresee that our Group will encounter any major difficulty in sourcing raw materials in the future.

Since our projects generally require numerous types of raw materials and are located in different cities and regions across the PRC, in order to reduce our procurement costs, enhance our procurement efficiency and minimise our inventory, we procure raw materials from certain trading companies that are Independent Third Parties and principally engaged in the sale and trading of construction and building decoration materials. Such trading companies will, upon receipt of our purchase orders and based on our requirements, further source and procure raw materials from other suppliers and arrange them to be delivered to our worksites directly. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the amount of our purchases from trading companies amounted to approximately RMB175.1 million, RMB274.1 million, RMB259.9 million and RMB109.7 million, respectively, representing approximately 21.5%, 33.8%, 28.1% and 25.3% of our total purchases, respectively. Our Directors believe that such arrangements have allowed us to make use of the extensive purchasing network of the trading companies, thereby reducing the cost and enhancing the cost-effectiveness of our projects. In the event that the trading companies fail to settle payment with the individual suppliers, we will not be held liable for any outstanding amount; and if the raw materials delivered to us do not meet our requirements or standards, we are only entitled to make a claim against the trading companies, and not the individual suppliers. As advised by our PRC Legal Advisers, such arrangements did not violate any applicable laws and regulations of the PRC.

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The table below sets out the details of our five largest suppliers during the Track Record Period:

For the year ended 31 December 2013

	Background	Amount of purchases	Approximate percentage of total cost of sales	Approximate length of business relationship with us as at 31 December 2013
		<i>(RMB million)</i>	<i>(%)</i>	
Supplier A	A trading company engaged in the sale and trading of construction and decoration materials etc.	78.3	5.9	2.5 years
Supplier B	A labour agency engaged in labour despatch and construction labour subcontracting etc.	76.7	5.8	2 years
Supplier C	A labour agency engaged in construction labour subcontracting etc.	76.4	5.8	0.5 year
Supplier D	A trading company engaged in the sale and trading of construction and decoration materials etc.	45.9	3.5	2.5 years
Supplier E	An individual industrial and commercial household engaged in the sale of construction and decoration materials and electronic accessories etc.	38.8	2.9	2 years

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For the year ended 31 December 2014

	Background	Amount of purchases	Approximate percentage of total cost of sales	Approximate length of business relationship with us as at 31 December 2014
		<i>(RMB million)</i>	<i>(%)</i>	
Supplier B	A labour agency engaged in labour despatch and construction labour subcontracting etc.	119.4	9.1	3 years
Supplier F	A labour agency engaged in labour despatch and construction labour subcontracting	90.9	6.9	0.5 year
Supplier D	A trading company engaged in the sale and trading of construction and decoration materials etc.	81.9	6.2	3.5 years
Supplier A	A trading company engaged in the sale and trading of construction and decoration materials etc.	71.5	5.4	3.5 years
Supplier E	An individual industrial and commercial household engaged in the sale of construction and decoration materials and electronic accessories etc.	70.5	5.4	3 years

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For the year ended 31 December 2015

	Background	Amount of purchases	Approximate percentage of total cost of sales	Approximate length of business relationship with us as at 31 December 2015
		<i>(RMB million)</i>	<i>(%)</i>	
Supplier B	A labour agency engaged in labour despatch and construction labour subcontracting etc.	208.9	14.3	4 years
Supplier F	A labour agency engaged in labour despatch and construction labour subcontracting	175.8	12.0	1.5 years
Supplier G	An individual industrial and commercial household engaged in the retail of building decoration materials and metal and electronic components	108.4	7.4	1 year
Supplier E	An individual industrial and commercial household engaged in the sale of construction and decoration materials and electronic accessories etc.	89.1	6.1	4 years
Supplier H	An individual industrial and commercial household engaged in the sale and trading of construction decoration materials etc.	75.3	5.2	0.5 year

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For the six months ended 30 June 2016

	Background	Amount of purchases	Approximate percentage of total cost of sales	Approximate length of business relationship with us as at 30 June 2016
		(RMB million)	(%)	
Supplier B	A labour agency engaged in labour despatch and construction labour subcontracting etc.	111.9	17.1	4.5 years
Supplier F	A labour agency engaged in labour despatch and construction labour subcontracting	49.2	7.5	2 years
Supplier H	An individual industrial and commercial household engaged in the sale and trading of construction decoration materials etc.	44.9	6.9	1 year
Supplier E	An individual industrial and commercial household engaged in the sale of construction and decoration materials and electronic accessories etc.	29.6	4.5	4.5 years
Supplier I	A labour agency engaged in labour despatch and construction labour subcontracting	29.3	4.5	0.5 year

Our Directors confirmed that none of our Directors, their associates or Shareholders who own more than 5% of the share capital of our Company as at the Latest Practicable Date had any interest in any of our Group’s five largest suppliers during the Track Record Period. Our Directors further confirmed that none of our suppliers during the Track Record Period were our major customers during the Track Record Period.

Procurement policies and procedures

Please refer to the paragraph headed “Our Business Operations – Project workflow – (v) Project planning – Procurement of raw materials” in this section for details in relation to our procurement policies and procedures.

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Selection and evaluation of suppliers

Our Group maintains a list of approved suppliers, which are selected and periodically evaluated based on the pricing and quality of raw materials and timeliness of delivery. For each project, we obtain quotations from at least three suppliers in our approved list. Our selection of suppliers for a particular project is generally based on the price and quality of raw materials offered by the suppliers. In some circumstances, our customers may require us to procure raw materials and equipment from designated suppliers.

General terms of contracts with suppliers

Our purchase orders to our suppliers are legally binding and normally include the following terms:

- *raw materials*: our Group shall set out the type, specifications, unit price and quantity of the raw materials we intend to purchase;
- *price and payment terms*: the purchase orders will set out the total price payable by our Group and the payment terms;
- *delivery*: the supplier shall deliver the raw materials to the specified worksites or destinations on the specified date and will be subject to a penalty in the event of late delivery; and
- *quality assurance*: the raw materials delivered by the supplier shall match with the product samples and comply with the national requirements and industry standards, and the supplier shall compensate us if the raw materials do not meet such requirements.

OUR ARRANGEMENTS WITH LICENSED LABOUR AGENCIES

Similar to many building decoration service providers in the PRC, we engage licensed labour agencies in the PRC to carry out labour works during the implementation of our projects. Under our arrangement with the licensed labour agencies, the licensed labour agencies are only responsible for providing us with sufficient number of workers to complete the works as specified in the relevant contracts under the supervision of our project managers, while we remain responsible for project management and procurement of raw materials.

Our Group has maintained business relationship with a number of licensed labour agencies. Due to years of cooperation and business relationships, such agencies are familiar with our requirements. Our Directors believe that such familiarity has enabled these licensed labour agencies to continuously provide us with a stable supply of suitable workers to complete the works undertaken, thereby allowing us to deliver quality works to our customers and minimising the risk of delaying project completion due to labour shortage. In addition, we do not need to recruit or retain a large number of permanent workers, which enhances the cost-effectiveness of our projects and allows us to enjoy a greater degree of operational flexibility.

For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our fees paid to labour agencies amounted to approximately RMB153.1 million, RMB251.3 million, RMB470.8 million and RMB204.5 million, respectively, representing approximately 11.5%, 19.1%, 32.2% and 31.2% of our total cost of sales, respectively. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our five largest labour agencies accounted for approximately 11.5%, 19.1%, 32.2% and 30.9% of our total cost of sales, respectively, while our largest labour agency accounted for approximately 5.8%, 9.1%, 14.3% and 17.4% of our total cost of sales, respectively.

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Our Directors confirmed that none of our Directors, their associates or Shareholders who own more than 5% of the share capital of our Company as at the Latest Practicable Date had any interest in any of our Group's five largest labour agencies during the Track Record Period.

Labour subcontracting and labour despatch

We enter into two kinds of contracts with different licensed labour agencies, namely (i) labour subcontracting agreements; and (ii) labour despatch agreements. Our Directors believe that fees paid to labour agencies in respect of despatched workers are lower than those of the equivalent number of subcontracted workers for the following reasons: (i) despatched workers are paid based on the number of workers despatched to us and the duration of work, the process of which is simpler, whereas subcontracted workers are paid based on the progress of works completed, which is subject to an assessment process; and (ii) fees paid to labour agencies in respect of subcontracted workers also include management fees charged by the agencies and are higher than the fees charged by labour agencies in respect of despatched workers. Nevertheless, we generally source workers through labour subcontracting in relation to projects that are of a larger scale due to more efficient management and supervision of workers by the relevant licensed labour agency. Despatched workers are only responsible for temporary, ancillary or replacement works in accordance with the relevant laws and regulations. During the Track Record Period, works performed by our despatched workers included painting, masonry, carpentry and other miscellaneous labour-intensive works.

To prepare for the implementation of the Interim Provisions on Labour Despatch (勞務派遣暫行規定) (the "Interim Provisions") which was promulgated on 24 January 2014 and became effective on 1 March 2014, we gradually increased the proportion of workers sourced through labour subcontracting agreements during the Track Record Period. Labour subcontracting has become our major source of workers and workers sourced thereunder accounted for approximately 91.7% of our total number of workers as at 30 June 2016. Our Directors do not expect the increase in proportion of workers sourced from labour subcontracting would have any material adverse effect on our Group's costs structure, financial condition or results of operations for the following reasons:

- details relating to the labour costs will be included in our tender proposals, taking into consideration the preliminary quotations obtained from licensed labour agencies; hence any change in our service fees by reason of change in the composition of our workers will be reflected in our fee proposals; and
- prior to the implementation of the Interim Provisions, workers sourced under labour despatch would carry out similar duties and works as those sourced under labour subcontracting; hence fees paid by us to different licensed labour agencies are similar in terms of fees per capita, while those paid under labour subcontracting agreements are higher as the relevant management fees are higher and the difference are considered immaterial to our total cost of sales as a whole.

The Interim Provisions requires that the number of despatched workers employed by an employer shall not exceed 10% of the total number of its workers. If the number of despatched workers employed by an employer exceeded 10% of its total workers before the effective date of the Interim Provisions, the employer shall adjust its employment structure and reduce the proportion of despatched workers to the statutory limit within two years from the effective date of the Interim Provisions, i.e. before 1 March 2016. As advised by our PRC Legal Advisers, workers sourced under labour subcontracting agreements are not taken into account for the purpose of determining the number of total workers engaged by us and shall not be regarded as "despatched workers". As at 30 June 2016, we mainly sourced workers under labour subcontracting agreements, and workers sourced under labour despatch agreements only amounted to approximately 8.1% of the total number of our workers (including workers sourced under labour despatch agreements and our employees).

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As advised by our PRC Legal Advisers, although Article 27 of the Interim Provisions provides that the Interim Provisions apply to employment relationship in the form of labour despatch named "hired work and outsourcing (承攬外包)", the Interim Provisions aim to regulate labour relationship named "labour outsourcing (外包)" which is de facto labour despatch. As advised by our PRC Legal Advisers and confirmed by interviews (the "Interviews") with the administrative officer of the Human Resources and Social Security Bureau of Shenzhen (深圳市人力資源和社會保障局) conducted by us and our PRC Legal Advisers on 22 February 2016 and conducted by us, the Sole Sponsor and the Sole Sponsor's legal advisers on 17 March 2016, the arrangements adopted by our Company in respect of labour subcontracting comply with the requirements under relevant laws and regulations and do not fall within the scope of Article 27 of the Interim Provisions. As advised by our PRC Legal Advisers, the Human Resources and Social Security Bureau of Shenzhen (深圳市人力資源和社會保障局) is the competent authority and the administrative officer attending the Interviews has the authority to make the aforesaid confirmations. Please refer to the section headed "Laws and Regulations – Employment and Social Insurance" for further details of the differences between labour subcontracting and labour despatch.

As advised by our PRC Legal Advisers, during the Track Record Period, our arrangements with licensed labour agencies, in particular, in respect of workers sourced under labour despatch agreements, did not violate any applicable requirements of the Interim Provisions (including the scope of work of the despatched workers) in all material aspects. We also obtained a letter of confirmation from the Human Resources and Social Security Bureau of Shenzhen (深圳市人力資源和社會保障局) on 8 July 2016, confirming that we had not been penalised for violating labour laws and regulations during the Track Record Period. During the Interviews, the administrative officer of the Human Resources and Social Security Bureau of Shenzhen (深圳市人力資源和社會保障局) verbally confirmed that we had not been penalised for violating labour laws and regulations, including the Interim Provisions, during the Track Record Period. As advised by our PRC Legal Advisers, the Human Resources and Social Security Bureau of Shenzhen (深圳市人力資源和社會保障局) has the authority and is competent to make the aforesaid confirmation.

Please refer to the section headed "Laws and Regulations – Employment and Social Insurance" for further details of the Interim Provisions.

Respective responsibilities and liabilities of our Group and the licensed labour agencies

As advised by our PRC Legal Advisers, in respect of workers sourced under labour subcontracting agreements and labour despatch agreements, pursuant to the agreements entered into between our Group and the licensed labour agencies, we are not required to make contributions to social insurance and housing provident fund for the workers provided to us. It is the responsibility of the licensed labour agencies to arrange for payment of social insurance and housing provident fund contributions for such workers.

As advised by our PRC Legal Advisers, if we are at no fault, the licensed labour agencies, as employing companies and pursuant to the agreements entered into between our Group and the licensed labour agencies, are responsible for any claim made by the workers in respect of (i) work-related personal injury; (ii) outstanding salary payment; and (iii) outstanding social security or housing provident fund contributions.

Selection and evaluation of licensed labour agencies

We maintain a list of approved labour agencies, which are selected after our review of their business licences and tax certificates, the qualifications and licences they possess, and the results of public search and background check. For each project, we generally obtain quotations from three licensed labour agencies in our approved list. Our selection of licensed labour agencies for a

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particular project is generally based on the scope of works undertaken, location of the project, quotations submitted by the licensed labour agencies and contract size. We periodically evaluate the performance of the licensed labour agencies in our approved list.

General terms of contracts with licensed labour agencies

We enter into contracts with licensed labour agencies on a project basis. The contracts with the licensed labour agencies are legally binding and generally include the following terms:

- *scope of works and allocation of duties*: the contracts will set out the scope of works to be carried out by the licensed labour agencies and the respective duties of our Group and the licensed labour agencies;
- *contract price and payment terms*: the contracts will specify the amount of service fees chargeable by the licensed labour agencies and we generally pay the licensed labour agencies based on the amount of work done and when we have received payment from our customers;
- *contract period*: while the contracts will specify the number of days within which the licensed labour agencies shall complete the works undertaken, the project commencement date is generally subject to the order of commencement of works;
- *work progress*: our Group will certify the amount of work completed by the licensed labour agencies on a monthly basis;
- *quality assurance*: the licensed labour agencies shall carry out the works in accordance with the construction drawings provided by our Group and such works shall comply with the national standards in relation to acceptance of works;
- *work safety*: the licensed labour agencies are responsible for providing work safety training to the workers and shall comply with our site regulations; and
- *major accidents*: in the event of a major accident, our Group and the relevant licensed labour agency shall clearly delineate their respective responsibilities and the responsible party shall bear the corresponding liabilities; any dispute in relation to the delineation of responsibilities between our Group and the relevant licensed labour agency shall first be resolved by the relevant governmental authorities through mediation.

Quality control measures

For details in relation to our quality control measures over the works carried out by workers sourced from the licensed labour agencies, please refer to the paragraph headed "Quality Control" in this section.

OUR ARRANGEMENTS WITH TEMPORARY WORKERS

We engage temporary workers to assist our workers sourced from licensed labour agencies and carry out labour works that are not specified in our agreements with licensed labour agencies. Our Directors believe that such arrangements have provided us with operational flexibility and enhanced the cost-effectiveness of our projects.

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During the Track Record Period, we had gradually reduced the use of temporary workers, which our Directors believe will promote our corporate image, enhance the quality of our works and our customers' confidence in our services, as well as reduce the need for on-site supervision and management of temporary workers. Our Directors also believe that it is easier for our project managers to monitor the works completed by the licensed labour agencies as compared to those by individual temporary workers. The number of temporary workers engaged by us decreased from 2,251 for the year ended 31 December 2013 to nil for the six months ended 30 June 2016 and the works originally undertaken by temporary workers have been mainly assigned to workers sourced under labour subcontracting. Our Directors do not expect that the decrease in use of temporary workers would have any material adverse effect on our financial condition or results of operations for the following reasons:

- details relating to labour costs will be included in our tender proposals; hence any change in our service fees by reason of change in the composition of our workers will be reflected in our fee proposals; and
- temporary workers are also required to carry out similar duties and works as workers sourced from licensed labour agencies; hence fees paid by us to the temporary workers are comparable to those paid under labour subcontracting or labour despatch in terms of fees per capita.

For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our fees paid to temporary workers amounted to approximately RMB297.9 million, RMB196.8 million, RMB1.4 million and nil, respectively, representing approximately 22.4%, 14.9%, 0.1% and nil of our total cost of sales, respectively.

As advised by our PRC Legal Advisers, our arrangements with our temporary workers did not violate any applicable labour laws and regulations in the PRC, and our insurance is able to cover the personal injuries sustained by our employees, including the temporary workers engaged by us, on worksites.

CREDIT MANAGEMENT

Credit period for customers

We have a standard credit period for our customers which is considered on an individually assessed basis and generally takes into account various factors, including the terms of the contracts entered into with them. During the Track Record Period, we generally granted a credit period of 15 days to our customers. Payment is generally made to us by our customers after (i) our customers and/or the project supervision units certify the value of works completed and endorse on the project progress report; and (ii) we issue our invoice to our customers. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our average trade receivable turnover days were 48 days, 62 days, 64 days and 78 days, respectively. Our Directors believe that the average trade receivable turnover days were longer than our credit period granted to our customers during the Track Record Period since our customers generally needed more time to carry out internal audit and verification procedures for payments.

Factoring arrangements

In view of the increase of average trade receivable turnover days during the Track Record Period, and as part of our enhanced credit control policies adopted since October 2015 and our cash flow management measures to improve our liquidity position, in June 2016, we entered into factoring arrangements with a licensed bank in respect of the sales invoices of certain customers on a "without recourse" basis. Our Directors believe that the entering into of such factoring arrangements has the following benefits: (i) it relieves our pressure to recover the outstanding trade receivables and

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reduces our credit risk in relation to the recoverability of these trade receivables; (ii) it improves our liquidity by increasing the sufficiency of our cash flows; and (iii) it reduces our financial costs as the factoring charges in relation to the trade receivables recovered, i.e. approximately 2.5% of the principal amount of trade receivables factored charged on an one-off basis, are much lower than the interests payable for borrowing the equivalent amount from banks based on the benchmark interest rate of PBOC, i.e. 4.35% per annum for one year lending.

Factoring on a "without recourse" basis

Factoring on a "without recourse" basis refers to the purchases of our trade receivables by the bank pursuant to which the bank is not entitled to assign the relevant trade receivables back to us or demand us to repurchase such trade receivables. The bank generally only purchases certain percentage of the confirmed invoice value which we believe is generally determined with reference to the credibility of our customers and the collectability of the trade receivables payable by such customers. Pursuant to the factoring agreements entered into between us and the bank, the risk of default or delay in payment by the relevant customers in respect of the trade receivables factored is borne by the bank and our customers should settle the trade receivables originally owed to us by depositing the trade receivables into a bank account designated and controlled by the bank. In respect of the relevant invoice value factored (or purchased) by the bank, the corresponding invoice value will not be recognised as trade receivables in our accounts as the relevant invoice value is regarded as having been purchased by the bank (e.g. the rights to collect the trade receivables and the risks of default or delay of payment have been transferred to the bank). On the other hand, the invoice value which is not factored (or purchased) will remain as trade receivables in our financial statements.

When deciding whether to enter into factoring arrangements for sales invoices of a particular customer, our management generally considers a number of factors including, among others, the historical or expected contractual amount with the relevant customers, our then cash flow position, the availability of factoring facilities as well as the related cost thereof.

Total sales and receipt from factoring arrangements

During the Track Record Period, we entered into factoring arrangements for sales invoices of 18 of our customers. The aggregate receipt from factoring of invoices of our customers amounted to nil, nil, nil and approximately RMB33.0 million for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, respectively. Among the RMB33.0 million, approximately 80.6% are trade receivables past due over two years as at 30 June 2016.

The following table sets out the total sales and receipt from factoring arrangements for the years/periods indicated:

	Total sales of our Group (A)	Total receipt from factoring of invoice value (B)	Percentage of (B)/(A)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Year ended 31 December 2013	1,484,634	–	–
Year ended 31 December 2014	1,479,719	–	–
Year ended 31 December 2015	1,659,693	–	–
Six months ended 30 June 2016	746,213	32,990	4.4

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Factoring-related costs

Factoring arrangements entered into by us and the bank are subject to one-off service charges by the bank. During the Track Record Period, the service charges for our factoring arrangements amounted to approximately RMB0.8 million. The following table sets out the factoring-related costs for the years/period indicated:

	Year ended 31 December			Six months ended 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Service charges	–	–	–	778
Total	–	–	–	778

Factoring arrangements subsequent to the Track Record Period

Subsequent to the Track Record Period and as at the Latest Practicable Date, we entered into two factoring arrangements on a "without recourse" basis with the same licensed bank and a factoring agent, an Independent Third Party which is a subsidiary of a company listed on the Shenzhen Stock Exchange, for sales invoices of 78 customers. The aggregate receipt from factoring the relevant invoices of our customers amounted to approximately RMB15.8 million after netting off the service charges of approximately RMB0.4 million for the period subsequent to the Track Record Period and up to the Latest Practicable Date.

Provision for foreseeable losses on construction contracts and impairment of receivables

During the Track Record Period, we made provision in respect of foreseeable losses on construction contracts, which represent amounts due from our customers for contract work and the recoverability of which was considered doubtful. The provision for foreseeable losses on construction contracts is determined by our Directors based on individual assessment of the recoverability of amounts due from our customers for contract works. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our provision for foreseeable losses on construction contracts amounted to approximately RMB25.0 million, RMB7.0 million, RMB9.0 million and RMB23.9 million, respectively. Such provision was made in relation to 12 projects, the customers of which were unwilling to certify the value of works completed or pay us progress payment in full. As at the Latest Practicable Date, we had ceased all works for all of these projects. Our management considers that the recovery of the outstanding amount due from such customers in respect of these 12 projects was uncertain and provision for foreseeable losses on construction contracts was made for prudence's sake. The following table sets out the details of these projects with foreseeable losses:

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No.	Customer profile	Property type	Location	Contract size	Revenue recognised			Provision for foreseeable losses on construction contracts			
					For the year ended 31 December		For the six months ended 30 June 2016	For the year ended 31 December		For the six months ended 30 June 2016	
					2013	2014		2015	2013		2014
				RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1	A PRC travel agency	Hotel	Lanzhou City, Gansu Province	17,000	-	-	15,934	-	15,934	-	-
2	A PRC property developer	Hotel	Shenzhen, Guangdong Province	12,582	470	-	8,106	-	1,107	6,999	-
3	A PRC construction company	Commercial building	Huathua City, Hunan Province	3,500	-	-	2,858	-	3,500	-	-
4	A PRC governmental authority	Public building and infrastructure	Ordos City, Inner Mongolia	7,780	-	-	2,576	-	4,437	-	-
5	A PRC property developer	Residential building	Xingyi City, Guizhou Province	3,500	1,573	479	2,052	-	-	2,052	-
6	A PRC manufacturer	Office building	Foshan City, Guangdong Province	3,000	-	685	3,000	884	-	243	-
7	A PRC property developer ⁽¹⁾	Hotel	Zunyi City, Guizhou Province	18,000	8,483	-	15,192	4,880	-	621	11,473
8	A PRC hospital	Public building and infrastructure	Taiyuan, Shanxi Province	16,400	12,003	-	12,003	7,371	-	1,102	-
9	A PRC steel manufacturer	Industrial building	Urumqi, Xinjiang Province	7,577	-	679	679	1,700	-	4,981	-
10	A PRC property developer ⁽²⁾	Residential building	Kunming City, Yunnan Province	8,500	4,612	3,442	8,054	4,800	-	-	3,254
11	A PRC property developer ⁽³⁾	Commercial building	Jiujiang City, Jiangxi Province	15,000	-	7,641	7,641	-	-	-	7,641
12	A PRC travel agency ⁽⁴⁾	Public building and infrastructure	Xuzhou City, Jiangsu Province	5,352	3,483	-	3,483	1,951	-	-	1,532
	Total			54,643	21,650	5,285	81,578	21,586	24,978	6,999	8,999

Notes:

- (1) The project commenced in late 2012 and was substantially completed by the end of 2014. We expected to receive the remaining payment when project inspection was completed in early 2016. However, in 2016, the customer was involved in certain lawsuits resulting in financial difficulties. Due to the increase in recoverability risk of the customer, we provided for a loss in relation to the outstanding amount due from the customer.
- (2) The project was completed in 2015 and we collected 60% of the contract value. Based on our communication with the customer in 2016, we assessed that the probability of recovering the unsettled balance is remote and provided for the loss on the remaining balance accordingly.
- (3) The project was suspended in 2015 due to a change in design as required by the developer. In 2016, we noticed that there was disagreement between the developer and the main contractor. We were uncertain about the endorsement of work performed and resumption of the construction and therefore provided for the full impairment of the uncollected balances.
- (4) The project was completed and underwent final inspection in 2015. In 2016, the customer failed to endorse and settle the amount as agreed. The recoverability of the amount is in doubt due to unstable operating results of the customer. Accordingly, a loss of the amount due from the customer was recognised as at 30 June 2016.

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Provision in respect of impairment of trade receivables

During the Track Record Period, we also made provision in respect of impairment of trade receivables. In determining the amount of provision of impairment of trade receivables, we perform credit evaluation on our customers, taking in account their payment history and latest financial information available and the industry market they operate in. For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our provision for impairment of trade receivables amounted to approximately RMB9.7 million, RMB11.0 million, RMB17.6 million and RMB2.0 million, respectively. During the six months ended 30 June 2016, we recovered trade receivables provided for impairment in prior years, resulting in a reversal of approximately RMB14.4 million. Such provision was mainly made for 13 projects in relation to commercial buildings, residential buildings, hotels and public buildings and infrastructure. Although these projects have been completed and we have issued our invoice to our customers, a portion of contract value remained outstanding mainly due to financial difficulties or liquidity issues of our customers and the difference between the value of work completed by us and the amount that our customers expect to pay. The customers of these projects are mainly from the commercial and public sectors. Our management considers that the recovery of the outstanding amount of trade receivables from these customers was uncertain and, for prudence's sake, provision for impairment of receivables was made as a result.

Please refer to the section headed "Financial Information – Description of Selected Items in Statements of Comprehensive Income – Administrative expenses" for further details of our provision for foreseeable losses on construction contracts and impairment of receivables.

Credit control policy and measures to monitor and improve liquidity and cash flow position

As at the Latest Practicable Date, we had adopted the following credit control policy and measures to monitor and improve our liquidity and cash flow position:

(i) *Credit control policy*

Prior to undertaking a project, a project evaluation report setting out the details of the project, including but not limited to the nature of the project, background of the customer, tender requirements and the estimated working capital and profit forecast, will be submitted by the business development personnel of our operation department to the supervising business manager of the operation department for review and approval. Upon obtaining the approval from the supervising business manager, the project evaluation report will be further submitted to our vice president in-charge, Mr. Ye Niangting, for final approval. Please refer to the section headed "Directors, Supervisors and Senior Management" for more information on the experience and qualifications of Mr. Ye. We will submit the tender upon obtaining the aforesaid final approval.

If we successfully obtain the tender, we will further negotiate each specific term of the contracts to ensure, in particular, that all material terms are in line with the industry practice. When the project commences, our project manager will inform our finance department in respect of the proposed settlement schedule in accordance with the terms of the contracts. During the course of works, our project manager in-charge will monitor the progress of the projects and be responsible for preparing the breakdown of settlement schedule for identifying any abnormal settlement or payment patterns of the customers.

Our project manager in-charge, together with our finance department, will monitor the settlement and payment status of the project and our finance department will issue debit note to our customers in accordance with the terms of the contract. If it is noted that our customers have failed to settle the outstanding payments pursuant to the terms of the contract, our project manager in-charge will remind our customers to make payment, find out the reason for the delay and inquire an expected settlement and payment schedule where necessary. Our project manager in-charge will report to the

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head of the operation department, who will then submit the relevant details to our finance department for review. After considering the reason for the delay and the expected settlement and payment schedule provided by our customers, our operation department and finance department will follow-up on whether there is further abnormal delay in settlement and, if necessary, report the situation to the vice president in-charge or to our president and our Board (in the case where the outstanding payment amounts to more than RMB50 million) for approval of subsequent actions to recover the outstanding payment, i.e. whether our project manager in-charge shall continue to chase the payment by visiting our customers' office, suspend the project, commence legal proceedings for recovery of the outstanding payment, and/or make provisions thereof.

The above credit control policies have been implemented by us before the Track Record Period.

The following table summarises some of the key enhanced procedures undertaken by us in respect of outstanding payments from customers since October 2015 in addition to the procedures initially adopted and subsequently revised in August 2011 and August 2015, respectively.

Outstanding amount due	Procedures
1-6 months	project manager in-charge to contact the customers by phone, fax, emails and/or site visits and remind them to settle payment;
6-12 months	finance department to issue written payment request to the customers and their finance department;
12-24 months	operation or legal department to request payment by conducting site visits and interviews with responsible finance officers of the customers;
24-36 months	the management of our Company to consider the risk of recoverability based on individual assessment of our customers and, if appropriate, to (i) engage external legal advisers to issue written demand letters for payment; and (ii) recognise such trade receivables as bad debts and make provision; and
over 36 months	the management of our Company to consider the risk of recoverability based on individual assessment of our customers, and to (i) recognise such trade receivables as bad debts and make provision accordingly; and (ii) engage external legal advisers to initiate legal proceedings for payment.

The above credit control policies have been implemented by us since October 2015.

In addition to the abovementioned procedures, to ensure that our management is well informed of the aging of the outstanding payments, our finance department will submit quarterly reports to our Board for review and deliberation.

To the best knowledge and belief of our Directors, the common reasons for delayed payments of our customers during the Track Record Period include:

- (a) the need of our customers to carry out internal audit and verification procedures;

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- (b) change in construction schedule of the projects; and
- (c) financial difficulty of our customers.

Our finance department is responsible for formulating quarterly plans for collection of project payments and actual payment collection reports, and our project department is responsible for formulating project construction schedules and breakdown of settlement schedules. Our finance department also plays an overall role in formulating quarterly funding plans to put forward a proposal for financing requirements of a project or extending payment to our suppliers based on the capital requirements in accordance with the terms of the contracts, and putting such plans into effect after being approved by our vice-president in charge, Mr. Huang Ye. Please refer to the section headed "Directors, Supervisors and Senior Management" for more information on the experience and qualifications of Mr. Huang.

The above credit control policies have been implemented by us since October 2015.

(ii) Measures to monitor and improve liquidity and cash flow position

At the beginning of each financial year, our finance department will work together with our business department and operation department to prepare the annual budget, based on the financial condition and results of operations of the previous year and the current year, as well as the estimated project progress and other factors. Our finance department will also prepare quarterly and monthly budget plans, taking into account the liquidity and cash flow position of the preceding period. If necessary, our finance department will revise our budget or arrange for external financing so that we can maintain sufficient cash flow for business operation. In addition, in order to monitor our liquidity and cash flow position, we strictly implement our credit control policy and the enhanced measures in respect of project reserve funds as mentioned above in this section. As at 30 September 2016, we had sufficient banking facilities and maintained sufficient level of unutilised banking facilities. For further details of our unutilised banking facilities, please refer to the section headed "Financial Information – Indebtedness".

The above credit control measures have been implemented by us since August 2015.

(iii) Factoring arrangements

During and subsequent to the Track Record Period, we entered into factoring arrangements with a licensed bank and a factoring agent, an Independent Third Party which is a subsidiary of a company listed on the Shenzhen Stock Exchange, in respect of certain sales invoices of certain customers on a "without recourse" basis for better risk and cash flow management. Please refer to the paragraph headed "Credit Management – Factoring arrangements" in this section for further details.

Our Directors' view

Based on the above, our Directors are of the view that we have maintained an effective credit control policy and implemented effective measures to monitor and improve our liquidity and cash flow position.

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THIRD PARTY PAYMENTS

Between October 2015 and February 2016, seven of our customers (the “**Debtor Customers**”) settled their outstanding payments to us through third parties in the PRC (the “**Third Party Payors**”) by way of Third Party Payments. For the year ended 31 December 2015 and the six months ended 30 June 2016, there were two and five Debtor Customers, respectively, and Third Party Payments amounted to approximately RMB21.9 million and RMB32.5 million, respectively, representing approximately 1.3% and 4.4% of our total revenue for the corresponding periods. Details of the Debtor Customers and the revenue attributable to Third Party Payments are set out below:

No.	Debtor customer profile	For the year ended 31 December 2015		For the six months ended 30 June 2016	
		Amount of Third Party Payments <i>(RMB million)</i>	Approximate percentage of revenue attributable <i>(%)</i>	Amount of Third Party Payments <i>(RMB million)</i>	Approximate percentage of revenue attributable <i>(%)</i>
1.	A PRC property developer	–	–	15.1	2.0
2.	A PRC state-owned conglomerate with diversified businesses	–	–	8.5	1.1
3.	A PRC company operating supermarkets and department stores	–	–	0.9	0.1
4.	A PRC coal production conglomerate	–	–	6.0	0.8
5.	A PRC property developer	–	–	2.0	0.3
6.	A PRC trading company	5.2	0.3	–	–
7.	A PRC property developer	16.7	1.0	–	–
Total		<u>21.9</u>	<u>1.3</u>	<u>32.5</u>	<u>4.4</u>

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The following table sets out the revenue contribution from the Debtor Customers during the Track Record Period and up to the Latest Practicable Date:

No.	Debtor customer profile	Contract value	Revenue recognised			For the six months ended 30 June 2016	Remaining contract value as at 30 June 2016
			For the year ended 31 December				
			2013	2014	2015		
		(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)	
1.	A PRC property developer	26.0	15.5	4.9	1.5	0.2	0.8
2.	A PRC state-owned conglomerate with diversified businesses	43.0	8.1	–	–	–	14.2
3.	A PRC company operating supermarkets and department stores	10.8	2.8	–	–	–	–
4.	A PRC coal production conglomerate	15.5	–	13.0	1.3	–	1.2
5.	A PRC property developer	8.3	5.9	–	2.4	–	–
6.	A PRC trading company	7.2	4.5	0.3	0.6	–	–
7.	A PRC property developer	45.7	–	31.6	14.1	–	–
Total		156.5	36.8	49.8	19.9	0.2	16.2

To the best knowledge of our Directors, the occurrence of Third Party Payments was mainly due to (i) our enhanced internal control measures adopted since October 2015 to accelerate our receivables collection process, including issuing demand letters to overdue customers more frequently, which resulted in the relevant customers expediting the settlement of their payments owed to our Group through Third Party Payments; and (ii) the preference of the relevant Debtor Customers to require their respective debtors, i.e. the Third Party Payors, to settle their outstanding amounts due to our Company on their behalf, as such arrangements benefit their cash flow and did not conflict with their internal procedures. As confirmed by Frost & Sullivan, which our Directors concur, it is not uncommon for public building decoration services providers in China to adopt Third Party Payments, especially when demanded by customers.

To the best knowledge of our Directors after making reasonable enquiries, the Third Party Payors include construction and engineering companies as well as wholesale and retail companies in the PRC, which are generally indebted to the Debtor Customers. Our Directors confirm that all of the requests for Third Party Payments were initiated by the Debtor Customers and each of such requests was carefully assessed by our Company based on commercial considerations and taking into account the length of business relationship with the Debtor Customers and their payment history. To the best knowledge of our Directors after making reasonable enquiries, our Directors confirm that all Third Party Payors are independent of our Group.

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For each of the Third Party Payments, written settlement agreements were entered into by our Company with the Debtor Customers and the Third Party Payors. Based on the settlement agreements, the Third Party Payors agreed to make the Third Party Payments to offset their debt owed to the Debtor Customers. As advised by our PRC Legal Advisers, the Third Party Payments are merely an assignment of debt pursuant to the Contract Law of the PRC (中華人民共和國合同法) and the Third Party Payments and the relevant settlement agreements constitute legal and binding obligations on each of the parties. Given the settlement agreements are valid and legally binding, there is no legal ground for the Third Party Payors or their liquidators to claim against our Company in relation to the Third Party Payments. During the Track Record Period and up to the Latest Practicable Date, we had not been required to return to the Third Party Payors any amount paid to us, and to the best knowledge of our Directors, no actual or pending dispute or disagreement had arisen as a result of the Third Party Payments.

Set out below are the major terms of the settlement agreements entered into by our Company with the Debtor Customers and the Third Party Payors:

- details of the projects undertaken by us for the Debtor Customers;
- amount of outstanding project payments owed by the Debtor Customers to us;
- amount to be settled by the Third Party Payors for and on behalf of the Debtor Customers;
- manner of payment and payment due date; and
- if the amount to be settled by the Third Party Payors for and on behalf of the Debtor Customers does not represent the full amount of outstanding project payments owed by the Debtor Customers to us, the balance to be settled by the Debtor Customers.

As advised by our PRC Legal Advisers, the Third Party Payments and the relevant settlement agreements do not contravene or circumvent any PRC laws or regulations. In particular, according to Article 191 of the Criminal Law of the PRC (中華人民共和國刑法), the crime of money laundering is committed only if our Company (i) clearly knows that the Third Party Payments represent proceeds and/or gains obtained from drug-related crimes, crimes committed by criminal organisations, crimes of terrorism, smuggling, bribery and corruption, crimes undermining the financial order of society and financial fraud; and (ii) commits certain acts as referred to under Article 191 of the Criminal Law of the PRC for the purpose of covering up or concealing the source and nature of the above proceeds or gains. To the best knowledge of our Directors after making reasonable enquiries, the Third Party Payments were only made by the Debtor Customers through the Third Party Payors to settle payments owed to our Group. We and our Directors have no grounds to believe that the Third Party Payments were proceeds or gains from the above crimes and confirm that they have not committed any acts for the purpose of covering up or concealing any source and nature of any proceeds or gains from any crimes. Based on the above confirmation, our PRC Legal Advisers are of the view that risks of money laundering under the Criminal Law of the PRC is remote in relation to the Third Party Payments.

Given the above advice from our PRC Legal Advisers, as we were concerned with the settlement of trade receivables by the Debtor Customers and the Third Party Payments accelerated our collection process, we did not previously object to such arrangements. Nevertheless, we have ceased all Third Party Payments since mid-March 2016 as Third Party Payments involve negotiations on settlement agreements among the relevant parties of each Third Party Payment which our Company has to devote additional costs and resources for the said purposes, and that our Directors believed that a direct collection of receivables from our customers will enhance the transparency of our receivables collection process. Besides, our Directors wish to avoid other customers following suit

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with respect to Third Party Payments given that Third Party Payments in a larger scale might incur further expenses (such as legal fees and administrative costs) on our Group. As confirmed by our Directors, since mid-March 2016 and up to the Latest Practicable Date, there had been no Third Party Payment incident.

As set out above, for the year ended 31 December 2015 and the six months ended 30 June 2016, Third Party Payments amounted to approximately RMB21.9 million and RMB32.5 million, respectively, representing approximately 1.3% and 4.4% of our total revenue, respectively. As at the Latest Practicable Date, it is estimated that Third Party Payments will account for less than 4.4% of our total revenue for the year ending 31 December 2016 if the whole year revenue ending 31 December 2016 is taken into account in the calculation. Given the immaterial revenue contribution from the Debtor Customers and the payments received through Third Party Payments during the Track Record Period, our Directors are of the view that our Company does not rely on Third Party Payments for settlement of payments from our customers and the cessation of Third Party Payments will not have any material impact on our business, results of operations and financial performance.

Based on, amongst others, the advice from our PRC Legal Advisers and the advice from King & Wood Mallesons, the PRC legal advisers to the Sole Sponsor and the due diligence works performed by the Sole Sponsor on the Third Party Payments, including but not limited to, conducting interviews with each of the Third Party Payors and the Debtor Customers and reviewing the relevant agreements and documents, the Sole Sponsor is not aware of any material adverse findings in respect of the Third Party Payments which ought to be brought to the attention of the Stock Exchange.

Internal control measures to ensure no settlement of payments through Third Party Payors in the future

We have implemented enhanced internal control measures to ensure that there will be no Third Party Payments going forward. Our internal control consultant, which is an independent consulting firm (the "**Internal Control Consultant**"), reviewed the enhanced internal control measures in May 2016 and had no further recommendation. The enhanced internal control measures are summarised below:

- (i) our audit department convened an audit meeting relating to Third Party Payments and issued a Notice on our Company's Requirements in respect of Receivables from Customers, which specifically prohibited the receipt of payments from customers through Third Party Payors. The notice became effective in mid-March 2016 and has been circulated to the relevant personnel, including our senior management, accounting and finance staff and project managers to ensure that the relevant personnel are informed of our new policy on the cessation of Third Party Payments;
- (ii) in order to ensure that our customers are aware of our new policy on the cessation of Third Party Payments, since April 2016, our sales invoice has included a clear statement that all customers shall settle their payments to us directly and that any Third Party Payments will be rejected by us;
- (iii) the accounting assistant of our finance department is responsible for formulating a template of Standing Book of Receivables for Construction Work based on bank reconciliation, which contains information on, among other things, description of project, name of customer, date of receipt, paying entity and its account number, whether the settlement involves Third Party Payment arrangement and whether there is any abnormal situation in respect of each of our projects. Our finance department has commenced using the template of Standing Book of Receivables for Construction Work since early May 2016; and
- (iv) our audit department is responsible for conducting quarterly review on the Standing Book of Receivables for Construction Work to ensure that there are no incidents of Third Party

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Payments. If any incident of Third Party Payment is identified, the manager of our audit department will report to our president for further actions.

Based on the above additional internal control measures which have been fully adopted by our Company since May 2016 and the fact that no Third Party Payments have been identified since the cessation of the Third Party Payments and up to the Latest Practicable Date, our Directors are of the view, which the Sole Sponsor concurs, that the above additional internal control measures are effective and adequate in preventing Third Party Payments.

INVENTORY MANAGEMENT

We generally purchase raw materials on a project-by-project basis, depending on the work progress and the specific requirements of each project. We therefore carried minimal inventory during the Track Record Period.

EMPLOYEES

As at the Latest Practicable Date, our Group had approximately 280 employees in the PRC. The following table provides a breakdown of our employees by function:

Function	Number of employees
Administration and management	41
Project management	128 ⁽¹⁾
Design	27
Research and development	10 ⁽²⁾
Technical support	6
Procurement	6
Sales and marketing	33
Accounting and finance	32
Total	283

Notes:

⁽¹⁾ Of the 128 project management personnel, 112 are project managers and 6 have duties in other departments.

⁽²⁾ Apart from these 10 research and development personnel, 37 of our employees in other departments (of which 33 are project managers) are involved in our research and development initiatives. In order to avoid double counting, these 37 employees are not counted towards "research and development" in this table.

We generally recruit our employees through internal recruitment, internal referral, job postings on the internet, and recruitment agencies. We provide training to our employees in aspects such as general and technical skills and management skills.

We source workers from licensed labour agencies in the PRC to carry out labour works as well as engage temporary workers to assist our workers sourced from licensed labour agencies. As a result, we do not need to recruit or retain a large number of permanent workers. Please refer to the paragraphs headed "Our Arrangements with Licensed Labour Agencies" and "Our Arrangements with Temporary Workers" in this section for further details. Pursuant to the applicable PRC laws and regulations and the relevant agreements with the licensed labour agencies, the licensed labour agencies are responsible for providing us with suitable workers and ensuring that the staff turnover

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rate is less than a prescribed percentage (generally 10%). For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the total amount of fees paid to work forces engaged by us amounted to approximately RMB451.0 million, RMB448.1 million, RMB472.2 million and RMB204.5 million, respectively, representing approximately 34.0%, 34.0%, 32.3% and 31.2% of our total cost of sales, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material dispute with our employees or disruption to our operations due to labour dispute and we had not experienced any difficulty in the recruitment and retention of employees.

Save for the matters as disclosed in the paragraph headed "Non-compliance Matters" in this section, as advised by our PRC Legal Advisers, we had complied with the applicable labour laws and regulations in the PRC in all material respects during the Track Record Period and up to the Latest Practicable Date.

MARKET AND COMPETITION

We are one of the top 20 building decoration service providers in the PRC. According to the Frost & Sullivan Report, the building decoration industry in the PRC is highly fragmented with intense regionalisation, and there were approximately 24,000 players in the building decoration industry in the PRC as at 31 December 2015. According to the Frost & Sullivan Report, we ranked 18th with a market share of 0.07% in the building decoration industry and 6th with a market share of 0.09% in the medical building decoration industry in terms of sales revenue in the PRC in 2015. The medical building decoration sector accounted for 6.1% of the entire China public building decoration market in terms of revenue in 2015.

According to the Frost & Sullivan Report, the public building decoration industry in the PRC has experienced continuous and considerable growth at a CAGR of 14.2% from 2010 to 2015, and is expected to further expand at a CAGR of 16.9% from 2016 to 2019. The building decoration industry has been mainly driven by government support, accelerated urbanisation, development of modern service industries and increased culture and health needs.

We compete with other building decoration service providers in the PRC in aspects such as quality control of services, design capability, and product research and design.

The main entry barriers to the building decoration market in the PRC include financial capacity, qualifications, channel capacity, design talent and partnership. Our Directors believe that our competitive strengths, details of which are set out in the paragraph headed "Competitive Strengths" in this section, distinguish us from other building decoration service providers in the PRC and we are placed in a competitive position in the building decoration industry in the PRC, thereby allowing us to continue to capture growth opportunities in the PRC.

Please refer to the section headed "Industry Overview" for further details of the building decoration industry in the PRC.

PROPERTIES

As at the Latest Practicable Date, we owned a parcel of land with a site area of approximately 39,406.3 sq.m. in Huizhou, Guangdong Province, the PRC. In addition, as at the Latest Practicable Date, we owned eight properties with a total GFA of approximately 4,607.9 sq.m. in Beijing and Shenzhen, the PRC. Since the carrying amount of our property interests does not exceed 15% of our total assets as at 30 June 2016, we are not required under the Listing Rules to include the full text of a valuation report in this document.

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Land use rights

The following table sets out certain information in relation to our land use rights in the PRC:

No.	City/Province	Location	Site area (sq.m.)	Designated usage
1.	Huizhou, Guangdong Province	Baihua County, Taiyang Ao, Industrial City	39,406.27	Industrial

Owned properties

The following table sets out certain information in relation to our owned properties in the PRC:

No.	City/Province	Location	Approximate GFA (sq.m.)	Usage
1.	Shenzhen, Guangdong Province	Pengyi Garden, Bagua No.1 Road, Futian District	3,790.44	Office
2.	Shenzhen, Guangdong Province	Daqing Plaza, Southeast side of the intersection of Shennan Road and Guangshen Highway, Futian District	80.02	Investment property
3.	Shenzhen, Guangdong Province	Daqing Plaza, Southeast side of the intersection of Shennan Road and Guangshen Highway, Futian District	80.02	Investment property
4.	Shenzhen, Guangdong Province	Songde Garden, Meilin No.2 Road, Futian District ⁽¹⁾	64.82	Staff quarters
5.	Shenzhen, Guangdong Province	Songde Garden, Meilin No.2 Road, Futian District ⁽¹⁾	64.79	Staff quarters
6.	Shenzhen, Guangdong Province	Kunyifu Yuan, Pinghu Fenghuang Road, Longgang District ⁽¹⁾	58.79	Staff quarters
7.	Shenzhen, Guangdong Province	Kunyifu Yuan, Pinghu Fenghuang Road, Longgang District ⁽¹⁾	88.17	Staff quarters
8.	Beijing	No.9, Fulin Road, Chaoyang District	197.55	Office
9.	Beijing	No.9, Fulin Road, Chaoyang District	171.62	Office
10.	Beijing	No.9, Fulin Road, Chaoyang District	158.65	Office

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Note:

- (1) *As at the Latest Practicable Date, we were applying for but had not obtained building ownership certificate in respect of the properties. As advised by our PRC Legal Advisers, we had fully paid the consideration for the purchase of the properties and, pursuant to the notice issued by Futian District Enterprise Development Service Centre (福田區企業發展服務中心) on 10 September 2013 and the property acquisition agreements entered into with the Housing and Construction Bureau of Futian District of Shenzhen Municipality (深圳市福田區住房和建設局) (the "HCB") on 11 March 2015 and 21 April 2016, respectively, the properties had been allocated and sold to us. The properties were allocated and sold to us as eligible enterprise and as incentives to retain and attract talents pursuant to the relevant policy on allocation and sale of residential properties to employees issued by Futian District of Shenzhen Municipality (the "Incentive Policy"). As advised by our PRC Legal Advisers, under the Incentive Policy, we cannot lease or transfer the properties freely in the market as the properties were intended to benefit our employees. The HCB is responsible for processing applications for the building ownership certificates of such properties in stages. On 10 November 2015 and 23 August 2016, respectively, we obtained letters of confirmation from the HCB, confirming that (i) our Company had completed the purchase of the properties in accordance with relevant regulations; and (ii) the HCB was liaising with the relevant government authorities in respect of the building ownership certificates of such properties. As advised by our PRC Legal Advisers, up to the Latest Practicable Date, there was no major legal impediment for the obtaining of building ownership certificate in respect of the properties. Based on the above, our Directors believe that the delay in obtaining the building ownership certificates in respect of the properties will not have any material adverse impact on our financial condition or results of operations.*

INTELLECTUAL PROPERTY

To protect our business name, our Group has registered various trademarks in the PRC and Hong Kong. We value our research and development efforts and achievements, and as at the Latest Practicable Date, we had registered more than 60 utility patents and 20 software copyrights in the PRC. For further details of our material intellectual property rights, please refer to "Statutory and General Information – Further Information about our Business – 2. Our Intellectual Property Rights" in Appendix VI to this document.

During the Track Record Period and up to the Latest Practicable Date, no material claim or dispute was brought against our Group in relation to any infringement of trademarks, patents or other intellectual property rights. Our Directors are not aware of any use by any third party of our logo or brand and believe that there has been no infringement of our intellectual property rights that would result in a significant potential impact to our business.

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AWARDS AND ACCREDITATIONS

The following table sets out the key awards and accreditations received by our Group from relevant PRC government authorities and professional institutions:

Year	Award	Issuing authority or institution
2016	Top 10 Medical Decoration Institution* (十佳醫療裝飾機構)	CBD Association
2014	Top 20 Professional Contractors of Healthcare Building and Decoration Engineering* (醫療建築裝飾工程專業承包商二十強)	CBD Association
2014	Star Enterprise of National Construction Engineering and Decoration Award* (全國建築工程裝飾獎明星企業)	CBD Association
2014	Top 100 Specialised Enterprises (in the category of hotels)* (專業化百強企業(酒店空間類))	CBD Association and China Construction News (中華建築報社)
2014	Shenzhen Top Brand (深圳知名品牌)	Shenzhen Top Brand Evaluation Committee (深圳知名品牌評價委員會)
2013, 2014	Guangdong Province Enterprise of Observing Contract and Valuing Credit* (廣東省守合同重信用企業)	Guangdong Province Administration for Industry and Commerce (廣東省工商行政管理局)
2013	100 Innovative Enterprises with Outstanding Technology* (百家優秀科技創新型企業)	CBD Association
2013	Best Specialised Decoration Enterprise in the Medical and Health Segment of the National Building Decoration Industry* (全國建築裝飾行業醫療衛生類最佳專業化裝飾企業)	CBD Association
2004 – 2014	Top 100 Enterprises in the PRC Building Decoration Industry* (中國建築裝飾行業百強企業)	CBD Association and China Construction News (中華建築報社)

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The following table sets out the key awards and accreditations received by our Group from relevant professional institutions in respect of certain of our projects and research and development achievements:

Year	Award	Project or research and development achievement	Issuing authority or institution
2016	Best Project Design in 2015* (2015年度最佳專項設計)	The University of Hong Kong-Shenzhen Hospital (previously known as Shenzhen Binhai Hospital (深圳濱海醫院))	CBD Association
2016	Best Project Design in 2015* (2015年度最佳專項設計)	CTS HK (Qingdao) Ocean Spring Resort* (港中旅(青島)海泉灣酒店)	CBD Association
2015	National Construction Engineering Decoration Prize (in the category of public building decoration)* (全國建築工程裝飾獎(公共建築裝飾類))	Interior decoration and building intelligent system engineering works for Tower A of Chongqing Publishing & Media Centre* (重慶出版傳媒創意中心A塔樓室內裝飾及建築智能化系統工程)	CBD Association
2015	National Construction Engineering Decoration Prize (in the category of public building decoration design)* (全國建築工程裝飾獎(公共建築裝飾設計類))	Interior decoration and building intelligent system engineering works for Tower A of Chongqing Publishing & Media Centre* (重慶出版傳媒創意中心A塔樓室內裝飾及建築智能化系統工程)	CBD Association
2015	National Construction Engineering Decoration Prize (in the category of curtain wall)* (全國建築工程裝飾獎(建築幕牆類))	Curtain wall and steel construction engineering works for the Medical Building of Northern New Zone Medical Centre (General)* (北部新區醫療中心(普通部)醫療綜合樓幕牆及鋼結構施工工程)	CBD Association

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Year	Award	Project or research and development achievement	Issuing authority or institution
2014	China Construction Engineering Lu Ban Prize* (中國建設工程魯班獎)	The University of Hong Kong-Shenzhen Hospital (previously known as Shenzhen Binhai Hospital (深圳濱海醫院))	Ministry of Construction (建設部) and China Construction Industry Association (中國建築業協會)
2014	National Construction Engineering Decoration Prize (in the category of public building decoration)* (全國建築工程裝飾獎(公共建築裝飾類))	Decoration works for CTS HK (Qingdao) Ocean Spring Resort* (港中旅(青島)海泉灣酒店裝修工程)	CBD Association
2014	National Construction Engineering Decoration Prize (in the category of public building decoration)* (全國建築工程裝飾獎(公共建築裝飾類))	Decoration works for the new office building of the Export-Import Bank of China Xinjiang* (中國進出口銀行新疆分行新辦公樓裝飾工程)	CBD Association
2014	National Construction Engineering Decoration Prize (in the category of curtain wall)* (全國建築工程裝飾獎(建築幕牆類))	Curtain wall engineering works for Shenzhen Animation and Online-gaming Industry Base* (動漫及網遊產業基地綜合樓幕牆工程)	CBD Association
2014	National Construction Engineering Decoration Prize (in the category of public building decoration)* (全國建築工程裝飾獎(公共建築裝飾類))	Decoration works for Vanguard Zunyi shop* (華潤萬家遵義店裝飾工程)	CBD Association
2014	National Award of Technology Innovation Achievements in the Building Decoration Industry* (全國建築裝飾行業科技創新成果獎)	Thermostat device in engine room* (機房高溫裝置)	CBD Association

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Year	Award	Project or research and development achievement	Issuing authority or institution
2014	National Award of Technology Innovation Achievements in the Building Decoration Industry* (全國建築裝飾行業科技創新成果獎)	Installation technology of indoor lighting* (室內燈具的安裝照明裝置技術)	CBD Association
2014	National Award of Technology Innovation Achievements in the Building Decoration Industry* (全國建築裝飾行業科技創新成果獎)	Intelligent control of underground garage lighting* (地下車庫照明用的智能燈控技術)	CBD Association
2013	National Award of Technology Demonstration of the Building Decoration Industry* (全國建築裝飾行業科技示範工程獎)	Building decoration and transformation works for East China Jiaotong University Academic Exchange Centre* (華東交通大學學術交流中心裝修改造工程)	CBD Association
2012	National Construction Engineering Decoration Prize (in the category of public building decoration)* (全國建築工程裝飾獎(公共建築裝飾類))	Clinic and Hospital Buildings of Ordos Meng Medical Research Institution* (鄂爾多斯蒙醫研究所門診、病房大樓)	CBD Association
2012	National Construction Engineering Decoration Prize (in the category of public building decoration)* (全國建築工程裝飾獎(公共建築裝飾類))	Bureau of Public Security Transportation Team Vehicles Management Department Ordos* (鄂爾多斯市公安局交通管理支隊車輛管理所)	CBD Association
2012	National Award of Technology Demonstration of the Building Decoration Industry* (全國建築裝飾行業科技示範工程獎)	Interior building decoration works for Bureau of Public Security Transportation Team Vehicles Management Department Ordos* (鄂爾多斯市公安局交警支隊車輛管理所室內裝修一標段工程)	CBD Association

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Year	Award	Project or research and development achievement	Issuing authority or institution
2012	National Construction Engineering Decoration Prize (in the category of public building decoration)* (全國建築工程裝飾獎 (公共建築裝飾類))	Transformation works for East China Jiaotong University Academic Exchange Centre* (華東交通大學學術交流中心改造工程)	CBD Association
2012	National Award of Technology Innovation Achievements in the Building Decoration Industry* (全國建築裝飾行業科技創新成果獎)	Dry hanging technique of granite* (花崗岩乾掛技術)	CBD Association

QUALIFICATIONS, LICENCES AND PERMITS

We are required to obtain certain qualifications, licences and permits in order to carry on our business operations in the PRC. Please refer to the section headed "Laws and Regulations" for further details. The following table sets out the details of our existing qualifications, licences and permits that are material to our business operations:

Qualification/licence/permit	Issuing authority	Date of grant	Expiry date
Grade I Professional Contractor of Building Renovation and Decoration Engineering* (建築裝修裝飾工程專業承包壹級)	Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳)	4 July 2016	17 March 2021
Grade A Professional Building Decoration Engineering and Design* (建築裝飾工程設計專項甲級)	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)	4 December 2007	19 February 2018
Grade I Professional Contractor of Curtain Wall Engineering* (建築幕牆工程專業承包壹級)	Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳)	4 July 2016	17 March 2021
Grade A Professional Curtain Wall Engineering and Design* (建築幕牆工程設計專項甲級)	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)	4 December 2007	19 February 2018

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Qualification/licence/permit	Issuing authority	Date of grant	Expiry date
Grade I Professional Contractor of Building Electrical and Mechanical Installation and Engineering* (建築機電設備安裝工程專業承包壹級)	Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)	4 July 2016	17 March 2021
Grade I Professional Contractor of Electronic Building Intelligent Engineering* (電子與智能化工程專業承包壹級)	Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳)	4 July 2016	17 March 2021
Grade I Professional Contractor of Fire Safety Equipment Engineering* (消防設施工程專業承包壹級)	Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳)	4 July 2016	17 March 2021
Grade II Professional Contractor of Steel Structure Engineering* (鋼結構工程專業承包貳級)	Department of Housing and Development of Shenzhen (深圳市住房和建設局)	17 May 2016	17 May 2021
Grade B Professional Fire Safety Equipment Engineering and Design* (消防設施工程設計專項乙級)	Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳)	4 April 2014	4 April 2019
Permit for Operating Medical Equipment Business* (醫療器械經營企業許可證)	Pharmaceutical Supervision and Administration Authority of Shenzhen* (深圳市藥品監督管理局)	12 November 2013	11 November 2018
Qualification Certificate for the Design, Installation and Maintenance of Security Prevention Systems (Ungraded)* (廣東省安全技術防範系統設計、施工、維修資格證(未定級))	Security Prevention Management Office of the Public Security Bureau of Guangdong Province (廣東省公安廳安全技術防範管理辦公室)	8 April 2016	8 April 2018
Work Safety Licence* (安全生產許可證)	Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳)	28 April 2014	28 April 2017

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As at the Latest Practicable Date, we had two designated technical directors and six designated technical personnel fulfilling the requirements of Grade A of the Grade Standards for Design and Construction of Building Decoration Qualification (建築裝飾裝修工程設計與施工資質標準). The following table sets out the number and qualifications of our technical directors and technical personnel:

Capacity	Number of personnel	Qualifications
Technical director	2	Constructor, senior engineer
Technical personnel	6 ⁽¹⁾	Constructor

Note:

⁽¹⁾ The number of technical personnel includes the two designated technical directors.

According to the Circular of the Ministry of Housing and Urban-Rural Development on Matters relating to the Cancellation of Four Project Design and Construction Qualifications Including Intelligent Buildings (住房城鄉建設部關於取消建築智能化等4個工程設計與施工資質有關事項的通知), which was issued by MOHURD on 14 July 2015, the approval procedures for integrated design and construction of building decoration qualifications have been cancelled and the existing qualifications will remain valid until their respective expiry dates. As advised by our PRC Legal Advisers, given that our Company has obtained the relevant individual design and/or construction qualifications to replace the aforesaid qualifications, the circular does not and will not have any material adverse impact on our business and our Directors believe that the circular will not have any material adverse impact on our competitiveness in the building decoration industry, in particular, given that there are certain entry barriers to the public building decoration industry in China. Please refer to the section headed "Laws and Regulations – Regulations Relating to our Industry – Requirements for obtaining the Design and Construction of Building Decoration Qualifications" for further details.

As advised by our PRC Legal Advisers, we had obtained all material requisite qualifications, licences and permits that are material to our business operations from the relevant government authorities during the Track Record Period and up to the Latest Practicable Date.

Our management reviews our business practices regularly to ensure our compliance with all licensing requirements and the successful renewal of our qualifications, licences and permits. To the best knowledge and belief of our Directors after making reasonable enquiries, as at the Latest Practicable Date, our Directors were not aware of any major legal impediment for the renewal of our qualifications, licences or permits.

OCCUPATIONAL HEALTH AND WORK SAFETY

We are subject to laws and regulations relating to occupational health and work safety. Please refer to the section headed "Laws and Regulations" for further details.

We are committed to providing a safe and healthy working environment for our employees and workers. We have adopted work safety measures to prevent the occurrence of industrial accidents and reduce construction risks, and our occupational health and safety management system has obtained certification to OHSAS 18001. We have in place construction safety and fire safety guidelines, and our safety management system includes, among others, safety training to our employees, regular on-site safety inspections, requiring our workers to use safety equipment and ensuring that all technical staff, such as electricians and welders, have received specialised training and possess all necessary licences or qualifications. In respect of projects that are of a larger scale, the project supervision units and local government authorities will monitor and supervise, among other things, the implementation of work safety measures during project implementation.

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Our Group possesses the Work Safety Licence* (安全生產許可證) issued by the Department of Housing and Urban-Rural Development of Guangdong Province (廣東省住房和城鄉建設廳). As advised by our PRC Legal Advisers, such a licence can only be granted by competent construction administrative authorities at provincial level or above, and to enterprises engaging in construction activities which have satisfied certain work safety requirements. Pursuant to the applicable PRC laws and regulations, the issuing authority of the Work Safety Licence* (安全生產許可證) has the power to, after granting the licence, monitor the implementation of the work safety measures by the relevant company and review the adequacy of such measures.

During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any material claim or incident in relation to work safety nor been involved in any accident causing death or serious injury in the course of our business operations. As advised by our PRC Legal Advisers, we had received a letter of confirmation issued by the Administration of Work Safety of Futian District of Shenzhen (深圳市福田區安全生產監督管理局), confirming that we had not been subject to any penalty for violations of laws and regulations relating to work safety during the Track Record Period and up to the Latest Practicable Date.

ENVIRONMENTAL PROTECTION

Our business operations are subject to a number of environmental protection laws, regulations, policies and standards in the PRC, including the Law of the People's Republic of China on Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境雜訊污染防治法) and the Standards for Indoor Environmental Pollution Control of Civil Building Engineering (民用建築工程室內環境污染控制規範).

We are committed to minimising the adverse impact on the environment resulting from our business activities. In order to promote environmental awareness and ensure compliance with the applicable environmental protection laws, regulations, policies and standards, we have established an environmental management system, which has obtained certification to ISO 14001. Our Directors are of the view that the annual cost of compliance with the applicable environmental protection laws, regulations, policies and standards was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

We believe that we have adopted adequate measures to minimise wastage and pollution during our work process and such measures are in line with the industry practices and in accordance with the applicable environmental protection laws, regulations, policies and standards. As advised by our PRC Legal Advisers, we had not been subject to any material claim or penalty in relation to environmental protection during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

Our Group is subject to the social insurance system of the PRC and is required to make contributions for our PRC employees towards five categories of insurance, including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. We also maintain insurance for third party liabilities in respect of some of our projects. We maintain extra insurance to cover personal injuries sustained by workers on worksites.

For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the total insurance cost borne by us amounted to approximately RMB0.4 million, RMB0.6 million, RMB0.7 million and RMB0.3 million, respectively. Our Directors believe that our insurance coverage is sufficient and adequate and in line with the industry norm. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice.

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LEGAL PROCEEDINGS

On 11 October 2014, after appeal, a final judgment was delivered by the Intermediate People's Court of Xinyang, Henan Province ruling that, our Company was liable to pay the respondent, a PRC citizen ("**Mr. A**"), for the outstanding labour fees in respect of a decoration project in Xinyang, Henan Province. In April 2015, our Company entered into a settlement agreement with Mr. A to fully settle the case by repaying all outstanding labour fees in the sum of RMB120,000. The payment has been fully paid and Mr. A had issued a statement confirming that he had withdrawn the case against our Company at the relevant People's Court and that he had no further claim against our Company. Taking into consideration of the settlement of the case and the settlement amount, our Directors confirm that the said case would not have any material adverse effect on our financial condition or results of operations.

In November 2015, it came to our Directors' attention that various articles were published by a PRC citizen ("**Mr. B**") on his personal blog and other online platforms in the PRC, claiming that our Company was involved in a labour dispute in respect of a decoration project in Shenzhen. Our Company has conducted internal investigation and contacted Mr. B for further information. Our Directors confirm that we were not involved in the said decoration project and have not entered into any contractual or labour relationship with Mr. B, or any of the companies or individuals mentioned in the articles. Our Directors confirm that the articles were false and not true in respect of those facts allegedly relating to our Company. Subsequently, Mr. B issued a statement confirming that he had not entered into any labour relationship with our Company and those articles were untrue and were published without due and proper enquiries.

As advised by our PRC Legal Advisers, the cases in respect of Mr. A and Mr. B have been fully settled and did not and will not have any material adverse impact on our results of operation and/or business operation.

Our PRC Legal Advisers also advised that, based on the results of their due diligence work and our confirmation, as at the Latest Practicable Date, there was no litigation or arbitration or administrative proceedings pending or threatened against any member of our Group or any of our Directors which may have a material adverse effect on our financial condition or results of operations.

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NON-COMPLIANCE MATTERS

Save for certain incidents of non-compliance set out below, our Directors are not aware of any material non-compliance of our Group of the applicable laws and regulations during the Track Record Period and as at the Latest Practicable Date:

Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
<p>1(a). Failure to make social insurance and housing provident fund contributions in full</p> <p>During the Track Record Period, based on the understanding of the local practices, we had not fully complied with the relevant regulations in relation to payment of social insurance and housing provident fund contributions for all of our employees.</p>	<p>The non-compliance was due to the fact that some of our employees did not want to participate in the social insurance and housing provident schemes as they are not willing to participate in the social welfare or housing benefit schemes of the city to which they immigrate temporarily and prefer a cash payment in lieu of their contribution thereof.</p>	<p>According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulations concerning the Administration of Housing Provident Fund (《住房公積金管理條例》), we are required to provide employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance, medical insurance and housing provident fund.</p> <p>If an employer fails to pay its social insurance contributions in accordance with the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the regulator may order it to pay the overdue amount within the prescribed time limit and impose an overdue fine equivalent to 0.05% of the overdue amount per day. If the employer still fails to pay within the prescribed time limit, the regulator may impose a fine of one to three times of the overdue amount.</p>	<p>We have obtained letters of confirmation from the relevant authorities in Shenzhen, Chengdu and Chongqing where we had employees during the Track Record Period and/or as at the Latest Practicable Date.</p> <p>We have obtained letters of confirmation from Shenzhen Social Insurance Fund Administration (《深圳市社會保險基金管理局》) and Shenzhen Housing Provident Fund Administration (《深圳市住房公積金管理中心》) on 8 July 2016 and 7 July 2016, respectively, confirming that we had not been penalised for violating the laws and regulations for social insurance and housing provident fund contributions. As advised by our PRC Legal Advisers, Shenzhen Social Insurance Fund Administration (《深圳市社會保險基金管理局》) and Shenzhen Housing Provident Fund Administration (《深圳市住房公積金管理中心》) have the authority and are competent to make the aforesaid confirmations.</p>

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Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
		<p>If an employer fails to pay its housing provident fund contributions in accordance with the Regulations concerning the Administration of Housing Provident Fund (住房公積金管理條例), the regulator may order for payment of contributions within the prescribed time limit, failing which the regulator may apply to the People's Court for compulsory enforcement.</p>	<p>We have obtained letters of confirmation from the Human Resources and Social Security Bureau of Chengdu Qingyang District (成都市青羊區人力資源和社會保障局) and Chengdu Housing Provident Fund Administration (成都市住房公積金管理中心) on 19 July 2016 and 15 July 2016, respectively, confirming that we had not been penalised for violating the laws and regulations for social insurance and housing provident fund contributions. As advised by our PRC Legal Advisers, the Human Resources and Social Security Bureau of Chengdu Qingyang District (成都市青羊區人力資源和社會保障局) and Chengdu Housing Provident Fund Administration (成都市住房公積金管理中心) have the authority and are competent to make the aforesaid confirmations.</p>
			<p>We have obtained letters of confirmation from the Human Resources and Social Security Bureau of Chongqing Nan'an District (重慶市南岸區人力資源和社會保障局) on 19 July 2016 and Chongqing Housing Provident Fund Administration (重慶市住房公積金管理中心) on 21 July 2016, confirming that we had not been penalised for violating the laws and regulations for social insurance contributions. As advised by our PRC Legal Advisers, the Human Resources and Social Security Bureau of Chongqing Nan'an District (重慶市南岸區人力資源和社會保障局) and Chongqing Housing Provident Fund Administration (重慶市住房公積金管理中心) have the authority and are competent to make the aforesaid confirmations.</p>

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Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
		<p>Provisions were made in respect of the unpaid amounts of contributions to the social insurance and housing provident fund on a cumulative basis as follows:</p> <ul style="list-style-type: none"> • RMB4.8 million as at 31 December 2013; • RMB5.0 million as at 31 December 2014; • RMB4.7 million as at 31 December 2015; and • RMB4.7 million as at 30 June 2016. <p>Our Directors believe that sufficient provisions have been made in our financial statements in respect of the unpaid social insurance and housing provident fund contributions under existing rules and regulations.</p> <p>In order to offer additional protection to our Group, pursuant to the indemnity undertaking dated 19 September 2015, Mr. Ye Yujing has undertaken to fully indemnify us against all the relevant liabilities, costs and expenses which may arise from the enforcement actions by the relevant authorities in respect of the non-compliance incidents, if any, and payment of the unpaid social insurance and housing provident fund contributions set forth above per se to the extent not sufficiently covered by the above provisions.</p>	

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Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
			<p>Based on the fact that (i) we have received letters of confirmation from competent PRC authorities; and (ii) as at the Latest Practicable Date, we had not received any demand or order from the relevant government authorities requesting us to settle any unpaid social insurance and housing provident fund contributions, our PRC Legal Advisers are of the view that, save and except for our failure to make housing provident fund contributions in full, based on all the confirmations issued from relevant competent authorities, we, including our branch office in Chongqing, have complied with the relevant laws and regulations in relation to social insurance and housing provident fund contributions in all material respects.</p>
			<p>Given (i) that sufficient provisions have been made in our financial statements in respect of the unpaid social insurance and housing provident fund contributions; (ii) that Mr. Ye Yujing has undertaken to fully indemnify us against all the relevant liabilities, costs and expenses which may arise from the enforcement actions by the relevant authorities in respect of the non-compliance incidents, if any, and payment of the unpaid social insurance and housing provident fund contributions set forth above per se to the extent not sufficiently covered by the above provisions; and (iii) our PRC Legal Adviser's view as set out above, our Directors are of the view that such non-compliance incidents do not and will not have any material financial or operational impact on us.</p>
			<p>Our Directors confirmed that since July 2015, we have complied with the requirements relating to social insurance and housing provident fund contributions and made full contributions for social insurance and housing provident fund in accordance with the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Regulations concerning the Administration of Housing Provident Fund (住房公積金管理條例). To avoid recurrence of the past non-compliance incidents described herein, we have adopted certain additional internal measures to improve our corporate governance and internal control. Please refer to the paragraph headed "Internal Control" in this section for further details.</p>

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Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
<p>1(b). Failure to register with the relevant authorities in respect of housing provident fund and make housing provident fund contributions for employees of our branch office in Chongqing</p>	<p>The non-compliance was due to the fact that our employees did not want to participate in the housing provident fund schemes as they are not willing to participate in the housing benefit schemes of the city to which they immigrate temporarily and prefer a cash payment in lieu of their contribution thereof.</p>	<p>According to the Regulations concerning the Administration of Housing Provident Fund (住房公積金管理條例), the relevant authorities may demand us to register and establish an account for housing provident fund for employees within a prescribed period and the regulator may impose a penalty from RMB10,000 to RMB50,000 if we fail to do so. The regulator may also order our branch office in Chongqing to pay the outstanding amounts of the housing provident fund within the prescribed time period. If our branch office in Chongqing fails to do so, the regulator may order for rectification within the prescribed time limit, failing which the regulator may apply to the People's Court for compulsory enforcement.</p>	<p>As at the Latest Practicable Date, we had terminated our employment relationship with all employees of our branch office in Chongqing and our branch office in Chongqing did not have any employee.</p> <p>Provisions were made in respect of the unpaid amounts of contributions to the housing provident fund during the Track Record Period as set forth above under 1(a) herein, which our Directors believe are sufficient under existing rules and regulations.</p>
<p>For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, the amount of housing provident fund which should have been paid by us pursuant to the requisite contribution requirements was approximately RMB35,000, RMB35,000, RMB17,000 and nil, respectively.</p>			<p>We have obtained a letter of confirmation from Chongqing Housing Provident Fund Administration (重慶市住房公積金管理中心) on 21 July 2016, confirming that we had complied with the relevant laws and regulations relating to housing provident fund contributions since the establishment of our branch office in Chongqing and no administrative penalty will be imposed on our Company in respect of our failure to register with the relevant authorities in respect of housing provident fund and make housing provident fund contributions for employees of our branch office in Chongqing.</p>
<p>The total number of employees affected by the non-registration and failure to contribute to their housing provident fund was 33.</p>			<p>In order to offer additional protection to our Group, pursuant to the indemnity undertaking dated 19 September 2015, Mr. Ye Yujing has undertaken to fully indemnify us against all the relevant liabilities, costs and expenses which may arise from the enforcement actions by the relevant authorities in respect of the non-compliance incidents, if any, and payment of the unpaid housing provident fund contributions set forth above per se to the extent not sufficiently covered by the aforesaid provisions.</p>

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Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
			<p>As at the Latest Practicable Date, we had not received any demand or order from the relevant government authorities in respect of the non-compliance incident abovementioned.</p>
			<p>Based on the fact that (i) we have obtained a letter of confirmation from Chongqing Housing Provident Fund Administration (重慶市住房公積金管理中心) on 21 July 2016, confirming that we had complied with the relevant laws and regulations relating to housing provident fund contributions since the establishment of our branch office in Chongqing and no administrative penalty will be imposed on our Company in respect of our failure to register with the relevant authorities in respect of housing provident fund and make housing provident fund contributions for employees of our branch office in Chongqing; (ii) as at the Latest Practicable Date, we had not received any demand or order from the relevant government authorities in respect of the non-compliance incidents abovementioned; (iii) Mr. Ye Yujing has undertaken to fully indemnify us against all the relevant liabilities, costs and expenses which may arise from the enforcement actions by the relevant authorities in respect of the non-compliance incidents, if any, and payment of the unpaid social insurance and housing provident fund contributions set forth above per se to the extent not sufficiently covered by the above provisions; and (iv) sufficient provisions have been made in our financial statements in respect of the unpaid housing provident fund contributions, our PRC Legal Advisers are of the view that the past non-compliance incident as abovementioned will not have any material impact on our Group.</p>

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Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
			<p>Given that (i) sufficient provisions have been made in our financial statements in respect of the unpaid housing provident fund contributions; (ii) Mr. Ye Yujing has undertaken to fully indemnify us against all the relevant liabilities, costs and expenses which may arise from the enforcement actions by the relevant authorities in respect of the non-compliance incidents, if any, and payment of the unpaid social insurance and housing provident fund contributions set forth above per se to the extent not sufficiently covered by the above provisions; and (iii) our PRC Legal Advisers are of the view that the past non-compliance incidents as abovementioned will not have any material impact on our Group, our Directors are of the view that such non-compliance incidents do not and will not have any material financial or operational impact on us.</p>
			<p>To avoid recurrence of the past non-compliance incidents described herein, we have adopted certain additional internal measures to improve our corporate governance and internal control. Please refer to the paragraph headed "Internal Control" in this section for further details.</p>

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Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
<p>2. Non-compliant inter-company lending activities</p>	<p>The advances were made: (i) for the purpose of meeting the general working capital needs of each of the borrowers upon its request; and (ii) because our relevant management personnel were not aware of the prohibitions as prescribed under the Lending General Provisions (貸款通則).</p>	<p>As advised by our PRC Legal Advisers, in view of the Lending General Provisions (貸款通則) and the Official Reply of the Supreme People's Court on How to Deal with the Failure to Repay the Loan by the Borrower of the Loan Contract between Enterprises (Fa Fu [1996] No. 15) (最高法院關於對企業借款合同逾期不歸還貸款應如何處理的批覆) (法覆[1996]15號), (i) where unauthorised loans or loans in disguised form take place among enterprises, the PBOC shall restrain such illegality and impose on the lender a fine ranging from 100% to 500% of the illegal income; and (ii) even if the People's Court has ruled that loan agreement between the enterprises is invalid, the principal of such loans should be protected by law. The Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (Fa Shi [2015] No. 18) (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) (法釋[2015]18號) support the validity of private lending contracts concluded between legal persons or other organisations for the need of production and operation in principle and specify the circumstances where such contracts are considered as invalid.</p>	<p>On 17 September 2015, we interviewed the vice president of the Shenzhen branch of PBOC (中國人民銀行深圳市中心支行), who verbally confirmed that we had not been and will not be penalised for such advances. As advised by our PRC Legal Advisers, based on certain public information available on the official website of PBOC, the Shenzhen branch of PBOC is the government authority responsible for supervising and overseeing the lending activities within Shenzhen.</p> <p>On 16 September 2015, we interviewed the administrative officer of the Huizhou branch of PBOC (中國人民銀行惠州市中心支行), who verbally confirmed that they had not imposed any penalty in respect of inter-company lending activities and such penalising function was without legal basis. As advised by our PRC Legal Advisers, based on certain public information available on the official website of PBOC, the Huizhou branch of PBOC (中國人民銀行惠州市中心支行) is the government authority responsible for supervising and overseeing the lending activities within Huizhou.</p> <p>As confirmed by our PRC Legal Advisers, the vice president of the Shenzhen branch of PBOC and the administrative officer of the Huizhou branch of PBOC are the competent personnel to provide the aforesaid verbal confirmations.</p> <p>Our Directors confirmed that the relevant advances had been fully repaid and settled among the parties involved in September 2015. Our Directors further confirmed that we will not continue to engage in any inter-company lending activity. We have also implemented a set of internal control policies to avoid any similar non-compliance incidents in the future. Please refer to the paragraph headed "Internal Control" in this section for further details.</p>
<p>During the Track Record Period, our Company and Huidong Yip's Development Company Limited (惠業氏實業發展有限公司), a subsidiary of our Company, were involved in certain inter-company lending activities, either as lender or borrower, with other companies who are Independent Third Parties. All advances under the inter-party lending were non-interest bearing. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the lending balances not yet received by our Company and our subsidiary amounted to RMB3.4 million, RMB12.9 million, nil and nil, respectively. As at 31 December 2013, 2014 and 2015 and 30 June 2016, the borrowing balances not yet repaid by our Company and our subsidiary amounted to RMB20.3 million, RMB6.1 million, nil and nil, respectively. Such advances had been fully repaid and settled among the parties involved in September 2015.</p>	<p>In relation to the advances in which we acted as lender, we did not receive any interest income. Accordingly, we will not be subject to any penalty in respect of such non-compliance incidents.</p> <p>Our Directors are of the view that, considering (i) the advice from our PRC Legal Advisers and the amounts advanced having been fully repaid; and (ii) pursuant to the indemnity undertaking dated 19 September 2015, Mr. Ye Yujing has undertaken to fully indemnify us in respect of any liabilities, costs and expenses in relation to such inter-company lending activities, including all the relevant liabilities, costs and expenses which may arise from the enforcement actions (if any), such non-compliance incidents do not and will not have any material financial or operational impact on us.</p>	<p>As advised by our PRC Legal Advisers, in view of the Lending General Provisions (貸款通則) and the Official Reply of the Supreme People's Court on How to Deal with the Failure to Repay the Loan by the Borrower of the Loan Contract between Enterprises (Fa Fu [1996] No. 15) (最高法院關於對企業借款合同逾期不歸還貸款應如何處理的批覆) (法覆[1996]15號), (i) where unauthorised loans or loans in disguised form take place among enterprises, the PBOC shall restrain such illegality and impose on the lender a fine ranging from 100% to 500% of the illegal income; and (ii) even if the People's Court has ruled that loan agreement between the enterprises is invalid, the principal of such loans should be protected by law. The Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending Cases (Fa Shi [2015] No. 18) (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) (法釋[2015]18號) support the validity of private lending contracts concluded between legal persons or other organisations for the need of production and operation in principle and specify the circumstances where such contracts are considered as invalid.</p> <p>In relation to the advances in which we acted as lender, we did not receive any interest income. Accordingly, we will not be subject to any penalty in respect of such non-compliance incidents.</p> <p>Our Directors are of the view that, considering (i) the advice from our PRC Legal Advisers and the amounts advanced having been fully repaid; and (ii) pursuant to the indemnity undertaking dated 19 September 2015, Mr. Ye Yujing has undertaken to fully indemnify us in respect of any liabilities, costs and expenses in relation to such inter-company lending activities, including all the relevant liabilities, costs and expenses which may arise from the enforcement actions (if any), such non-compliance incidents do not and will not have any material financial or operational impact on us.</p>	<p>As confirmed by our PRC Legal Advisers, the vice president of the Shenzhen branch of PBOC and the administrative officer of the Huizhou branch of PBOC are the competent personnel to provide the aforesaid verbal confirmations.</p> <p>Our Directors confirmed that the relevant advances had been fully repaid and settled among the parties involved in September 2015. Our Directors further confirmed that we will not continue to engage in any inter-company lending activity. We have also implemented a set of internal control policies to avoid any similar non-compliance incidents in the future. Please refer to the paragraph headed "Internal Control" in this section for further details.</p>

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Non-compliance incidents	Reasons for non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
			<p>As advised by our PRC Legal Advisers, since (i) such advances were non-interest bearing, not for profit and had no adverse impact on our liquidity position during the Track Record Period; (ii) as at the Latest Practicable Date, we had ceased such practices; (iii) as at the Latest Practicable Date, these advances had been fully repaid and settled among the parties involved; and (iv) we have obtained confirmations from the responsible officers of the competent government authorities, the risk of us being penalised for the advances to borrowers and from lenders, which were not in compliance with the Lending General Provisions (貸款通則), is remote.</p>

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In order to offer additional protection to our Group, on 19 September 2015, Mr. Ye Yujing entered into an indemnity undertaking in our favour, pursuant to which Mr. Ye Yujing undertook to fully indemnify us against (i) all the relevant liabilities, costs and expenses which may arise from the enforcement actions by the relevant authorities in respect of the non-compliance incidents relating to social insurance and housing provident fund contributions, if any, and payment of the unpaid social insurance and housing provident fund contributions to the extent not sufficiently covered by the provisions made by our Company; and (ii) any liabilities, costs and expense in relation to the inter-company lending activities, including all the liabilities, costs and expenses which may arise from the enforcement actions by the relevant authorities, if any. The granting of such an indemnity undertaking constitutes a connected transaction fully exempt from the reporting, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules as it is conducted on normal commercial terms or better and is not secured by the assets of our Group.

INTERNAL CONTROL

Our Board is responsible for establishing our internal control system and reviewing its effectiveness. In accordance with the applicable laws and regulations, we have established procedures for developing and maintaining our internal control system, covering areas such as corporate governance, operations, management, legal matters and risk management, finance and audit. We believe that our internal control system is sufficient in terms of comprehensiveness, practicability and effectiveness. We will refine and enhance our internal control systems to respond to any new requirements of our operations as appropriate.

To strengthen our internal control and ensure future compliance with the applicable laws and regulations (including the Listing Rules) after the [REDACTED], we have adopted the following additional internal control measures:

- (1) our Board will continuously monitor, evaluate and review our internal control system to ensure compliance with the applicable legal and regulatory requirements and will adjust, refine and enhance our internal control system as appropriate;
- (2) we have established an internal risk management team in June 2015, led by our Chairman and assisted by the vice-presidents of various departments, to assist our Board to perform internal reviews of our operations, and to identify, assess and manage the risks associated with our operations from time to time to ensure due compliance with the applicable laws, rules and regulations in the PRC;
- (3) our Audit Committee, led by Mr. Fung Yat Sang, an Independent Non-Executive Director, is responsible for monitoring the implementation of our internal control measures. Our Audit Committee will supervise and monitor our daily operations from the perspective of compliance with the applicable laws and regulations of the PRC as well as review reports prepared by the internal risk management team every six months to ensure the effectiveness of our internal control and risk management measures;
- (4) we will appoint the Sole Sponsor as our compliance adviser upon [REDACTED] to advise our Group on matters relating to compliance with the [REDACTED];
- (5) we will provide training and updates on the legal and regulatory requirements applicable to our business operations to our Directors, members of senior management and relevant employees from time to time;
- (6) if necessary, we may consider appointing external PRC legal advisers to advise us on matters relating to compliance with the applicable PRC laws and regulations; and

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- (7) if necessary, we may consider appointing external Hong Kong legal advisers to advise us on matters relating to compliance with the [REDACTED] and the applicable Hong Kong laws and regulations.

In addition, we have adopted the following specific measures to help prevent the recurrence of the historical non-compliance incidents in respect of social insurance and housing provident fund contributions, and inter-company lending activities as disclosed in the paragraph headed "Non-compliance Matters" in this section:

in respect of social insurance and housing provident fund contributions:

- (1) since November 2015, our human resources department has been responsible for regularly reviewing the payment certificates in respect of our contributions to social insurance and housing provident fund at the end of each quarter, preparing the "Summary of Statistics of Payment for Employee's Insurances and Fund (員工五險一金繳納情況匯總統計表)", which sets out details of the contributions to social insurance and housing provident fund as required by the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Regulations concerning the Administration of Housing Provident Fund (住房公積金管理條例), and ensuring that the relevant contributions made are in compliance with the relevant laws and regulations of the PRC;
- (2) our human resources department will explain to our employees, whether new or current, that they are entitled to social insurance and housing provident fund contributions made by our Company and are required to make their respective contributions under the relevant laws and regulations of the PRC. In addition, since October 2015, our employee handbook and all our labour contracts have set out in clear wording that the employer and employees are required to participate in social insurance schemes and make contributions to social insurance and housing provident fund pursuant to the national, provincial and municipal requirements;

in respect of inter-company lending activities:

- (3) we have adopted a revised capital management policy since October 2015, which explicitly prohibits capital borrowing and lending activities between members of our Group or between our Group and other third parties;
- (4) we have tightened the approval process of our borrowing and lending activities. In addition to the original approval authority of capital borrowing and lending, our chief financial officer is responsible for ensuring the non-occurrence of inter-company lending activities; and
- (5) our internal audit department will on a quarterly basis review our capital borrowing and lending activities and prepare a capital borrowing and lending report. Any violation of our capital management policy will be reported to our Board and the Audit Committee for further actions.

We have engaged the Internal Control Consultant in September 2015 to review the remedial internal control measures undertaken by us to address the non-compliance incidents as set out in the paragraph headed "Non-compliance Matters" in this section. The internal control review was conducted based on the information provided by us and no assurance or opinion on internal control was expressed by the Internal Control Consultant. The Internal Control Consultant raised no further recommendations.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As at the date of this document, Mr. Ye Yujing and Ms. Ye Xiujin held approximately 42.77% and 9.79% of the total issued share capital of our Company, respectively. Immediately following completion of the [REDACTED], Mr. Ye Yujing and Ms. Ye Xiujin will hold approximately [REDACTED]% and [REDACTED]% of our enlarged issued share capital, respectively, assuming the [REDACTED] is not exercised. Ms. Ye Xiujin is the wife of Mr. Ye Yujing. Since Ms. Ye Xiujin became our Shareholder, she has always acted collectively and uniformly with Mr. Ye Yujing in voting on any resolutions passed at any shareholders' meeting of our Company. Ms. Ye Xiujin and Mr. Ye Yujing will together be entitled to exercise or control the exercise of approximately [REDACTED]% of the total issued share capital of our Company immediately after the completion of the [REDACTED] (assuming the [REDACTED] is not exercised). In view of the foregoing, Ms. Ye Xiujin is considered as a party acting in concert with Mr. Ye Yujing under the Listing Rules and therefore is also one of our Controlling Shareholders. Mr. Ye Yujing and Ms. Ye Xiujin are also our Executive Directors. For details of the background of Mr. Ye Yujing and Ms. Ye Xiujin, please refer to the information set forth in the section headed "Directors, Supervisors and Senior Management".

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the [REDACTED]. Having considered the matters as described below, our Board is of the view that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective close associates after completion of the [REDACTED].

Operational independence

Our Group has been operating our business independent of that of our Controlling Shareholders and/or his/her respective close associates. We make business decisions independently and hold all relevant licences necessary to carry on our business and have sufficient capital, equipment and employees to operate our business independently. Our Group has established its own organisational structure made up of individual departments, each with specific areas of responsibilities. We have independent access to suppliers, distributors and customers. Our Group has established a set of internal controls to facilitate the effective operation of its business. As at the Latest Practicable Date, there were no significant business transactions between us and any of our Controlling Shareholders and/or his/her respective close associates.

Management independence

Our Company's management and operational decisions are made by our Board and the senior management. Our Board comprises five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. Mr. Ye Yujing, one of our Controlling Shareholders, is also our Chairman, our chief executive officer and our Executive Director. Ms. Ye Xiujin, our another Controlling Shareholder, is our Executive Director.

Our Group has established four Board committees, including: (i) the Audit Committee; (ii) the Remuneration Committee; (iii) the Nomination Committee; and (iv) the Strategy Committee. The majority of the members of these committees are Independent Non-executive Directors, who monitor the operations of our Group. Further, we believe that the Independent Non-executive Directors will be able to exercise their independent judgment and will be able to provide impartial opinions in the decision-making process of our Board to protect the interests of our Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) and their respective associate(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Having considered the above factors, our Directors are of the view that they are able to perform their roles in our Company independently, and we are capable of managing our business on a day-to-day basis independently of our Controlling Shareholders following completion of the [REDACTED].

Financial independence

We are financially independent of our Controlling Shareholders and their respective close associates. We have sufficient capital and bank borrowings to operate our business independently, and have adequate resources to support our daily operations. In addition, our Group has internal control and accounting systems, accounting department and independent treasury functions and makes financial decisions according to our own business needs. During the Track Record Period, our Controlling Shareholders and their respective associates have provided the following guarantees and securities for certain bank borrowings and facilities our Group has entered into:

- Mr. Ye Yujing, Ms. Ye Xiujin and Mr. Ye Xian, our Supervisor, provided personal guarantee in relation to certain bank borrowings of RMB30.0 million, RMB42.6 million and RMB30 million as at 31 December 2014 and 2015 and 30 June 2016, respectively;
- Mr. Ye Yujing and Ms. Ye Xiujin provided personal guarantee in relation to certain bank borrowings of RMB77.0 million, RMB103.0 million, RMB75.8 million and RMB88.6 million as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively;
- Mr. Ye Yujing, Ms. Ye Xiujin, Mr. Ye Guofeng, our Executive Directors, Ms. Ye Xiaomei, the mother of Mr. Ye Xian and the sister-in-law of Mr. Ye Yujing and Ms. Ye Xiujin, and Mr. Ye Xian provided personal guarantee in relation to certain bank borrowings of RMB50.0 million, RMB70.0 million and RMB70.0 million as at 31 December 2013, 2014 and 2015, respectively;
- Mr. Ye Yujing, Ms. Ye Xiujin, Ms. Ye Xiaomei and Mr. Ye Xian provided personal guarantee in relation to certain bank facilities with the carrying amount of RMB25.0 million as at 31 December 2013;
- Mr. Ye Yujing and Ms. Ye Xiujin provided personal guarantee in relation to certain bank borrowings of RMB18.0 million as at 31 December 2015;
- Ms. Ye Xiujin, Ms. Ye Xiaomei and Mr. Ye Xian provided personal guarantee in relation to certain bank borrowings of RMB20.0 million and RMB18.4 million as at 31 December 2015 and 30 June 2016, respectively;
- Mr. Ye Guofeng, Mr. Ye Xian and Ms. Ye Xiaomei provided personal guarantee in relation to a bank borrowing of RMB70 million as at 30 June 2016;
- Ms. Ye Xiaomei provided security over certain real properties in relation to a bank borrowing of RMB38 million and RMB18 million as at 30 June 2016 and 31 December 2015, respectively; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- Ms. Ye Xiujin and Ms. Ye Xiaomei provided security over certain real properties in relation to a bank borrowing of RMB70 million as at 30 June 2016.

Upon [REDACTED], all guarantee and/or security provided by Mr. Ye Yujing, Ms. Ye Xiujin, Mr. Ye Xian, Ms. Ye Xiaomei and Mr. Ye Guofeng as mentioned above will be fully released and assumed by our Group companies. The outstanding amount of the relevant loans will not be required to be repaid at the time such guarantee is released.

The net balance of non-trade related transactions included the amounts due to Ms. Ye Xiujin, our Executive Director and one of our Controlling Shareholders, amounted to approximately RMB1.2 million and RMB1.1 million as at 31 December 2013 and 2014, respectively, which mainly represented rental payables for office building and others. The outstanding loans or borrowings from Ms. Ye Xiujin have been fully settled before [REDACTED]. Our Directors also confirm that our Group does not intend to pledge, guarantee or provide financial assistance to or obtain any further borrowings from any of our Controlling Shareholders.

Our Directors are satisfied that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after the [REDACTED].

Based on the foregoing, our Directors are of the view that our Group is financially independent from our Controlling Shareholders and their respective close associates.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders has confirmed that neither he/she nor any of his/her close associates is engaged in, involved in or interested in any business (other than being a director or shareholder of our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, our Controlling Shareholders have given an irrevocable non-compete undertaking in favour of our Company (for itself and for the benefits of its subsidiaries) pursuant to which our Controlling Shareholders have, among other matters, irrevocably and unconditionally undertaken to us that at any time during the Relevant Period (as defined below), he/she shall, and shall procure that his/her respective close associates and/or companies controlled by him/her (other than our Group):

- (i) not, directly or indirectly, be interested or involved or engaged in or acquire or hold any right or interest (in each case whether as a director or shareholder (other than being a director or shareholder of our Group), partner, agent or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently carried out as referred in this document and from time to time engaged by our Group (including but not limited to the provision of building decoration works, electrical and mechanical installation works, curtain wall engineering works and fire safety engineering works) within the PRC or in overseas (the "**Restricted Activity**");
- (ii) not solicit any existing employee of our Group for employment by his/her close associates (excluding members of our Group);
- (iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to his/her knowledge in his/her capacity as our Controlling Shareholders for any purpose of engaging, investing or participating in any Restricted Activity;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) if there is any project or new business opportunity that relates to the Restricted Activity, refer such project or new business opportunity to our Group for consideration;
- (v) not invest or participate in any Restricted Activity; and
- (vi) procure his/her close associates (excluding our Group) not to invest or participate in any project or business opportunity of the Restricted Activity, unless pursuant to the exception set out below.

Each of our Controlling Shareholders has unconditionally and irrevocably undertaken to us that in the event that he/she or his/her close associate(s) (other than any member of our Group) (the "**Offeror**") is given or offered or has identified any business investment or commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Activity (the "**New Opportunities**"), he/she will and will procure his/her close associate(s) (other than members of our Group) to refer the New Opportunities to us as soon as practicable in the following manner:

- (i) he/she is required to, and shall procure his/her close associates (other than members of our Group) to, refer, or to procure the referral of, the New Opportunities to us, and shall give written notice to us of any New Opportunities containing all information reasonably necessary for us to consider whether (a) such New Opportunities would constitute competition with the Restricted Activity; and (b) it is in the interest of our Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the "**Offer Notice**"); and
- (ii) the Offeror will be entitled to pursue the New Opportunities only if (a) the Offeror has received a notice from us declining the New Opportunities; or (b) the Offeror has not received such notice from us within 10 Business Days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to us in the manner as set out above.

Upon receipt of the Offer Notice, we will form an independent board committee (the "**Independent Board Committee**") which comprises our Independent Non-executive Directors without the attendance by any Director with beneficial or conflicting interest in such project or business opportunities and seek opinions and decisions from the Independent Board Committee in the manner as to whether (a) such New Opportunities would constitute competition with the Restricted Activity; and (b) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunities.

Where the Controlling Shareholders and/or his/her close associates (other than our Group) have acquired any business, investment or interest in any entity relating to the Restricted Activity pursuant to (ii) above, the Controlling Shareholders and/or his/her close relevant associates (other than our Group) shall provide us with pre-emptive right (the "**Pre-emptive Right**") to acquire any such Restricted Activity under the same circumstances. Where the Independent Board Committee decides to waive the Pre-emptive Right by way of written notice, the Controlling Shareholders and/or his/her close associates (other than our Group) may offer to sell such business, investment or interest in Restricted Activity to other third parties on such terms which are no more favourable than those made available to our Group. In deciding whether to exercise the above options, our Directors will consider various factors including the purchase price and their values and benefits, as well as the benefit that they will bring to our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

For the above purpose, the "Relevant Period" means the period commencing from the [REDACTED] and shall expire on the earlier of:

- (i) the date on which our Controlling Shareholders and his/her close associates, individually or taken as a whole, cease to be our Controlling Shareholders for the purpose of the Listing Rules; and
- (ii) the date on which our Shares cease to be [REDACTED] on the Stock Exchange or (if applicable) other stock exchange.

The Deed of Non-competition is conditional on (i) the [REDACTED] granting [REDACTED] of, and permission to deal in, all our [REDACTED] in issue and to be issued under the [REDACTED] and our [REDACTED] which may be issued upon the exercise of the [REDACTED]; and (ii) the obligations of the [REDACTED] under the [REDACTED] becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the [REDACTED]) and that the [REDACTED] not being terminated in accordance with their terms or otherwise.

CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTEREST

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests arising from potential competing business between our Controlling Shareholders and our Group will be taken:

- (i) our Independent Non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- (ii) our Controlling Shareholders have undertaken under the Deed of Non-competition to provide all information necessary for the annual review by our Independent Non-executive Directors with regard to compliance of the terms of the Deed of Non-competition and the enforcement of undertakings under the Deed of Non-competition;
- (iii) our Company will disclose the decisions with basis on matters reviewed by the Independent Non-executive Directors relating to the compliance with and enforcement of the Deed of Non-competition;
- (iv) our Controlling Shareholders have undertaken to us under the Deed of Non-competition to make an annual declaration as to compliance with the terms of the Deed of Non-competition in the annual report of our Company; and
- (v) the Independent Board Committee of our Company comprising all Independent Non-executive Directors will be responsible for deciding and given the authority to decide, without attendance by any Directors with beneficial or conflicting interest in the New Opportunities referred to our Group by our Controlling Shareholders (or his/her associates other than members of our Group) and the exercise of the Pre-emptive Right under the Deed of Non-competition. The Independent Board Committee comprising all Independent Non-executive Directors, taken as a whole, has the relevant expertise and experience in deciding the New Opportunities or the exercise of the Pre-emptive Right. For more details of expertise and experience of our Independent Non-executive Directors, please refer to the section headed "Directors, Supervisors and Senior Management". In addition, the Independent Board Committee may, at the costs of our Company and from time to time, engage independent financial adviser and other external professional advisers as they may consider necessary to advise them on the issues which relate to the above matters.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Our Board consists of nine Directors, comprising five Executive Directors, one Non-Executive Directors and three Independent Non-Executive Directors. The following table sets forth the information in respect of our Directors and senior management:

Name	Age	Position	Date of joining our Group	Date of Appointment	Role and Responsibilities	Relationship amongst Directors, Supervisors and senior management
Mr. YE Yujing 葉玉敬	50	Executive Director, Chairman and chief executive officer	18 December 1996	18 December 1996, 10 April 2012 (as chief executive officer)	Overseeing our Group's development, strategic planning, positioning and overall operational management	The husband of Ms. YE Xiujin, the father of Mr. YE Guofeng, and the elder brother of Mr. YE Xian's father
Mr. LIU Yilun 劉奕倫	43	Executive Director, vice president and joint company secretary	27 April 2015	19 September 2015, 21 August 2015 (as vice president), 16 September 2015 (as joint company secretary)	Overseeing our Group's development, strategic planning, positioning and overall operational and risk management	Nil
Ms. YE Xiujin 葉秀近	49	Executive Director	18 December 1996	1 July 2008	Advising on strategic development and corporate governance	The wife of Mr. YE Yujing, the mother of Mr. YE Guofeng, and the sister-in-law of Mr. YE Xian's father
Mr. YE Guofeng 葉國鋒	28	Executive Director and vice president	15 September 2011	30 July 2013, 21 August 2015 (as vice president)	Advising on strategic development and corporate governance	The son of Mr. YE Yujing and Ms. YE Xiujin, and the elder cousin of Mr. YE Xian
Mr. YE Niangting 葉娘汀	35	Executive Director and vice president	14 October 2008	22 May 2014	Advising on strategic development and corporate governance	Nil
Mr. TIAN Wen 田文	36	Non-executive Director	12 June 2012	12 June 2012	Participating in the formulation of our Company's corporate and business strategies	Nil

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of Appointment	Role and Responsibilities	Relationship amongst Directors, Supervisors and senior management
Mr. LI Bingren 李秉仁	65	Independent Non-executive Director	10 December 2012	10 December 2012	Supervising and providing independent judgment to our Board	Nil
Mr. FUNG Yat Sang 馮逸生	65	Independent Non-executive Director	21 August 2015	21 August 2015	Supervising and providing independent judgment to our Board	Nil
Mr. LIN Zhiyang 林志揚	60	Independent Non-executive Director	21 August 2015	21 August 2015	Supervising and providing independent judgment to our Board	Nil
Mr. HUANG Ye 黃曄	51	Vice president	20 December 2010	10 December 2012	Overseeing finance management of our Group	Nil
Ms. KOU Yue 寇悅	42	Vice president, chief financial officer and joint company secretary	21 August 2015	21 August 2015, 16 September 2015 (as chief financial officer and joint company secretary)	Responsible for financial management of our Group	Nil

Executive Directors

Mr. YE Yujing (葉玉敬), aged 50, one of the founders of our Group, has been the Chairman and an Executive Director of our Company since its establishment on 18 December 1996. Mr. Ye has been appointed as the chief executive officer since 10 April 2012 and is primarily responsible for our Group's development, strategic planning, positioning and overall operational management. Mr. Ye is the husband of Ms. YE Xiujin, the father of Mr. YE Guofeng, and the elder brother of Mr. YE Xian's father.

Mr. Ye completed a two-year online education programme in civil engineering offered by China University of Geosciences (中國地質大學) in July 2007 and subsequently obtained his executive master of business administration (EMBA) from Xiamen University (廈門大學) in June 2016.

Mr. Ye has over 28 years of experience in the civil engineering and construction industries. Prior to the establishment of our Company, Mr. Ye had worked as a sales executive in the second engineering department of Shenzhen Wenyue Decoration Design Engineering Company Limited* (深圳市文業裝飾設計工程有限公司) (currently known as Shenzhen Wenyue Decoration Design Engineering Joint-Stock Company Limited* (深圳市文業裝飾設計工程股份有限公司)) from January 1987 to January 1993, and as a manager in the Xincheng decoration department of Shenzhen Bao'an District Decoration Construction Consolidated Company Limited* (深圳市寶安區裝飾工程聯合公司新城裝飾部) from February 1993 to October 1996.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ye was a committee member of the seventh session of the CBD Association, the honourable president of the fifth session committee of the Hong Kong Shanwei Luhe Overseas Association (香港汕尾市陸河海外聯誼總會), and a member of the sixth and seventh session of the Luhe County Guangdong Province Committee of the Chinese People's Political Consultative Conference (CPPCC) (廣東省陸河縣政協). Mr. Ye was awarded by China Building Decoration Association (中國建築裝飾協會) as "National Outstanding Entrepreneur of Building Decoration Industry*" (全國建築裝飾行業優秀企業家)" and "National Outstanding Project Manager of Building Decoration Industry*" (全國建築裝飾行業優秀項目經理)" in December 2009 and June 2014 respectively. Mr. Ye is appointed as a visiting professor from May 2015 to June 2018 of Jinling College of Nanjing University (南京大學金陵學院). He was qualified as a senior engineer (高級工程師) in May 2009 and acquired the Certificate of Registration of Constructor of the PRC (中華人民共和國一級建造師註冊證書) in February 2009.

Mr. Ye was not engaged, or interested, in any business which directly or indirectly competed or may compete with our business.

Mr. Ye has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Mr. LIU Yilun (劉奕倫), aged 43, was appointed as an Executive Director on 19 September 2015. He joined our Company as the general manager of the securities department on 27 April 2015. Mr. Liu is mainly responsible for overseeing our Group's development, strategic planning, positioning and overall operational and risk management. Mr. Liu graduated from Beihang University (北京航空航天大學) with a bachelor's degree in economic management in July 1994 and earned his master's degree in economics from Guangdong Academy of Social Sciences (廣東省社會科學院) in July 2002. He acquired the Securities Qualification Certificate (證券從業資格證書) issued by the Securities Association of China (中國證券業協會) in December 2001. Before joining our Company, Mr. Liu had worked as the general manager of the investment department in Beijing Securities Co. Ltd. Shenzhen Branch* (北京證券有限責任公司深圳業務部) from July 1994 to May 1998 and as the general manager of the securities department in Yorkpoint S&T Co., Ltd. Guangdong* (廣東億安科技股份有限公司) (now known as China High-speed Railway Technology Co., Ltd.* (神州高鐵技術股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange with stock code 000008.SZ), from May 1998 to March 2001. Thereafter, Mr. Liu worked as a general manager in Shenzhen Wanlitong Investment Guarantee Company Limited* (深圳市萬利通投資擔保有限公司) from October 2007 to November 2013. He later served as the chief executive officer of Guosen Business Factoring Co., Ltd* (國信商業保理有限公司) from December 2013 to March 2015.

Mr. Liu was not engaged, or interested, in any business which directly or indirectly competed or may compete with our business.

Mr. Liu has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Ms. YE Xiujin (葉秀近), aged 49, was appointed as an Executive Director on 1 July 2008. She joined our Company since its establishment and has been primarily responsible for advising on the strategic development and corporate governance of our Company, formulating our Company's corporate and business strategies, and providing assistance to Mr. Ye Yujing. She has also worked in the accounts department of our Company. Ms. Ye is the wife of Mr. YE Yujing, the mother of Mr. YE Guofeng, and the sister-in-law of Mr. YE Xian's father.

Ms. Ye acquired the qualification of accountant issued by the Ministry of Finance of the PRC (中華人民共和國財政部) in May 2000.

Ms. Ye was not engaged, or interested, in any business which directly or indirectly competed or may compete with our business.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Ye has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Mr. YE Guofeng (葉國鋒), aged 28, was appointed as an Executive Director on 30 July 2013. Mr. Ye joined our Company on 15 September 2011 and worked as an assistant to Mr. YE Yujing starting from April 2012. He was later promoted to the position of marketing director and manager of the procurement department in May 2014. Mr. Ye is currently responsible for advising on strategic development and corporate governance of our Group. Mr. Ye is the son of Mr. YE Yujing and Ms. YE Xiujin, and the elder cousin of Mr. YE Xian.

Mr. Ye graduated with an associate degree from Shenzhen Polytechnic (深圳職業技術學院) majored in construction management in June 2011. He later completed the top-up courses in civil engineering (construction) offered by China University of Geosciences (中國地質大學) through online education in July 2014 and obtained a bachelor's degree in engineering in December 2014. Mr. YE was qualified as a safety officer (安全員) and a decoration construction officer (裝飾施工員) issued by Guangdong Construction Education Association (廣東省建設教育協會) in November 2011. Mr. Ye was also awarded as "Outstanding Entrepreneur of China Building Decoration in the past thirty years*" (中國建築裝飾三十年優秀企業家) by the CBD Association and China Construction Newspaper (中華建築報社) in December 2014.

Mr. Ye was not engaged, or interested, in any business which directly or indirectly competed or may compete with our business.

Mr. Ye has not held any directorship in any public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Mr. YE Niangting (葉娘汀), aged 35, was appointed as an Executive Director and a vice president on 22 May 2014 and is primarily responsible for conducting project evaluation for our construction projects and advising on strategic development and corporate governance of our Group. Mr. Ye joined our Company on 14 October 2008 as deputy manager of the operation department, and was promoted to manager of that department in April 2012. Since February 2013, he has been acting as the general manager of the operation management centre and manager of Division I of the operation department, directly reporting to Mr. YE Yujing. He also assists Mr. YE Yujing in our business expansion and operation management and undertakes responsibility in managing our operation management centre.

Since joining our Group in October 2008, Mr. Ye has been involved in a number of construction projects in different capacities and has accumulated substantial experience in areas including project development and project evaluation. In respect of project evaluation, Mr. Ye is responsible for the final approval of our project evaluation reports for all of our potential construction projects, after considering opinions from the supervising business manager and our technical department.

Mr. Ye graduated from Dalian University of Technology (大連理工大學) majored in civil engineering in July 2009 through online education. Prior to joining our Company, Mr Ye was a manager of the operation department at the Beijing branch of Shenzhen Bauing Construction Group Co., Ltd.* (深圳市寶鷹建設集團股份有限公司) from October 2005 to October 2008 where he was responsible for business development in Beijing and surrounding regions. Mr. Ye was appointed as a visiting professor of Shanghai Art & Design Academy (上海工藝美術職業學院) in July 2015 for a term of three years.

Mr. Ye was not engaged, or interested, in any business which directly or indirectly competed or may compete with our business.

Mr. Ye has not held any directorship in any public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. TIAN Wen (田文), aged 36, was appointed as a non-executive Director of our Company on 12 June 2012 and is mainly responsible for participating in the formulation of our Company's corporate and business strategies.

Mr. Tian graduated from the Faculty of Accounting of the School of Business in Renmin University of China (中國人民大學) with a bachelor's degree in economics in July 2002 and obtained his degree of Master of Business Administration in Finance in November 2012 from the Chinese University of Hong Kong (香港中文大學). Prior to joining our Company, Mr. Tian worked in the department of auditing in Pricewaterhouse Coopers LLP (special general partnership), Shenzhen office from August 2002 to April 2010, and successively served as junior auditor, senior auditor and deputy manager of the audit department. Since April 2010, he has been working as an investment director in Shenzhen Co-Win Asset Management Co., Ltd.* (深圳同創偉業資產管理股份有限公司). Mr. Tian is currently a director in Shanghai Neoent Industrial Co., Ltd.* (上海紐恩特實業有限公司) and has served as a director in Flahalo Innovation Management Company Limited* (風火創意管理股份有限公司).

Mr. Tian was not engaged, or interested, in any business which directly or indirectly competed or may compete with our business.

Mr. Tian has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Independent non-executive Directors

Mr. LI Bingren (李秉仁), aged 65, was appointed as an Independent Non-executive Director on 10 December 2012 and is mainly responsible for supervising and providing independent judgment to our Board. Mr. Li has over 30 years of experience in the construction industry. He was the chairman of the seventh session of the CBD Association.

Mr. Li graduated from Peking University (北京大學) with a master's degree in economic geography in October 1981. After graduation till March 2011, Mr. Li had worked in the Ministry of Housing and Urban-Rural Development of the People's Republic of China (MOHURD) (中華人民共和國住房和城鄉建設部) (建設部). During his service in the MOHURD, he successively acted as deputy director of science and technology department (科學技術司) and policies and regulations department (政策法規司), head of policy studies centre (政策研究中心), head of the human resources and education department (人事教育司) and general office (辦公廳), and chief economic engineer (總經濟師) of the MOHURD.

Mr. Li had been acting as an independent non-executive director of Zhejiang Yasha Decoration Co., Ltd.* (浙江亞廈裝飾股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002375.SZ) since January 2015 and Beijing Honggao Creative Construction Design Co., Ltd.* (北京弘高創意建築設計股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002504.SZ) since November 2014.

The principal businesses of the above two companies are decoration and building design which directly or indirectly, competed or may compete with our business. However, since Mr. Li acts as an independent non-executive director in the above companies, his roles in the above companies will not be regarded as a director's competing interest under the Listing Rules.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest of our Directors. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (i) our Articles of Association provided that, each Director shall abide by the fiduciary principles in the discharge of his/ her duties, and shall not place himself/herself in a position where his/her own interests and duty may conflict;
- (ii) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) and their respective associate(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum; and
- (iii) we have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules, which will, pursuant to Rule 3A.23 of the Listing Rules provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

Save as disclosed above, Mr. Li has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Mr. FUNG Yat Sang (馮逸生), aged 65, was appointed as an Independent Non-executive Director on 21 August 2015 and is mainly responsible for supervising and providing independent judgment to our Board. Mr. Fung has over 30 years of experience in finance management.

Mr. Fung is a member of the Australia Society of Certified Public Accountants, a fellow member of the Hong Kong Society of Accountants and a fellow member of the Chartered Association of Certified Accountants. He obtained his higher diploma in accountancy from the Hong Kong Polytechnic (香港理工學院) (now the Hong Kong Polytechnic University 香港理工大學) in November 1976. After graduation, Mr. Fung had worked as an audit trainee and was later promoted to the grade of semi-senior in Coopers & Lybrand, Sanford Yung & Co., Chartered Accountants from July 1976 to June 1978 and as a senior accountant in Fairchild Semiconductor (HK) Ltd. from June 1978 to November 1979. After that, Mr. Fung joined American International Assurance Company Limited as an accountant and because of his outstanding performance, he was later promoted to the position of senior accountant from December 1979 to April 1985. He was transferred to American International Assurance Company (Bermuda) Limited as a comptroller and was promoted to the position of assistant vice president and assistant comptroller from May 1985 to August 1986. He then had worked as a financial accountant in Holiday Inn Menzies Sydney from September 1986 to July 1987 and as a financial controller in Canning Vale Weaving Mills Limited from August 1987 to March 1989. Immediately thereafter, he had worked for Elec & Eltek (Thailand) Limited and Elec & Eltek International Holdings Limited, members of Elec & Eltek Group from March 1989 to March 1995 during which he had successively acted as a financial controller, the group internal audit manager, acting group financial controller and the group financial controller. Mr. Fung acted as the finance director of Colgate-Palmolive (Hongkong) Ltd from May 1995 to June 1997, and Colgate-Palmolive (Guangzhou) Ltd from July 1997 to August 2004. Later on, Mr. Fung served as an independent non-executive director of Man Sang International Limited, a company listed on the Stock Exchange (stock code: 938.HK) from September 2009 to October 2014. Currently, he serves as an independent non-executive director of Man Sang Jewellery Holdings Limited, a company listed on the Stock Exchange (stock code: 1466.HK), and as a director in Belenus Limited.

Mr. Fung was not engaged, or interested, in any business which directly or indirectly competed or may compete with our business.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed above, Mr. Fung has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Mr. LIN Zhiyang (林志揚), aged 60, was appointed as an Independent Non-executive Director on 21 August 2015 and is mainly responsible for supervising and providing independent judgment to our Board. Mr. Lin obtained his bachelor degree of economics in planning and statistics, master degree of economics in industrial economics and doctorate degree of economics in insurance from Xiamen University (廈門大學) in February 1980, February 1985 and September 2002, respectively. Mr. Lin has been working in Xiamen University since February 1985. He was appointed as the vice president of the corporate management department under the faculty of economics from October 1987 to October 1996, and was then promoted to the vice president of the faculty of economics and the dean of corporate management department from October 1996 to March 1999. From March 1999 to October 2007, he served as the vice president and was appointed as the secretary of the party committee of the faculty of management from October 2007 to January 2013. Mr. Lin is currently a professor in the faculty of management.

Mr. Lin has served as an independent non-executive director in several companies listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange, including Fujian Longxi Bearing (Group) Co., Ltd* (福建龍溪軸承(集團)股份有限公司) (stock code: 600592.SH) from April 2008 to March 2014, Fujian Expressway Development Co., Ltd* (福建發展高速公路股份有限公司) (stock code: 600033.SH) from April 2009 to June 2015, San'an Optoelectronics Co., Ltd* (三安光電股份有限公司) (stock code: 6000703.SH) from November 2007 to November 2013 and Fujian Guanfu Modern Household Joint-stock Company Limited* (福建冠福現代家用股份有限公司) (stock code: 002102.SZ) from October 2008 to June 2015. He served as an independent director in Taiya Shoes Co., Ltd.* (泰亞鞋業股份有限公司) (now known as Kingnet Network Co., Ltd.* (愷英網絡股份有限公司)) (stock code: 002517.SZ), a company listed on the Shenzhen Stock Exchange. Mr. Lin is currently acting as an independent director in Fujian Zhangzhou Development Co., Ltd.* (福建漳州發展股份有限公司) (stock code: 000753.SZ), a company listed on the Shenzhen Stock Exchange, and in Joeone Co., Ltd.* (九牧王股份有限公司) (stock code: 601566.SH), a company listed on the Shanghai Stock Exchange. He is also currently a director of Shenzhen Four Seasons Green Garden Co., Ltd.* (深圳市四季青園林股份有限公司).

Mr. Lin was not engaged, or interested, in any business which directly or indirectly competed or may compete with our business.

Save as disclosed above, Mr. Lin has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Senior Management

Mr. LIU Yilun (劉奕倫), is a vice president appointed on 21 August 2015. For biographical details of Mr. Liu, please refer to the paragraph headed "Executive Directors" above in this section.

Mr. YE Guofeng (葉國鋒), is a vice president appointed on 21 August 2015. For biographical details of Mr. Ye, please refer to the paragraph headed "Executive Directors" above in this section.

Mr. YE Niangting (葉娘汀), is a vice president appointed on 22 May 2014. For biographical details of Mr. Ye, please refer to the paragraph headed "Executive Directors" above in this section.

Mr. HUANG Ye (黃曄), aged 51, was appointed as a vice president of our Company on 10 December 2012 and is primarily responsible for overseeing financial management of our Group. He joined our Company on 20 December 2010 as an audit controller.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Since joining our Group in December 2010, Mr. Huang has been involved in developing financial strategy, overseeing capital and risk management and reviewing funding plans for our Group, utilising his prior experience in audit and accountancy.

Mr. Huang graduated from Zhengzhou Institute of Aeronautical Industry Management (鄭州航空工業管理學院) in July 1988 majored in finance and accountancy. Mr. Huang acquired the accountant qualification issued by the Ministry of Finance of the PRC (中華人民共和國財政部) in October 1994 and was qualified as a Chinese Certified Public Accountant in April 1998. Prior to joining our Company, Mr. Huang worked at Shaanxi Aircraft Manufacturing Industry Company Limited* (陝西飛機製造工業公司) (now known as AVIC Shaanxi Aircraft Industry (Group) Corporation Ltd.* (中航工業陝西飛機工業(集團)有限公司)) as an accountant from July 1988 to December 2004. He then worked as a finance manager for a subsidiary of Shenzhen Zhaotong Investment Joint Stock Company Limited* (深圳市兆通投資股份有限公司) from December 2004 to March 2007 and as an audit manager at Guangdong Chaohua Technology Co., Ltd.* (廣東超華科技股份有限公司) from August 2008 to March 2011.

Ms. KOU Yue (寇悅), aged 42, was appointed as a vice president on 21 August 2015 and the chief financial officer on 16 September 2015, responsible for the financial management of our Company. Ms. Kou graduated from Tianjin Finance and Economic University (天津財經大學) with a bachelor's degree in international trade in July 1996. Thereafter, she gained a master's degree in banking from City University of Hong Kong (香港城市大學) and a master's degree in accountancy from Chinese University of Hong Kong (香港中文大學) in November 2005 and December 2008, respectively. Ms. Kou is also a member of the Chinese Certified Public Accountant (CICPA), the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Ms. Kou has 19 years of working experience in finance and accountancy. She had worked for Tianda Tiancai Company Limited* (天大天財股份有限公司) (now known as Tianjin Xinmao Science and Technology Co., Ltd.* (天津鑫茂科技投資集團)), the shares of which are listed on the Shenzhen Stock Exchange with stock code 000836.SZ) as an accountant from September 1996 to September 1999. From September 1999 to October 2002, she had worked in the Assurance & Business Advisory Department of Ernst & Young, Beijing where she was responsible for pre-listing and post-listing annual auditing for companies listed in Hong Kong and the PRC. Ms. Kou then served as the finance manager in China Data Broadcasting Holding Limited (中華數據廣播控股有限公司) (now known as Changhong Jiahua Holdings Limited (長虹佳華控股有限公司), the shares of which are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange with stock code 8016.HK) from October 2003 to February 2006 and vice president in KASH Strategic Holding Limited (嘉裕策略有限公司) from February 2006 to July 2006. From August 2006 to September 2007, Ms. Kou had served as an audit supervisor in Zhong Yi (Hong Kong) C.P.A. Company Limited (中逸(香港)會計師事務所有限公司). Thereafter, she worked as a manager for Thomas Lee & Partners Ltd. (瑞信國際有限公司) from October 2007 to May 2011, as a manager for GDT CPA Limited (嘉信會計師事務所有限公司) from June 2011 to January 2013, and as an audit manager in W. L. Ho & Co., CPA (何慧玲會計師事務所) from October 2013 to June 2015. She joined our Company in August 2015.

SUPERVISORS

Our Board of Supervisors comprises three members. Each of our Supervisors serves a term of three years and can be re-elected for successive reappointments. The functions and duties of the Board of Supervisors include reviewing periodical reports including financial reports prepared by our Board and overseeing the financial and business performance of our Group. They are also entitled to appoint certified public accountants and practicing auditors to re-examine our Company's financial information where necessary. The following table sets forth the information in respect of our Supervisors.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of Joining our Group	Date of Appointment	Role and Responsibilities	Relationship amongst Directors, Supervisors and Senior managements
Mr. LUO Jianming 羅建明	54	Supervisor	June 2012	June 2012	Overseeing the human resources management of our Company	Nil
Mr. WU Hanguang 吳漢光	28	Supervisor	June 2009	June 2012	Supervising the operation department and formulating and implementing risk management strategies of our Company	Nil
Mr. YE Xian 葉縣	23	Supervisor	June 2012	June 2012	Supervising the operation department and ensuring the maintenance and increment of the asset value of our Company	The son of Mr. YE Yujing's younger brother, the nephew of Ms. YE Xiujin, and the younger cousin of Mr. YE Guofeng

Mr. LUO Jianming (羅建明), aged 54, was appointed as a Supervisor of our Company in June 2012 and is mainly responsible for overseeing the human resources management of our Group. Mr. Luo has 23 years of experience in the civil engineering and construction industries.

Mr. Luo was the vice president of the fifth session committee of the Hong Kong Shan Mei City Luk Ho Overseas Fraternity Association (香港汕尾市陸河海外聯誼總會), and a member of the sixth session of the Luhe County Guangdong Province Committee of the Chinese People's Political Consultative Conference (CPPCC) (廣東省陸河縣政協).

Prior to joining our Company, Mr. Luo had worked in the accounts department of Nanwan Town office in Luhe County, Shanwei City, Guangdong for immigration division procurement section of Guangdong Nangao Hydropower Engineering Command* (廣東省南告水電工程指揮部移民辦採購科) from September 1978 to December 1980. From January 1981 to February 1992, he had operated a timepiece repair and maintenance business as a sole proprietor in Luhe County, Shanwei City, Guangdong. After that, Mr. Luo successively served as a technician, project manager, and then vice president in Shenzhen Keyuan Construction Group Co., Ltd.* (深圳市科源建設集團有限公司) from February 1992 to June 2012.

Mr. Luo has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Mr. WU Hanguang (吳漢光), aged 28, was appointed as a Supervisor on June 2012 and is mainly responsible for supervising the operation department and formulating and implementing risk management strategies of our Company. Mr. Wu joined our Company in June 2009 as an officer in the operation department and was promoted as a deputy manager of the same department in April 2012.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wu graduated from Guangdong Press and Publication Technician College (廣東省新聞出版高級技工學校) with an associate degree of printing graphic information processing in July 2009. Mr. Wu completed top-up courses in civil engineering (construction) offered by China University of Geosciences (中國地質大學) through online education in July 2014 and obtained a bachelor's degree in engineering in December 2014.

Mr. Wu has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Mr. YE Xian (葉縣), aged 23, was appointed as a Supervisor in June 2012 and is mainly responsible for supervising the operation department and ensuring the maintenance and increment of the asset value of our Company. Mr. Ye gained his bachelor's degree in civil engineering from Shenzhen University (深圳大學) in June 2015. Mr. Ye is the son of Mr. YE Yujing's younger brother, the nephew of Ms. YE Xiujin, and the younger cousin of Mr. YE Guofeng.

Mr. Ye has not held any directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

Save as disclosed herein, no Director or Supervisor held any directorship positions in any listed companies in Hong Kong and overseas within the three years immediately preceding the date of this document. There is no other information relating to the relationship of any of our Directors and Supervisors with any other Directors, Supervisors and members of senior management that should be disclosed pursuant to Rule 13.51(2) of or paragraph 41(3) of Appendix 1A to the [REDACTED].

Save as disclosed herein, to the best knowledge, information and belief of our Directors and Supervisors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors and Supervisors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors and Supervisors that is required to be disclosed pursuant to Rule 3.51(2)(h) to (v) of the [REDACTED] as at the Latest Practicable Date.

JOINT COMPANY SECRETARIES

Mr. LIU Yilun (劉奕倫), is one of the joint company secretaries appointed on 21 August 2015. For biographical details of Mr. Liu, please refer to the paragraph headed "Executive Directors" above in this section.

Ms. KOU Yue (寇悅), is one of the joint company secretaries appointed on 21 August 2015. For biographical details of Ms. Kou, please refer to the paragraph headed "Senior Management" above in this section.

MANAGEMENT PRESENCE IN HONG KONG

[REDACTED] of the Listing Rules requires that a new applicant applying for a primary [REDACTED] on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since the principal business and operations of our Group are located in the PRC, members of our senior management are and will therefore be expected to continue to be based in the PRC. None of our Executive Directors are Hong Kong permanent residents or ordinarily based in Hong Kong. Our Company has applied to the Stock Exchange for a waiver from strict compliance with the requirement under [REDACTED] of the Listing Rules. For details of the waiver, please refer to the section headed "Waives from Strict Compliance with the Listing Rules – Management Presence in Hong Kong".

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE CODE

Provision A.2.1 of the Corporate Governance Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. YE Yujing is acting as our Chairman and our chief executive officer. In view of Mr. Ye's experience, personal profile and his roles in our Group as mentioned above and that Mr. Ye has assumed the role of chief executive officer since April 2012, our Board considers it beneficial to the business prospect and operational efficiency of our Group that Mr. Ye, in addition to acting as our Chairman, continue to act as our chief executive officer. Our Board believes that this structure will not impair the balance of power and authority between our Board and the management of our Company, provided that: (i) decision to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises three Independent Non-executive Directors out of the nine Directors, which is in compliance with the Listing Rules requirement of one-third, and we believe that there is sufficient check and balance in our Board; (ii) Mr. Ye and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that each of them acts for the benefit and in the best interests of our Company and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of our Board which comprises experienced and high calibre individuals who meet regularly to discuss issues affecting the operations of our Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. Our Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of the Chairman and chief executive officer is necessary.

BOARD COMMITTEES

Our Board delegates certain responsibilities to various dedicated committees. In accordance with relevant PRC laws, regulations, the Articles and the Listing Rules, we have formed four board committees: the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy Committee.

Audit Committee

We have established the Audit Committee pursuant to a resolution of our Directors passed on 21 August 2015 and in compliance with the Corporate Governance Code. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal controls. Our Audit Committee is responsible for, among other things:

- ensuring the effectiveness of financial reporting and internal control system and that they are in compliance with the Listing Rules;
- overseeing the integrity of our financial statements;
- selecting external auditors and assessing their independence and qualifications; and
- ensuring effective communication between our Directors, internal auditors and external auditors.

The Audit Committee currently consists of three Independent Non-executive Directors. The members of the Audit Committee are currently Mr. FUNG Yat Sang, Mr. LI Bingren and Mr. LIN Zhiyang and the chairman is Mr. FUNG Yat Sang.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Nomination Committee

We have established a Nomination Committee pursuant to a resolution of our Directors passed on 21 August 2015 and in compliance with the Corporate Governance Code. Our Nomination Committee is responsible for, among other things:

- identifying and recommending appropriate Director candidates to our Board;
- evaluating the structure and composition of our Board;
- assessing the independence of Independent Non-executive Directors; and
- making recommendations to our Board on the appointment or re-appointment of Directors and the succession of Directors, in particular the Chairman.

The Nomination Committee currently consists of Mr. LIN Zhiyang, Mr. YE Yujing and Mr. LI Bingren, and the chairman is Mr. LIN Zhiyang.

Remuneration Committee

We have established a Remuneration Committee pursuant to a resolution of our Directors passed on 21 August 2015 and in compliance with the Corporate Governance Code. The primary duties of the Remuneration Committee are:

- determining the policy and structure for the remuneration of Directors and senior management;
- reviewing incentives schemes and Directors' service contracts; and
- fixing the remuneration packages for Executive Directors and senior management.

The Remuneration Committee currently consists of Mr. LI Bingren, Mr. YE Guofeng and Mr. FUNG Yat Sang, and the chairman is Mr. LI Bingren.

Strategy Committee

We have established a Strategy Committee pursuant to a resolution of our Directors passed on 21 August 2015. The primary duties of the Strategy Committee are:

- researching and recommending to our Board the long-term development and strategic plans of our Company;
- researching and recommending to our Board matters that are material to the development of our Company;
- checking the implementation of above-mentioned matters that are approved via Board meetings or Shareholders' meetings; and
- dealing with other strategic matters that are authorised by our Board.

The Strategy Committee currently consists of Mr. YE Yujing, Mr. LI Bingren, Mr. LIN Zhiyang, Mr. LIU Yilun and Mr. YE Guofeng. Mr. YE Yujing is the chairman.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to [REDACTED] of the Listing Rules. Pursuant to [REDACTED] of the Listing Rules, the compliance adviser will provide advice to us when consulted by us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction is contemplated, including share issue and share repurchase;
- (c) where our Company proposes to use the net [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and
- (d) where the [REDACTED] makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares.

The term of this appointment shall commence on the [REDACTED] and is expected to end on the date on which we distribute our annual report in respect of the financial results for the first full financial year commencing after the [REDACTED].

REMUNERATION AND COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Directors, Supervisors and senior management receive compensation in the form of Directors' or Supervisors' fees (payable to Directors or Supervisors, as the case may be), salaries, housing allowances and other allowances, benefits in kind, employer's contribution to pension schemes and discretionary bonuses.

The aggregate remuneration (including fees, salaries, housing allowances and other allowances, benefits in kind, contributions to pensions schemes and discretionary bonuses) paid to our Directors for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 was approximately RMB2,301,000, RMB2,301,000, RMB2,390,000 and RMB1,202,000, respectively.

The aggregate remuneration (including fees, salaries, housing allowances and other allowances, benefits in kind, contributions to pensions schemes and discretionary bonuses) paid to our Supervisors for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 was approximately RMB115,000, RMB115,000, RMB154,000 and RMB99,000, respectively.

The aggregate remuneration (including fees, salaries, housing allowances and other allowances, benefits in kind, contributions to pensions schemes and discretionary bonuses) paid to our Company's five highest paid individuals for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 was approximately RMB2,286,000, RMB2,286,000, RMB2,208,000 and RMB1,240,000, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest-paid individuals of our Company as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest-paid individuals of our Company during the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Save as disclosed above, no other payments have been made or are payable in respect of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, by any of member of our Group to any of our Directors.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, payable to our Directors and Supervisors for the six months from 1 July 2016 to 31 December 2016 to be approximately RMB1,201,000 and RMB99,000, respectively. In determining the remuneration packages of our Directors, Supervisors and senior management, we consider factors such as salaries paid by comparable companies, time commitment and responsibilities of our Directors and senior management, our ability to offer remuneration packages and desirability of performance-based remuneration.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in the Accountant's Report in Appendix I to this document. The consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in the section headed "Risk Factors".

OVERVIEW

We are one of the top 20 building decoration service providers in the PRC, with our headquarters located in Shenzhen, Guangdong Province. With almost 20 years of operating history, we have gained substantial experience and established a solid reputation in the building decoration industry in the PRC. We provide comprehensive building decoration services in the following four areas: (i) building decoration works; (ii) electrical and mechanical installation works; (iii) curtain wall engineering works; and (iv) fire safety engineering works.

For each of the three years ended 31 December 2013, 2014 and 2015, our total revenue was approximately RMB1,484.6 million, RMB1,479.7 million and RMB1,659.7 million, respectively, representing a CAGR of 5.7%, while our net profit attributable to equity holders of our Company for the year was approximately RMB61.7 million, RMB79.6 million and RMB100.7 million, respectively, representing a CAGR of 27.7%.

For each of the six months ended 30 June 2015 and 2016, our total revenue was approximately RMB705.2 million and RMB746.2 million, respectively, representing a year-on-year growth of 5.8%, while our net profit attributable to equity holders of our Company for the period was approximately RMB43.6 million and RMB44.3 million, respectively, representing a year-on-year growth of 1.6%.

BASIS OF PRESENTATION

The principal accounting policies applied in the preparation of the financial information of our Group which is in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants are set out in the Accountant's Report in Appendix I to this document. The financial information has been prepared under the historical cost convention.

The preparation of financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. Our management exercises its judgement in the process of applying our Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 4 of the Accountant's Report in Appendix I to this document.

FINANCIAL INFORMATION

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Market demand

Our results of operations are directly affected by our revenue, which in turn is a function of market demand for our building decoration works. Market demand is in turn affected by a number of factors, including but not limited to the general economic conditions in the PRC, the general real estate market in the PRC, changes relating to the PRC building decoration industry. Any adverse change in the economic conditions in the PRC, such as economic downturn or credit crisis, may affect our customers leading to decrease in the demand of our service and affecting the ability to settle the outstanding bills.

Pricing for our services including under variation orders

The majority of our revenue during the Track Record Period is derived from our building decoration projects generally awarded by means of tender. After taking into the consideration of factors such as the cost of raw materials, labour cost, the nature of the building decoration, and our relationship with the clients, the tender price of our projects is generally based on our estimated project costs plus a mark-up margin. We can only adjust our service fee in certain circumstances as stipulated in the contracts such as request by the customers for additional services or changes in specification under variation orders. Our goal is to maintain the competitiveness of our pricing while maximizing our profit margin. Our management and project managers will review the cost budget. If the actual cost is higher than the tender price, it may reduce the profit margin and affect our financial performance. If our project managers fail to keep the costs within our initial budget, our business operation and financial results may be adversely affected.

Unexpected fluctuation in cost of sales

During our preparation of tender, we need to estimate the construction time and costs in order to determine the tender price, in order to yield the desirable profit margin. The actual cost of sales may deviate from our estimation due to various factors, such as inflation, market supply of labour and raw materials. If we fail to control and manage our cost of sales effectively, or any fluctuations in cost of sales, our results of operations and profits will be adversely affected.

Non-recurring nature of revenue

During the Track Record Period, almost all of our revenue was derived from construction contracts which were awarded to us on successful tenders. Our future growth and success will depend on our ability to continue to secure tender and contract awards. Whether we will succeed in our tenders depends on a number of factors, including the pricing and other terms and conditions offered by our competitors. There is no guarantee that we will succeed in the tender process. In addition, as our business is contract-based and operates on a non-recurring basis, our customers mix and project type mix may vary from year to year.

In addition, our financial performance may be adversely affected if our Group is unable to secure new tenders or obtain new contract awards with comparable contract sums upon completion of our contracts on hand.

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Timing and collectability of progress payment and retention money

We generally submit interim payment applications in relation to works completed to our customers, based on the terms or progress of the contracts entered into with our customers. Our customers will confirm the value of works completed and make payment to us after endorsing on the project progress report. The amount due from customers for contract work will keep rising, until our customers confirm the value of works completed and endorse on the project progress report. There are two causes for a significant amount of amounts due from customers for contract work: (i) in respect of projects whereby interim payment applications are made based on work progress, our customers will confirm the value of works completed based on a pre-agreed percentage of completion; if the pre-agreed percentage of completion is set at a high level, we can only submit our interim payment applications when we have reached the pre-agreed percentage of completion; and (ii) there is no guarantee that all of our customers will endorse on the project progress report on a timely basis after our submission of interim payment applications. For more details, please refer to the paragraph headed "Description of Selected Items in Statements of Comprehensive Income – Administrative expenses" in this section.

The usual billing practices of our Group are set out below:

Stage of project	Billing progress
Upon signing of contract or prior to commencement of project	We may require our customers to prepay an amount that generally equals to 10% of the total contract value
During project implementation	We issue interim payment applications to our customers in respect of the value of contract works completed in stages, based on the terms of the contracts entered into with them. The amount of each progress payment received from our customers generally represents 70% to 90% of the value of contract works completed, and if our customers settle the requested amount in full, no significant amount of accounts receivable will remain outstanding
Upon completion of all contract works undertaken by us and inspection of contract works by customers	Total amount paid and/or payable by our customers (on an accumulative basis) generally represents 80% to 90% of the total contract value; in respect of certain large-scale construction projects commissioned by governmental authorities, large-scale corporations or state-owned enterprises, we may offer more favourable payment terms on an individually assessed basis taking into account their scale of operations, financial conditions and payment history
Upon project completion	Total amount paid and/or payable by our customers (on an accumulative basis) generally represents 95% to 97% of the total contract value
Post-completion	The remaining 3% to 5% of the total contract value will be held by our customers as retention money and be released to us upon expiry of the defect liability period if there is no breach of contract on our part

After our customers endorse on the project progress report and confirm the value of works completed, we will bill our customers and the amounts billed but not yet paid by our customers will be

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considered as trade receivables. There is no guarantee that our customers will settle the outstanding trade receivables by making payment to us on time and in full. If our customers fail to make timely payment after receiving the billings, our financial condition could be materially affected.

Our customers generally withhold 3% to 5% of the contract value as retention money. After the expiration of defect liability period, the retention money will be released to our Group. There can be no assurance that retention money will be released by all of our customers to us on time and in full. If the customers are not able to settle the outstanding payments in a timely manner, our financial condition could be materially and adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our Group's financial statements. Our significant accounting policies, estimates and judgements, which are important for an understanding of our financial condition and results of operations, are set forth in detail in the Accountant's Report in Appendix I to this document.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

We make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Percentage of completion of construction works

We recognise the revenue according to the percentage of completion of the individual contract of construction. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. Our Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses and regularly reviews the progress of the contracts.

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(b) Estimation of foreseeable losses in respect of construction works

We estimate the amount of foreseeable losses of construction works based on the management budgets prepared for the construction works. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise service charges of work forces engaged and costs of materials are prepared by our management on the basis of quotations from time to time provided by the licensed labour agencies, suppliers and vendors involved and experience of our management. In order to keep the budget accurate and up-to-date, our management conducts periodic review on the management budgets by comparing the budgeted amounts to the actual amounts incurred. Items that are subject to significant variances and impact the amount of provision of foreseeable losses of construction contracts include the changes in estimations or the actual costs incurred for materials, staff costs, the amount of variation orders and claims as compared to our budget.

Furthermore, where revenue has been validly recognised on a contract, but an uncertainty subsequently arises about the recoverability of the related amount due from the customer, a loss consisting of incurred cost which exceed contract revenue recoverable and the accumulated profit recognised previously, should be recognised. Management would individually assess the recoverability of the amounts due from customer for contract work to focus the customer's settlement history and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operate.

(c) Impairment of receivables

We determine allowance for bad and doubtful debt of our Group based on the evaluation of collectability and aging analysis of accounts and our management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and debtor. If the financial positions of customers and debtors of our Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) Income taxes and deferred taxation

Our Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

On 11 October 2013, our Company was awarded the status as "High and New Technology Enterprise*" (高新技術企業) by relevant PRC governmental authorities for a term of three years and has been enjoying a preferential EIT of 15% which was effective for three years commencing on 1 January 2013. While our certificate of "High and New Technology Enterprise*" (高新技術企業) expired in October 2016, given that (i) we have completed the necessary filings for re-examination of our status as "High and New Technology Enterprise*" (高新技術企業) with the relevant authorities in August 2016; (ii) there has been no major change to the laws and regulations related to the certification since the last certification; and (iii) our corporate status and research and development credentials have enhanced since the last certification, our Directors believe that we will continue to be qualified as a "High and New Technology Enterprise*" (高新技術企業) and be granted the preferential EIT treatment upon re-examination of our status as "High and New Technology Enterprise*" (高新技術企業) which is expected to be completed by the relevant authorities in December 2016.

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Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided or goods sold, stated net of discounts, returns and sales related taxes.

Our Group recognises revenue when (i) the amount of revenue can be reliably measured; (ii) it is probable that future economic benefits will flow to the entity; and (iii) specific criteria have been met for each of our Group's activities, as described below. Our Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) *Construction contracts*

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

(b) *Rendering of services*

Our Group provides design services to external parties. Design fee is recognised as revenue in the accounting period in which the services are rendered, by reference to the amount provided in the service period stipulated in the contract.

(c) *Sales of goods*

Sales of goods are recognised when (i) a group entity has delivered products to the customer; (ii) the customer has accepted the products; and (iii) collectability of the related receivables is reasonably assured.

(d) *Rental income*

Rental income from investment property is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

Construction contract

A construction contract is defined by Hong Kong Accounting Standard 11 for construction contracts as a contract specifically negotiated for the construction of an asset.

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

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

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

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When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenue of each asset can be separately identified. A group of contracts performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as receipt in advance. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under "trade receivables" set out in the Accountant's Report in Appendix I to this document.

Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

Trade and other payables and amounts due to related parties

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables and amounts due to related parties are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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(b) *Deferred income tax*

Inside basis differences

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by our Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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RESULTS OF OPERATIONS

The following table sets forth selected items of our consolidated statements of comprehensive income during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i>
Revenue	1,484,634	1,479,719	1,659,693	705,197	746,213
Cost of sales	(1,327,950)	(1,316,276)	(1,461,994)	(615,133)	(654,581)
Gross profit	156,684	163,443	197,699	90,064	91,632
Selling and marketing expenses	(5,163)	(5,997)	(3,792)	(1,711)	(1,998)
Administrative expenses	(67,103)	(53,446)	(61,114)	(29,524)	(30,127)
Other income – net	521	1,596	1,024	240	330
Operating profit	84,939	105,596	133,817	59,069	59,837
Finance income	540	410	238	179	54
Finance costs	(9,820)	(12,672)	(15,275)	(7,473)	(7,737)
Finance costs – net	(9,280)	(12,262)	(15,037)	(7,294)	(7,683)
Profit before income tax	75,659	93,334	118,780	51,775	52,154
Income tax expense	(15,002)	(14,227)	(18,070)	(8,186)	(7,855)
Total comprehensive income for the year/period	60,657	79,107	100,710	43,589	44,299
Total comprehensive income for the year/period attributable to:					
Owners of our Company	61,731	79,630	100,710	43,589	44,299
Non-controlling interests	(1,074)	(523)	–	–	–
	60,657	79,107	100,710	43,589	44,299

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DESCRIPTION OF SELECTED ITEMS IN STATEMENTS OF COMPREHENSIVE INCOME

Revenue

We principally derive our revenue from the provision of building decoration works in the PRC. For the three years ended 31 December 2013, 2014 and 2015, our revenue increased at a CAGR of approximately 5.7%. For the six months ended 30 June 2015 and 2016, our revenue increased at a year-on-year growth rate of approximately 5.8%.

The following table sets forth the breakdown of our revenue by service type during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Revenue from construction contracts	1,466,919	98.8	1,467,010	99.2	1,638,229	98.7	696,643	98.8	742,078	99.4
Design and other income ⁽¹⁾	7,495	0.5	7,997	0.5	12,948	0.8	3,561	0.5	4,135	0.6
Sales of goods ⁽²⁾	10,220	0.7	4,712	0.3	8,516	0.5	4,993	0.7	-	-
Total	1,484,634	100.0	1,479,719	100.0	1,659,693	100.0	705,197	100.0	746,213	100.0

Notes:

⁽¹⁾ Revenue from design and other income represents the revenue derived from design decoration service and maintenance of fire safety system.

⁽²⁾ Sales of goods represent the sales of construction materials to our customers such as property developers.

Our construction and services fees are generally determined on a cost plus margin basis and the contract revenue is recognised over the period of the contract by reference to the stage of completion. The percentage of completion of a project is measured by dividing the contract costs incurred for construction work performed by the estimated total contract cost. Revenue recognised over the period of the contract is directly tied with the cost incurred over the period.

During the Track Record Period, the contribution of revenue from each type of service remained at a similar level. Our revenue is mainly generated from revenue from construction contracts, accounted for an average of 99.0% of the total revenue.

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The following table sets out the progress of projects based on their respective revenue recognised during the Track Record Period:

	For the year ended 31 December									For the six months ended 30 June					
	2013			2014			2015			2015			2016		
	Projects brought forward	New projects	Total	Projects brought forward	New projects	Total	Projects brought forward	New projects	Total	Projects brought forward	New projects	Total	Projects brought forward	New projects	Total
Revenue recognised															
Below RMB1 million	121	50	171	186	50	236	267	19	286	317	33	350	334	29	363
RMB1 million to RMB5 million	72	110	172	68	99	167	116	120	236	74	41	115	45	38	83
RMB5 million to RMB10 million	16	20	36	15	23	38	13	22	35	8	12	20	12	5	17
Over RMB10 million	13	14	27	6	28	34	4	23	27	1	7	8	2	5	7
	<u>212</u>	<u>194</u>	<u>406</u>	<u>275</u>	<u>200</u>	<u>475</u>	<u>400</u>	<u>184</u>	<u>584</u>	<u>400</u>	<u>93</u>	<u>493</u>	<u>393</u>	<u>77</u>	<u>470</u>

The following table sets out our revenue derived from all construction projects at different completion stages during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue derived from projects brought forward	659,900	411,601	438,454	252,637	388,912
Revenue from new projects commenced	679,217	954,650	1,057,266	367,124	294,690
Miscellaneous contracts ⁽¹⁾	127,802	100,759	142,509	76,882	58,476
Total	<u>1,466,919</u>	<u>1,467,010</u>	<u>1,638,229</u>	<u>696,643</u>	<u>742,078</u>

Note:

⁽¹⁾ Miscellaneous contracts refer to contracts with contract value of less than RMB1 million.

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The following table sets forth, for the periods indicated, the breakdown of our revenue from construction contracts by geographical region:

	For the year ended 31 December						For the six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%
Southern China ^{(1)#}	515.9	35.2	599.0	40.8	799.3	48.8	351.0	50.4	357.7	48.2
Eastern China ^{(2)#}	46.1	3.1	134.5	9.2	134.0	8.2	33.3	4.8	197.7	26.6
South-western China ^{(3)#}	259.6	17.7	234.1	16.0	321.0	19.6	120.7	17.3	57.0	7.7
North-western China ^{(4)#}	154.9	10.6	85.0	5.8	97.5	6.0	52.7	7.6	23.4	3.2
Northern China ^{(5)#}	265.8	18.1	205.2	14.0	75.6	4.6	34.3	4.9	20.1	2.7
Central China ^{(6)#}	76.1	5.2	86.4	5.9	38.0	2.3	18.7	2.7	16.7	2.3
North-eastern China ^{(7)#}	20.7	1.4	22.0	1.5	30.3	1.8	9.2	1.3	11.1	1.5
Miscellaneous contracts ^Δ	127.8	8.7	100.8	6.8	142.5	8.7	76.7	11.0	58.4	7.8
Total	1,466.9	100.0	1,467.0	100.0	1,638.2	100.0	696.6	100.0	742.1	100.0

Notes:



(1) Southern China includes Shenzhen, Guangdong Province, Guangxi Province and Hainan Province.

(2) Eastern China includes Shanghai, Shandong Province, Jiangsu Province, Zhejiang Province, Fujian Province, Anhui Province and Jiangxi Province.

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- (3) South-western China includes Chongqing, Sichuan Province, Guizhou Province and Yunnan Province.
- (4) North-western China includes Ningxia, Xinjiang Province, Qinghai Province, Gansu Province and Shaanxi Province.
- (5) Northern China includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Province.
- (6) Central China includes Henan Province, Hubei Province and Hunan Province.
- (7) North-eastern China includes Liaoning Province and Heilongjiang Province.
- # Contracts under this category are each of a contract value of more than RMB1 million.
- △ Miscellaneous contracts refer to contracts each of a contract value of less than RMB1 million.

During the Track Record Period, the majority of our revenue was derived from the Southern, Eastern and South-western regions in the PRC. Revenue from construction contracts increased significantly for the six months ended 30 June 2016 due to the recognition of revenue in the amount of approximately RMB133.2 million in respect of a project located in Shandong Province.

The following table sets forth the breakdown of our revenue from construction contracts by building and property type during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%
Commercial buildings ^{(1)#}	338.8	23.1	337.2	23.0	598.9	36.6	217.3	31.2	419.8	56.6
Office buildings [#]	283.4	19.3	238.1	16.2	110.2	6.7	63.3	9.1	81.9	11.0
Industrial buildings [#]	158.6	10.8	130.4	8.9	168.0	10.3	59.9	8.6	80.8	10.9
Residential buildings ^{(2)#}	243.1	16.6	317.4	21.6	377.5	23.0	155.4	22.3	43.7	5.9
Public buildings and infrastructure ^{(3)#}	184.2	12.6	278.7	19.1	131.0	8.0	55.7	8.0	42.9	5.8
Hotels [#]	131.0	8.9	64.4	4.4	110.1	6.7	68.3	9.8	14.6	2.0
Miscellaneous contracts [△]	127.8	8.7	100.8	6.8	142.5	8.7	76.7	11.0	58.4	7.8
Total	1,466.9	100.0	1,467.0	100.0	1,638.2	100.0	696.6	100.0	742.1	100.0

Notes:

- (1) Commercial buildings include shopping malls, department stores, bank buildings, and exhibition centres etc.
- (2) Residential buildings refer to the public or common areas in residential properties.
- (3) Public buildings and infrastructure include hospitals, educational institutions, cultural centres, recreational facilities and public transport infrastructure etc.
- # Contracts under this category are each of a contract value of more than RMB1 million.
- △ Miscellaneous contracts refer to contracts each of a contract value of less than RMB1 million.

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During the Track Record Period, the analysis of segmental revenue of the building and property type shows that our revenue does not heavily rely on any segment and our Directors believe that our revenue in the future will continue to be contributed by different segments in the long run, which is consistent with our business strategy. Revenue from commercial building projects increased significantly for the six months ended 30 June 2016 due to the recognition of revenue in the amount of approximately RMB133.2 million, RMB61.1 million and RMB46.4 million, respectively, for three commercial building projects located in Shandong Province, Shenzhen and Guangdong Province. Due to the fact that we possess a broad range of the highest qualifications and licences, we are qualified to submit tenders for a wide range of projects. Our Directors believe that our ability to carry out diversified building decoration works has broadened our sources of revenue and customer base, and our diversified customer base will prevent us from over-relying on a particular customer. In addition, as our business is contract-based and operates on a non-recurring basis, our customer mix and project type mix varies from year to year. For more details, please refer to the paragraph headed "Key Factors Affecting our Results of Operations – Non-recurring nature of revenue" in this section.

Our Directors believe that our revenue depends on the number and contract size of the projects we secure. Revenue from fixed price construction contracts is recognised based on the percentage of completion and measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Cost of sales

Our cost of sales mainly comprises raw materials and consumables used, and remuneration paid or payable to work forces engaged by our Group.

The following table sets forth a breakdown of our cost of sales by nature during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials and consumables used	813,127	61.2	810,763	61.6	924,538	63.2	396,280	64.4	432,667	66.1
Remuneration paid or payable to work forces engaged by our Group	450,976	34.0	448,070	34.0	472,163	32.3	188,200	30.6	204,455	31.2
Business and other taxes	47,535	3.6	47,830	3.6	51,899	3.6	23,155	3.8	14,133	2.2
Staff costs	5,231	0.4	6,011	0.5	6,170	0.4	3,206	0.5	3,326	0.5
Trading merchandise consumed ⁽¹⁾	9,610	0.7	3,602	0.3	7,224	0.5	4,292	0.7	-	-
Miscellaneous costs ⁽²⁾	1,471	0.1	-	-	-	-	-	-	-	-
Total	1,327,950	100.0	1,316,276	100.0	1,461,994	100.0	615,133	100.0	654,581	100.0

Notes:

⁽¹⁾ Trading merchandise consumed represents the cost of construction materials sold to our customers.

⁽²⁾ Miscellaneous costs mainly represent service fees paid or payable to external parties related to design service.

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Raw materials and consumables are our main cost of sales, accounting for approximately 61.2%, 61.6%, 63.2%, 64.4% and 66.1% of our total cost of sales for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively, which mainly include expenses relating to our purchases of electrical and mechanical products, stone, ceramic materials, glass, metal, metal hardware and decoration boards for building decoration works. Any material increase in the purchase cost of raw materials and consumables may materially affect our gross profit and net profit margins.

The following table sets forth a breakdown of our cost of raw materials and consumables used during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Electrical and mechanical products	199,867	24.6	206,339	25.5	230,748	25.0	98,843	24.9	106,684	24.7
Metal hardwares	118,066	14.5	121,777	15.0	170,387	18.4	58,890	14.9	120,926	27.9
Stone, glasses and ceramic materials	187,914	23.1	176,422	21.8	207,432	22.4	90,128	22.7	76,004	17.6
Metal building materials	140,102	17.2	143,505	17.7	138,831	15.0	67,087	16.9	61,197	14.1
Decoration boards	66,920	8.2	65,185	8.0	88,382	9.6	33,923	8.6	49,217	11.4
Other consumables	100,258	12.4	97,535	12.0	88,758	9.6	47,409	12.0	18,639	4.3
Total	813,127	100.0	810,763	100.0	924,538	100.0	396,280	100.0	432,667	100.0

Remuneration paid or payable to work forces engaged by our Group represents the cost related to labour despatch, labour subcontracting and engagement of temporary workers. This is the second largest expense of our cost of sales, accounting for approximately 34.0%, 34.0%, 32.3%, 30.6% and 31.2% of our total cost of sales for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016. Any material increase in the cost of provision of labour services may materially affect our gross profit and net profit margins.

As raw materials and consumables are the main component of our cost of sales, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of raw materials and consumables used on our profit before tax during the Track Record Period. Fluctuations in our cost of raw materials and consumables used are assumed to be 3%, 5% and 8%, which are determined by reference to the historical fluctuations in the costs of raw materials and consumables during the Track Record Period.

	+/-3%	+/-5%	+/-8%
	RMB'000	RMB'000	RMB'000
Hypothetical fluctuations			
Change in gross profit			
Year ended 31 December 2013	+24,393.8	+40,656.4	+65,050.2
Year ended 31 December 2014	+24,322.9	+40,538.2	+64,861.0
Year ended 31 December 2015	+27,736.1	+46,226.9	+73,963.0
Six months ended 30 June 2016	+12,980.0	+21,633.4	+34,613.4

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	<u>+/-3%</u>	<u>+/-5%</u>	<u>+/-8%</u>
	RMB'000	RMB'000	RMB'000
Change in profit before tax			
Year ended 31 December 2013	-/+24,393.8	-/+40,656.4	-/+65,050.2
Year ended 31 December 2014	-/+24,322.9	-/+40,538.2	-/+64,861.0
Year ended 31 December 2015	-/+27,736.1	-/+46,226.9	-/+73,963.0
Six months ended 30 June 2016	-/+12,980.0	-/+21,633.4	-/+34,613.4
Change in net profit			
Year ended 31 December 2013	-/+20,734.7	-/+34,557.9	-/+55,292.6
Year ended 31 December 2014	-/+20,674.5	-/+34,457.4	-/+55,131.9
Year ended 31 December 2015	-/+23,575.7	-/+39,292.9	-/+62,868.6
Six months ended 30 June 2016	-/+11,033.0	-/+18,388.3	-/+29,421.4

As remuneration paid or payable to work forces engaged by our Group is the second largest expenses, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our remuneration paid or payable to work forces engaged by our Group on our profit before tax during the Track Record Period. Fluctuations in our remuneration paid or payable used are assumed to be 6%, 8% and 10%, which are determined with reference to the forecast growth rate of salary in the PRC as set out in the Frost & Sullivan Report.

	<u>+/-6%</u>	<u>+/-8%</u>	<u>+/-10%</u>
	RMB'000	RMB'000	RMB'000
Hypothetical fluctuations			
Change in gross profit			
Year ended 31 December 2013	-/+27,058.6	-/+36,078.1	-/+45,097.6
Year ended 31 December 2014	-/+26,884.2	-/+35,845.6	-/+44,807.0
Year ended 31 December 2015	-/+28,329.8	-/+37,773.0	-/+47,216.3
Six months ended 30 June 2016	-/+12,267.3	-/+16,356.4	-/+20,445.5
Change in profit before tax			
Year ended 31 December 2013	-/+27,058.6	-/+36,078.1	-/+45,097.6
Year ended 31 December 2014	-/+26,884.2	-/+35,845.6	-/+44,807.0
Year ended 31 December 2015	-/+28,329.8	-/+37,773.0	-/+47,216.3
Six months ended 30 June 2016	-/+12,267.3	-/+16,356.4	-/+20,445.5
Change in net profit			
Year ended 31 December 2013	-/+22,999.8	-/+30,666.4	-/+38,333.0
Year ended 31 December 2014	-/+22,851.6	-/+30,468.8	-/+38,086.0
Year ended 31 December 2015	-/+24,080.3	-/+32,107.1	-/+40,133.9
Six months ended 30 June 2016	-/+10,427.2	-/+13,902.9	-/+17,378.7

For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our gross profit amounted to approximately RMB156.7 million, RMB163.4 million, RMB197.7 million and RMB91.6 million, respectively. For illustrative purpose, we would have recorded a breakeven in our gross profit if the cost of sales increased by approximately 11.8%, 12.4%, 13.5% and 14.0%, respectively, for the corresponding period.

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Gross profit and gross profit margin

The following table sets forth a breakdown of gross profit and gross profit margin by the type of service during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2013		2014		2015		2015		2016	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Revenue from construction contracts	154,861	10.6	160,230	10.9	192,988	11.8	88,652	12.7	90,082	12.2
Design and other income	1,213	16.2	2,103	26.3	3,419	26.4	638	17.9	750	18.1
Sales of goods	610	6.0	1,110	23.6	1,292	15.2	774	15.5	-	-
Total	156,684	10.6	163,443	11.0	197,699	11.9	90,064	12.8	91,632	12.3

(Unaudited)

The following table sets forth the breakdown of our gross profit margin from construction contracts by building and property type during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2013	2014	2015	2016
	%	%	%	%
Commercial buildings [#]	10.3	10.9	13.1	11.6
Office buildings [#]	11.1	11.6	7.9	12.4
Industrial buildings [#]	10.9	11.1	12.0	13.9
Residential buildings [#]	9.9	12.0	11.2	12.7
Public buildings and infrastructure [#]	10.7	11.3	10.9	10.8
Hotels [#]	8.3	8.5	15.4	12.5
Miscellaneous contracts ^Δ	13.0	6.1	8.6	14.5

Notes:

[#] Contracts under this category are each of a contract value of more than RMB1 million.

^Δ Miscellaneous contracts refer to contracts each of a contract value of less than RMB1 million.

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For each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, our gross profit margin was approximately 10.6%, 11.0%, 11.9%, 12.8% and 12.3% respectively. The continuous increase in our gross profit margin for the years ended 31 December 2013, 2014 and 2015 was mainly attributable to some projects with higher gross margin, which primarily consist of residential buildings, commercial buildings and industrial buildings. The decrease for the six months ended 30 June 2016 compared to six months ended 30 June 2015 was mainly due to some high revenue-contributing projects of lower gross profit margin commenced in late 2015 and 2016.

In general, the increase in gross profit margins from different building and property type was mainly due to the decrease in the cost of some of the major raw materials during the Track Record Period.

The following tables sets forth the breakdown of our gross profit margin from construction contracts by geographical region during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June
	2013	2014	2015	2016
	%	%	%	%
Southern China ^{(1)#}	9.7	11.5	12.8	12.4
Eastern China ^{(2)#}	15.5	11.1	11.6	11.0
South-western China ^{(3)#}	9.2	11.4	11.4	11.7
North-western China ^{(4)#}	11.5	10.7	11.6	14.4
Northern China ^{(5)#}	11.3	10.8	9.3	13.5
Central China ^{(6)#}	9.9	11.8	12.1	12.6
North-eastern China ^{(7)#}	8.6	11.0	11.8	11.0
Miscellaneous contracts ^Δ	13.0	6.1	8.6	14.5

Notes:

- ⁽¹⁾ Southern China includes Shenzhen, Guangdong Province, Guangxi Province and Hainan Province.
- ⁽²⁾ Eastern China includes Shanghai, Shandong Province, Jiangsu Province, Zhejiang Province, Fujian Province, Anhui Province and Jiangxi Province.
- ⁽³⁾ South-western China includes Chongqing, Sichuan Province, Guizhou Province and Yunnan Province.
- ⁽⁴⁾ North-western China includes Ningxia, Xinjiang Province, Qinghai Province, Gansu Province and Shaanxi Province.
- ⁽⁵⁾ Northern China includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Province.
- ⁽⁶⁾ Central China includes Henan Province, Hubei Province and Hunan Province.
- ⁽⁷⁾ North-eastern China includes Liaoning Province and Heilongjiang Province.
- # Contracts under this category are each of a contract value of more than RMB1 million.
- Δ Miscellaneous contracts refer to contracts each of a contract value of less than RMB1 million.

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Other income

Other income mainly represents income from government grants and rental income. Government grants consist building allowance for corporations, subsidies and reimbursement for borrowing costs. Rental income is derived from investment property of commercial offices in Shenzhen, the PRC.

Selling and marketing expenses

Our selling and marketing expenses primarily consist of staff costs, advertising fees, entertainment expenses and travelling expenses.

The following table sets forth a breakdown of our selling and marketing expenses during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Staff costs ⁽¹⁾	3,376	65.5	3,142	52.4	3,021	79.7	1,514	88.5	1,455	72.8
Travelling expenses ⁽²⁾	322	6.2	107	1.8	221	5.8	38	2.2	88	4.4
Advertising fees ⁽³⁾	575	11.1	2,297	38.3	97	2.6	51	3.0	44	2.2
Other expenses ⁽⁴⁾	890	17.2	451	7.5	453	11.9	108	6.3	411	20.6
Total	5,163	100.0	5,997	100.0	3,792	100.0	1,711	100.0	1,998	100.0

Notes:

- (1) Staff costs include salaries and bonuses paid or payable to employees, housing allowances, pension and other welfare expenses.
- (2) Travelling expenses represent the expenses for business trips.
- (3) Advertising fees include expenses incurred for the advertisement and marketing of our brand. During the Track Record Period, we advertised mainly through decoration-related magazines in the PRC.
- (4) Other expenses include entertainment expenses, depreciation and amortisation expenses, office expenses, utilities and miscellaneous expenses.

As a percentage of total revenue, our selling expenses accounted for approximately 0.3%, 0.4%, 0.2%, 0.2% and 0.3% of our total revenue for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively.

Administrative expenses

Administrative expenses primarily comprise staff costs, provision for receivables, provision for foreseeable losses on construction contracts, depreciation and amortisation expenses, and consulting and professional fees.

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The following table sets forth a breakdown of our administrative expenses during the Track Record Period:

	For the year ended 31 December						For the six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Provision for foreseeable losses on construction contracts	24,978	37.2	6,999	13.1	8,999	14.7	4,018	13.6	23,900	79.3
Provision for receivables	12,049	18.0	14,579	27.3	18,214	29.8	10,759	36.4	1,950	6.5
Reversal of provision for receivables	-	-	-	-	-	-	-	-	(14,389)	(47.8)
Staff costs	13,328	19.8	12,058	22.7	12,733	20.8	5,789	19.6	7,413	24.6
Depreciation and amortisation expenses	3,494	5.2	9,370	17.5	9,708	15.9	4,804	16.3	4,754	15.8
Consulting and professional fees ⁽¹⁾	2,383	3.6	1,825	3.4	2,052	3.4	694	2.4	3,663	12.2
Rental expenses	1,937	2.9	931	1.7	168	0.3	112	0.4	90	0.3
Auditors' remuneration	284	0.4	284	0.5	120	0.2	-	-	-	-
Other expenses ⁽²⁾	8,650	12.9	7,400	13.8	9,120	14.9	3,348	11.3	2,746	9.1
Administrative Expenses	67,103	100.0	53,446	100.0	61,114	100.0	29,524	100.0	30,127	100.0

Notes:

⁽¹⁾ Consulting and professional fees represent the fees paid to legal professionals.

⁽²⁾ Other expenses include business and other taxes, travelling expenses, entertainment expenses, office expenses, insurance fees, utilities and miscellaneous expenses.

As a percentage of total revenue, our administrative expenses accounted for approximately 4.5%, 3.6%, 3.7%, 4.2% and 4.0% of our total revenue for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively.

Provision for foreseeable losses on construction contracts represents amounts due from our customers for contract work that were unlikely to be recoverable. Our Group reviews the recoverability of amounts due from customers on a quarterly basis. Our Directors determine the provision for foreseeable losses on construction contracts based on individual assessment of the recoverability of amounts due from our customers for contract works. The provision for foreseeable losses on construction contracts were approximately RMB25.0 million, RMB7.0 million, RMB9.0 million, RMB4.0 million and RMB23.9 million for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively. During the Track Record Period, such provision was made in relation to 12 projects, the customers of which were unwilling to certify the value of works completed or pay us the progress payment in full. For more details, please refer to the section headed "Business – Credit Management". As at the Latest Practicable Date, we had ceased the works for all of these 12 projects. Our management considers that the recovery of the outstanding amounts due from such customers in respect of these 12 projects was rather uncertain. 10 of these 12 projects were fully provided. The remaining two projects were under inspection for endorsement. From communication with the customers, we expected there would be difference between value of work performed and endorsed value, and therefore provided for difference. We received payments from these two customers during the six months ended 30 June 2016. Therefore we believe there is no material credit risk on remaining balance.

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Provision for receivables mainly represents trade receivables that were unlikely to be recoverable. Our Group reviews the recoverability of trade receivables at the end of each quarter. When determining the amount of impairment of trade receivables, individual credit evaluations are performed by our management on significant customers with over RMB1 million outstanding trade receivables. Our Directors evaluate our customers based on their payment history, latest financial information available and the industry market they operate in. The majority of such provision was made for 13 projects in relation to commercial buildings, residential buildings, industrial buildings, hotels, and public buildings and infrastructure. Although these projects have been completed and we have issued our invoice to our customers, a portion of each of the respective contract value remained outstanding which, to the best knowledge of our Directors, is mainly due to financial difficulties or liquidity issues of the our customers. Thus, provision was made based on the difference between the value of work completed by us and the amount that our customers expect to pay. The customers of these projects are mainly from the commercial and public sectors. In respect of these doubtful trade receivables, our management considers that the recovery of the outstanding amount of trade receivables from these customers was rather uncertain, and only a portion of the receivables is expected to be recovered. Trade receivables under RMB1 million would be assessed collectively for impairment, if they all shared similar credit risk. The provision for receivables were approximately RMB12.0 million, RMB14.6 million, RMB18.2 million, RMB10.8 million and RMB2.0 million and a reversal of RMB12.4 million for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively. As some customers settled the balances which were previously provided in prior years, a reversal of provision for receivables was made for the six months ended 30 June 2016.

Finance cost

Our net finance costs mainly comprise interest charges on our interest-bearing bank borrowings and factoring expenses, offset by interest income generated by our cash at bank. Net finance costs amounted to approximately RMB9.3 million, RMB12.3 million, RMB15.0 million, RMB7.3 million and RMB7.7 million for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively. Such increase over the past three years was due to the increase in the outstanding balance of bank borrowings whereas the increase for the six months ended 30 June 2016 was due to factoring expenses incurred.

Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

The companies of our Group are subject to PRC income tax. The EIT rate generally levied in the PRC is 25%. On 11 October 2013, our Company was awarded the status as "High and New Technology Enterprise*" (高新技術企業)", which is effective for three years commencing on 1 January 2013. The applicable EIT rate of our Company is 15% during the Track Record Period. All the other PRC entities of our Group are subject to EIT at a rate of 25% in accordance with EIT Law.

Our income tax expenses were approximately RMB15.0 million, RMB14.2 million, RMB18.1 million, RMB8.2 million and RMB7.9 million for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively. The effective tax rate for the same period was approximately 19.8%, 15.2%, 15.2%, 15.8% and 15.1%, respectively. The decrease in effective tax rate was mainly due to lower applicable EIT rate of 15% for the years from 2013 to 2015, as our Company was awarded the status as "High and New Technology Enterprise*" (高新技術企業)".

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REVIEW OF HISTORICAL RESULTS OF OPERATION

The six months ended 30 June 2016 compared to the six months ended 30 June 2015

Revenue

Our revenue increased by approximately RMB41.0 million or 5.8% to approximately RMB746.2 million for the six months ended 30 June 2016 from approximately RMB705.2 million for the six months ended 30 June 2015. The increase was mainly due to the commencement of five projects with higher contract value (each with total contract value of over RMB50 million) in the late 2015 and early 2016 which contributed to our revenue for the six months ended 30 June 2016.

Cost of sales

Our cost of sales increased by approximately RMB39.4 million or 6.4% to approximately RMB654.5 million for the six months ended 30 June 2016 from approximately RMB615.1 million for the six months ended 30 June 2015. The increase in the cost of sales was in line with the increase in revenue.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by approximately RMB1.5 million or 1.7% to approximately RMB91.6 million for the six months ended 30 June 2016 from approximately RMB90.1 million for the six months ended 30 June 2015. Our gross profit margin decreased from 12.8% for the six months ended 30 June 2015 to 12.3% for the six months ended 30 June 2016, which was mainly due to the commencement of five high revenue-contributing construction projects (each with total contract value of over RMB50 million), with average profit margin of 9.6% and a lower gross profit margin, in late 2015 and 2016. As we are seeking to explore new markets, we accept projects with high revenue despite lower gross profit margin.

Other income

Other income remained stable at approximately RMB0.2 million and RMB0.3 million for the six months ended 30 June 2015 and 2016, respectively.

Selling and marketing expenses

Selling and marketing expenses increased by approximately RMB0.3 million or 16.8% to RMB2.0 million for the six months ended 30 June 2016 from RMB1.7 million for the six months ended 30 June 2015. Such increase was primarily due to the increase in expenses related to participation in tenders.

Administrative expenses

Administrative expenses increased by approximately RMB0.6 million or 2.0% to approximately RMB30.1 million for the six months ended 30 June 2016 from approximately RMB29.5 million for the six months ended 30 June 2015. Such increase was primarily due to (i) the increase in provision for foreseeable losses on construction contracts by approximately RMB19.9 million; and (ii) the increase in consulting and professional expenses by approximately RMB3.0 million, partially offset by decrease in provision for receivables by approximately RMB23.2 million due to recovery of receivables which were impaired and provided in prior years.

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Finance costs

Our net finance costs increased by approximately RMB0.4 million or 5.3% to approximately RMB7.7 million for the six months ended 30 June 2016 from approximately RMB7.3 million for the six months ended 30 June 2015. The increase was primarily due to the increase in one-off bank charges by approximately RMB0.8 million for the factoring arrangements of trade receivables, partially offset by decrease in interest expenses by approximately RMB0.5 million as a result of decrease in bank borrowings balance.

Income tax expenses

Income tax expenses decreased by approximately RMB0.3 million or 4.0% to approximately RMB7.9 million for the six months ended 30 June 2016 from approximately RMB8.2 million for the six months ended 30 June 2015. The decrease was primarily due to decrease in unrecognised temporary difference as a result of decrease in losses of subsidiaries.

Profit for the period

As a result of the foregoing, the profit for the period increased by approximately RMB0.7 million or 1.6% to approximately RMB44.3 million for the six months ended 30 June 2016 from approximately RMB43.6 million for the six months ended 30 June 2015. Our net profit margin decreased from approximately 6.2% for the six months ended 30 June 2015 to approximately 5.9% for the six months ended 30 June 2016.

The year ended 31 December 2015 compared to the year ended 31 December 2014

Revenue

Our revenue increased by approximately RMB180.0 million or 12.2% to approximately RMB1,659.7 million for the year ended 31 December 2015 from approximately RMB1,479.7 million for the year ended 31 December 2014, mainly due to the increase in revenue from construction contracts.

Our revenue from construction contracts increased by approximately RMB171.2 million or 11.7% from approximately RMB1,467.0 million for the year ended 31 December 2014 to RMB1,638.2 million for the year ended 31 December 2015, mainly due to the commencement of three high revenue-contributing commercial building projects located in Shenzhen, Zhongshan and Linyi, each with a contract value of over RMB100 million, during the year ended 31 December 2015, with approximately RMB237.9 million being recognised as revenue for such projects for the year ended 31 December 2015.

The number of new projects commenced decreased by 8.0% to 184 for the year ended 31 December 2015 from 200 for the year ended 31 December 2014, while the revenue recognised from new projects commenced increased by 10.7% to approximately RMB1,057.3 million for the year ended 31 December 2015 from approximately RMB954.7 million for the year ended 31 December 2014.

Cost of sales

Our cost of sales increased by approximately RMB145.7 million or 11.1% to approximately RMB1,462.0 million for the year ended 31 December 2015 from approximately RMB1,316.3 million for the year ended 31 December 2014. The increase in the cost of sales was in line with the increase in revenue and mainly attributable to the increase in raw materials used for the new projects commenced during 2015.

FINANCIAL INFORMATION

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately RMB34.3 million or 21.0% to approximately RMB197.7 million for the year ended 31 December 2015 from approximately RMB163.4 million for the year ended 31 December 2014. Our gross profit margin increased slightly from 11.0% for the year ended 31 December 2014 to 11.9% for the year ended 31 December 2015, mainly due to (i) the increase in revenue due to the commencement of three high revenue-contributing projects, each with a contract value over RMB100 million; and (ii) the decrease in the unit price of most of the major raw materials as a result of lower market demand in the PRC. Please refer to the section headed "Industry Overview – Analysis of Major Raw Material Cost and Labour Cost of China Public Building Decoration Market" for further details on the price trend of our major raw materials.

Other income

Our other income for the year ended 31 December 2015 was lower than that for the year ended 31 December 2014, mainly due to the decrease in the amount of government subsidies received in 2015.

Selling and marketing expenses

Our selling and marketing expenses decreased by approximately RMB2.2 million or 36.8% to approximately RMB3.8 million for the year ended 31 December 2015 from approximately RMB6.0 million for the year ended 31 December 2014. Such decrease was primarily due to the decrease in advertising expenses in 2015 as we allocated more resources for our [REDACTED] exercise and less for marketing campaigns.

Administrative expenses

Our administrative expenses increased by approximately RMB7.7 million or 14.3% to approximately RMB61.1 million for the year ended 31 December 2015 from approximately RMB53.4 million for the year ended 31 December 2014. Such increase was primarily due to (i) the increase in provision for receivables by approximately RMB3.6 million mainly because full provision for trade receivables was made in relation to one office building project as the relevant customer recorded a loss in 2015 and is currently under restructuring, and additional provision for trade receivables was made in relation to a hotel project as the relevant customers were unwilling to settle the contract sum in full; (ii) the increase in provision for foreseeable losses on construction contracts of approximately RMB2.0 million primarily attributable to five projects relating to residential buildings, office buildings, hospitals and hotels, the customers of which were unwilling to certify the value of works completed due to financial difficulties or disputes in relation to the value of work completed by us; and (iii) [REDACTED] expenses of approximately RMB[REDACTED] being incurred in 2015.

Finance costs

Our net finance costs increased by approximately RMB2.7 million or 22.6% to approximately RMB15.0 million for the year ended 31 December 2015 from approximately RMB12.3 million for the year ended 31 December 2014. The increase was primarily due to the increase in the average outstanding balance of bank borrowings for the year ended 31 December 2015 in order to meet the working capital needs, compared with that for the year ended 31 December 2014.

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Income tax expense

Our income tax expense increased by approximately RMB3.9 million or 27.0% to approximately RMB18.1 million for the year ended 31 December 2015 from approximately RMB14.2 million for the year ended 31 December 2014. The increase was mainly attributable to the increase in profit before tax for the year ended 31 December 2015.

Profit for the year

As a result of the foregoing, our profit for the year increased by approximately RMB21.6 million or 27.3% to approximately RMB100.7 million for the year ended 31 December 2015 from approximately RMB79.1 million for the year ended 31 December 2014. Our net profit margin increased from 5.3% for the year ended 31 December 2014 to 6.1% for the year ended 31 December 2015.

The year ended 31 December 2014 compared to the year ended 31 December 2013

Revenue

Our revenue slightly decreased by approximately RMB4.9 million or 0.3% to approximately RMB1,479.7 million for the year ended 31 December 2014 from approximately RMB1,484.6 million for the year ended 31 December 2013 mainly due to the decrease in revenue from sales of goods of approximately RMB5.5 million. Such decrease was consistent with our Group business strategy to focus more on construction projects and less on construction material retail business. Revenue from construction contracts remained relatively stable as the number of projects we recognised as revenue remained relatively stable, which was mainly due to the increase in the revenue recognised by the new projects commenced in the year ended 31 December 2014 being partially offset by the decrease in the revenue recognised by the projects brought forward from previous years.

Cost of sales

Our cost of sales slightly decreased by approximately RMB11.7 million or 0.9% to approximately RMB1,316.3 million for the year ended 31 December 2014 from approximately RMB1,328.0 million for the year ended 31 December 2013. The decrease was mainly attributable to the decrease in costs of trading merchandise consumed of approximately RMB6.0 million which was in line with the decrease in revenue from our sales of goods.

Gross profit and gross profit margin

As a result of the foregoing, we recorded a gross profit of approximately RMB163.4 million for the year ended 31 December 2014 and approximately RMB156.7 million for the year ended 31 December 2013. Our gross profit margin were approximately 10.6% and 11.0% for the year ended 31 December 2013 and 31 December 2014, respectively, which remained relatively stable.

Other income

Our other income increased by approximately RMB1.1 million or 206.3% to approximately RMB1.6 million for the year ended 31 December 2014 from approximately RMB0.5 million for the year ended 31 December 2013. The increase in other income was mainly due to more non-recurring grants being obtained from local government authorities.

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Selling and marketing expenses

Our selling and marketing expenses increased by approximately RMB0.8 million or 16.2% to RMB6.0 million for the year ended 31 December 2014 from RMB5.2 million for the year ended 31 December 2013. The increase was primarily due to the increase in spending on media advertisement such as decoration-related magazines in the PRC.

Administrative expenses

Our administrative expenses decreased by approximately RMB13.7 million or 20.4% to approximately RMB53.4 million for the year ended 31 December 2014 from approximately RMB67.1 million for the year ended 31 December 2013. The decrease was primarily due to the decrease in provision for foreseeable losses on construction contracts as a result of provision for one commercial building project for the year ended 31 December 2014, compared to four projects for the year ended 31 December in 2013. Since the customer of this project was unwilling to certify the value of works completed, our management considered that the recovery of the outstanding amount due from this project was rather uncertain.

Finance costs

Our net finance costs increased by approximately RMB3.0 million to approximately RMB12.3 million for the year ended 31 December 2014 from approximately RMB9.3 million for the year ended 31 December 2013. The increase was primarily due to the increase in the average outstanding balance of bank borrowings for the year ended 31 December 2014, compared with the corresponding balance in 2013.

Income tax expense

Our income tax expense decreased by approximately RMB0.8 million or 5.2% to RMB14.2 million for the year ended 31 December 2014 from RMB15.0 million for the year ended 31 December 2013. The decrease was mainly because no remeasurement in deferred tax was made in 2014, compared with the remeasurement in deferred tax recorded in 2013, as a result of the certificate of "High and New Technology Enterprise* (高新技術企業)" being awarded to our Company. For more details, please refer to Note 11 of the Accountant's report in Appendix I to this document.

Profit for the year

As a result of the foregoing, our net profit for the year increased by approximately RMB18.4 million or 30.4% to RMB79.1 million for the year ended 31 December 2014 from approximately RMB60.7 million for the year ended 31 December 2013. Our net profit margin increased from 4.1% for the year ended 31 December 2013 to 5.3% for the year ended 31 December 2014.

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LIQUIDITY AND CAPITAL RESOURCES

Cash flows

Our primary uses of cash are for the payment of purchases from suppliers and labour and staff cost and have been funded through a combination of cash generated from our operations and bank borrowings. Upon completion of the [REDACTED], we expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from [REDACTED] of the [REDACTED] for implementing our future plans as detailed under the section headed "Future Plans and Use of [REDACTED]".

The following table summarises our statements of cash flows during the Track Record Period:

	For the year ended 31 December			For the six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Net cash (used in)/generated from operating activities	(19,404)	11,373	(78,976)	(105,871)	59,692
Net cash (used in)/ generated from investing activities	(12,894)	(58,381)	57,848	51,465	484
Net cash generated from/ (used in) financing activities	34,019	56,902	(26,984)	(26,064)	(32,847)
Net increase/(decrease) in cash and cash equivalents	1,721	9,894	(48,112)	(80,470)	27,329
Cash and cash equivalents at beginning of the year/period	135,713	137,434	147,328	147,328	99,216
Cash and cash equivalents at end of the year/period	137,434	147,328	99,216	66,858	126,545

Operating activities

During our Track Record Period, our cash inflows from operating activities were principally from the receipt of proceeds for our services. Our cash outflows used in operating activities were principally for cost paid for raw materials and consumables used, remuneration paid to work forces, staff cost and income tax. Since we generally receive payment from our customers in stages based on the terms of the contracts entered into with our customers, we incur some of our operating costs and setting-up expenses associated with a project, including labour and raw material costs, well before we receive interim payment from our customers. The contract period of our projects typically ranges from three months to two years and, depending on project progress, the contract period of a small number of our projects may extend to up to four years. In some extreme cases, we will only receive the first progress payment from our customers upon completion of approximately 80% of the contract value. As a result, there were periods during which we experienced net cash outflows for a particular project as well as on an overall basis.

The macro economy of the PRC has experienced a slowdown in 2015, resulting in an unexpected delay in the settlement of payments from our customers in 2015, which in turn led to the significant operating cash outflow.

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The impact of the slowdown in the macro economy in the PRC in 2015 on the public building decoration industry was witnessed by the increase in the average accounts receivable turnover days of leading market players in the public building decoration industry in the PRC. According to the Frost & Sullivan Report, the average accounts receivable turnover days of leading market players in the public building decoration industry in the PRC significantly increased from 240.1 days in 2014 to 321.4 days in 2015 (2013: 188.0 days). For details of the industry performance, please refer to the section headed "Industry Overview – Accounts Receivable Performance of China Public Building Decoration Market".

During the four months ended 31 December 2015, there were approximately 120 projects each with a contract value of RMB10 million or above and the aggregate amount of delay in settlement of payments in respect of such projects amounted to approximately RMB230.3 million. During the six months ended 30 June 2016, we subsequently received payments of approximately RMB227.9 million in respect of such projects.

In view of above, our Directors have implemented new measures to monitor and improve our liquidity and cash flow position since October 2015. These measures include closer monitoring of the payment status of customers and proactively recouping against late settlements of customers. With efforts of our finance department and senior management, we collected payments of approximately RMB792.2 million from our customers during the six months ended 30 June 2016, representing an increase by approximately RMB118.1 million from approximately RMB674.1 million during the six months ended 30 June 2015. In addition, we recovered project reserve funds of approximately RMB5.3 million during the six months ended 30 June 2016. Moreover, our Company entered into factoring arrangements with a licensed bank to assign to the bank trade receivables of approximately RMB33.0 million on a without recourse basis during the Track Record Period. Subsequent to the Track Record Period and up to the Latest Practicable Date, our Company had entered into two factoring arrangements to factor trade receivables of approximately RMB16.2 million with factoring expense of approximately RMB0.4 million. Please refer to the section headed "Business – Credit Management – Factoring arrangements" for further information. After adoption of the above measures, we recorded net cash inflows from operating activities of approximately RMB59.7 million for the six months ended 30 June 2016.

The above measures have not only accelerated our collection process and cash cycle but also significantly improved our liquidity position. Our Directors are confident that with the continued adoption of the aforesaid measures, our Group will be able to maintain a healthy liquidity position in the long run.

For the six months ended 30 June 2016, we had net cash generated from operating activities of approximately RMB59.7 million. Our net cash inflow was attributable to cash flow generated from operations of approximately RMB71.9 million and income tax paid of approximately RMB12.2 million. Our cash flow generated from operations primarily consisted of profit before taxation of approximately RMB52.2 million, adjusted by reconciliation of certain non-cash items of approximately RMB23.9 million and negative changes in working capital, which mainly include (i) a slight increase in trade and other receivables, and prepayments of approximately RMB13.5 million; (ii) a decrease in net amounts due from contract customers of approximately RMB95.0 million attributable to the enhancement in control over billing and receivable collection; and (iii) the decrease in trade and other payables, and deposits received of approximately RMB83.5 million because we settled the outstanding payables in advance to meet the construction needs of the increasing numbers of projects we undertook.

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For the year ended 31 December 2015, our Group had net cash used in operating activities of approximately RMB79.0 million. Our net cash outflow was attributable to cash flow used in operations of approximately RMB51.6 million and income tax paid of approximately RMB27.4 million. Our cash flow used in operations primarily consisted of profit before taxation of approximately RMB118.8 million, adjusted by reconciliation of certain non-cash items of approximately RMB52.1 million and negative changes in working capital, which mainly include (i) an increase in trade and other receivables, and prepayments of approximately RMB24.1 million due to slow down in turnover days of receivables; (ii) an increase in net amounts due from contract customers of approximately RMB170.5 million representing an increase in number of construction projects we undertook and a greater percentage of close-to-completion or completed projects; and (iii) a decrease in trade and other payables, and deposits received of approximately RMB29.1 million because we settled the outstanding payables in advance to meet the construction needs of the increasing numbers of projects we undertook.

For the year ended 31 December 2014, our Group had net cash generated from operating activities of approximately RMB11.4 million. Our net cash inflow was attributable to cash flow generated from operations of approximately RMB28.3 million and income tax paid of approximately RMB16.9 million. Our cash flow generated from operations primarily consisted of profit before taxation of approximately RMB93.3 million, adjusted by reconciliation of certain non-cash items of approximately RMB43.3 million and negative changes in working capital, which mainly include (i) an increase in trade and other receivables, and prepayments of approximately RMB96.1 million due to more new projects commenced and slowed down in turnover days of receivables; (ii) an increase in net amounts due from contract customers of approximately RMB382.0 million representing an increase in number of construction projects we undertook and a greater percentage of close-to-completion or completed projects; and (iii) the offset by the increase in trade and other payables, and deposits received of approximately RMB359.9 million due to the increased procurement of raw materials and external labour cost as a result of the increase in number of projects in progress.

For the year ended 31 December 2013, our Group had net cash used in operating activities of approximately RMB19.4 million. Our net cash outflow was attributable to cash flow generated from operations of approximately RMB3.4 million and income tax paid of approximately RMB22.8 million. Our cash flow generated from operations primarily consisted of profit before taxation of approximately RMB75.7 million, adjusted by reconciliation of certain non-cash items of approximately RMB49.9 million and negative changes in working capital, which mainly include (i) an increase in trade and other receivables, and prepayments of approximately RMB50.7 million mainly due to more new projects commenced; (ii) an increase in net amounts due from contract customers of approximately RMB28.4 million representing an increase in number of construction projects we undertook; and (iii) the decrease in trade and other payables, and deposits received of approximately RMB44.1 million because we accelerated the settlement of the outstanding payables to meet the construction needs of the increasing numbers of projects we undertook.

Investing activities

During the Track Record Period, our cash inflows from investing activities were principally from the proceeds from government grants related to assets and the interest received from bank deposits. Our cash outflows used in investing activities were principally for the purchases of property and equipment, and the purchase of land use rights.

For the six months ended 30 June 2016, our Group had net cash generated from investing activities of approximately RMB0.5 million, which was mainly due to miscellaneous cash inflows from government grants and bank interest received of approximately RMB0.7 million, which was partially offset by payment for purchase of property and equipment of approximately RMB0.2 million.

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For the year ended 31 December 2015, our Group had net cash generated from investing activities of approximately RMB57.8 million, which was mainly due to refund of deposits of RMB50.0 million as a result of cancellation of the purchase of two properties located in Shenzhen.

For the year ended 31 December 2014, our Group had net cash used in investing activities of approximately RMB58.4 million, which mainly represented the purchases of two properties in Shenzhen. An amount of RMB50.0 million paid as the deposit for the purchases of the properties and RMB0.7 million was recorded as buildings as at 31 December 2014.

For the year ended 31 December 2013, our Group had net cash used in investing activities of approximately RMB12.9 million, which mainly represented the purchases of property and equipment, and purchase of land use rights, partially offset by the receipt of the amount due from Shenzhen Guoji Baoli Investment Development Company Limited (深圳國機保利投資發展有限公司).

Financing activities

During the Track Record Period, our cash inflows from financing activities were principally from proceeds from bank borrowings, cash received from capital contributions, and the increase in amounts due to certain third parties. Our cash outflows used in financing activities were principally from repayment of borrowings, interest payments and the decrease in amounts due to certain third parties.

For the six months ended 30 June 2016, our Group had net cash used in financing activities of approximately RMB32.8 million. The cash outflow was primarily attributable to repayment of borrowings of approximately RMB160.4 million, which was partially offset by the proceeds from new bank borrowings of approximately RMB138.0 million.

For the year ended 31 December 2015, our Group had net cash used in financing activities of approximately RMB27.0 million. The cash outflow was primarily attributable to (i) the repayment of borrowings of approximately RMB152.2 million; (ii) the decrease in amounts due to certain third parties of approximately RMB37.6 million; and (iii) the payment of interests of approximately RMB15.0 million, partially offset by the proceeds from borrowings of approximately RMB190.6 million.

For the year ended 31 December 2014, our Group had net cash generated from financing activities of approximately RMB56.9 million. The cash inflow was primarily attributable to the proceeds from new bank borrowings of approximately RMB252.0 million, which was partially offset by the repayment of borrowings of approximately RMB196.0 million.

For the year ended 31 December 2013, our Group had net cash generated from financing activities of approximately RMB34.0 million. The cash inflow was primarily attributable to the proceeds from new bank borrowings of approximately RMB115.0 million, which was partially offset by the repayment of borrowings of approximately RMB70.2 million.

FINANCIAL INFORMATION

Net current assets

The table below sets out selected information of our current assets and current liabilities as at 31 December 2013, 2014, 2015, 30 June 2016 and 30 September 2016, respectively:

	As at 31 December			As at 30 June 2016	As at 30 September 2016
	2013	2014	2015	2016	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current Assets					
Inventories	1,003	1,188	–	–	–
Amounts due from customers					
for contract work	303,448	635,722	746,219	620,372	643,984
Trade receivables	206,497	227,517	258,282	283,766	250,722
Prepayments and other					
receivables	58,807	164,526	76,819	79,275	101,153
Restricted cash	10,000	–	–	2,146	738
Cash and cash equivalents	137,434	147,328	99,216	126,545	126,441
Total current assets	717,189	1,176,281	1,180,536	1,112,104	1,123,038
Current Liabilities					
Trade and other payables	266,547	629,216	563,193	474,032	377,716
Amounts due to customers					
for contract work	136,941	94,234	43,212	36,234	46,640
Borrowings	152,000	143,000	246,400	224,000	283,500
Amounts due to related parties	1,153	1,088	–	–	–
Current income tax liabilities	12,713	13,362	7,702	5,578	8,212
Total current liabilities	569,354	880,900	860,507	739,844	716,068
Net Current assets	147,835	295,381	320,029	372,260	406,970

Our Group's net current assets increased from approximately RMB147.8 million as at 31 December 2013 to approximately RMB295.4 million as at 31 December 2014. The increase was primarily due to the increase in the amounts due from customers for contract work of approximately RMB332.3 million from 31 December 2013 to 31 December 2014.

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Our net current assets increased from approximately RMB295.4 million as at 31 December 2014 to approximately RMB320.0 million as at 31 December 2015. The increase was primarily due to: (i) the increase in amounts due from customers for contract work of approximately RMB110.5 million due to the increase of revenue; (ii) the decrease in trade and other payables of approximately RMB66.0 million; and (iii) the decrease in amounts due to customers for contract work of approximately RMB51.0 million, partially offset by: (i) the decrease in prepayments and other receivables of approximately RMB87.7 million; (ii) the decrease in cash and cash equivalents of approximately RMB48.1 million; and (iii) the increase in borrowings (within 1 year) of approximately RMB103.4 million due to the increase of the current portion of the long-term debt.

Our net current assets increased from approximately RMB320.0 million as at 31 December 2015 to approximately RMB372.3 million as at 30 June 2016. The increase was primarily due to: (i) the increase in cash and cash equivalents of approximately RMB27.3 million; (ii) the increase in trade receivables of approximately RMB25.5 million; (iii) the decrease in trade and other payables of approximately RMB89.2 million; and (iv) the decrease in borrowings (within one year) of approximately RMB22.4 million, partially offset by the decrease in amounts due from customers for contract work of approximately RMB125.8 million.

Our net current assets increased from approximately RMB372.3 million as at 30 June 2016 to approximately RMB407.0 million as at 30 September 2016. The increase is primarily due to the decrease in trade and other payables of approximately RMB96.3 million, partially offset by the increase in borrowings of approximately RMB59.5 million.

Working capital

Our Directors confirm that, taking into consideration the financial resources presently available to us, including banking facilities and other internal resources, and the estimated net [REDACTED] from the [REDACTED], we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this document. As at 30 September 2016, cash and cash equivalents was approximately RMB126.4 million.

Save as disclosed in this document, our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future Plans and Use of [REDACTED]".

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property and equipment

Our balance of property and equipment decreased by approximately RMB9.3 million or 9.0% from approximately RMB102.9 million as at 31 December 2013 to approximately RMB93.6 million as at 31 December 2014, primarily as a result of depreciation of buildings and building improvements.

Our balance of property and equipment slightly decreased by approximately RMB6.0 million or 6.4% from approximately RMB93.6 million as at 31 December 2014 to approximately RMB87.6 million as at 31 December 2015, primarily as a result of the depreciation of property and equipment of approximately RMB9.4 million, partially offset by the purchases of property and equipment of approximately RMB3.8 million.

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Our balance of property and equipment decreased by approximately RMB3.6 million or 4.2% from approximately RMB87.6 million as at 31 December 2015 to approximately RMB84.0 million as at 30 June 2016, primarily as a result of the depreciation of property and equipment of approximately RMB4.6 million, partially offset by the purchases of property and equipment of approximately RMB1.0 million.

Deferred income tax assets

Our balance of deferred income tax assets represented deferred tax impact mainly resulting from the temporary differences of provision for foreseeable contract losses and receivables and others. Considering that our future taxable profit would be sufficient for utilisation of those temporary differences, as at 31 December 2013, 2014 and 2015 and 30 June 2016, the deferred income tax assets were recognised at approximately RMB11.4 million, RMB14.7 million, RMB18.4 million and RMB20.6 million, respectively. Our deferred income tax assets increased throughout the Track Record Period which was mainly attributable to provision for foreseeable contract losses and receivables during the periods, partially offset by the reversal of provision for receivables during the six months ended 30 June 2016.

The analysis of deferred income tax assets is as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets				
– to be recovered after more than 12 months	8,139	9,871	16,213	18,675
– to be recovered within 12 months	3,231	4,874	2,192	1,941
	<u>11,370</u>	<u>14,745</u>	<u>18,405</u>	<u>20,616</u>

The gross movements on the deferred income tax assets are as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	8,973	11,370	14,745	14,745	18,405
Tax credited to the consolidated statement of comprehensive income	2,397	3,375	3,660	2,254	2,211
At end of the year/period	<u>11,370</u>	<u>14,745</u>	<u>18,405</u>	<u>16,999</u>	<u>20,616</u>

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Amounts due from customers for contract work

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

The amounts due from customers for contract work represent construction contracts in progress at the end of a reporting period. Generally for projects recognised as construction contracts, we apply for interim progress payment applications for the work we performed to our customers in stages and based on the terms of the contracts entered into with our customers. Our customers, together with the project supervision unit (if any), will certify the value of works completed by endorsing on the project progress report. The amounts due from customers for contract work represent the value of work performed by our Group before the end of each reporting period, where the project progress report had not yet been endorsed at the end of each reporting period.

The amounts due from customers for contract work were approximately RMB303.4 million, RMB635.7 million, RMB746.2 million and RMB620.4 million as at 31 December 2013, 2014, 2015 and 30 June 2016, respectively. The level of the amounts due from customers for contract work as at a given reporting date is mainly affected by the duration between our submission of interim progress payment and the endorsement on project progress report by our customers. Such an increase was in line with the increase in the number of projects under construction during the Track Record Period.

Our Directors determine provision for foreseeable losses on construction contracts based on individual assessment of our customers. The provision for foreseeable losses on construction contracts was reported RMB25.0 million, RMB7.0 million, RMB9.0 million and RMB23.9 million for each of the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016. Such provision was made in relation to 12 projects during the Track Record Period. For more details, please refer to paragraph headed "Description of Selected Items in Statements of Comprehensive Income – Administrative expenses" in this section.

During the Track Record Period, our Group is exposed to a low level of concentration risks in relation to the outstanding balance of amounts due from customers, with no single customer contributing more than 11.6% of our total amounts due from customers. As at 30 June 2016, the debtor with the highest balance of the sum of the amounts due from customers and trade receivables represented 6.7% of total sum of the total amounts due from customers and total trade receivables.

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The following table sets out the details of our top 10 debtors with the highest outstanding balance of the sum of amounts due from customers and trade receivables as at 30 June 2016:

Customer	Background of customer	Business relationship with us	Registered capital (RMB'000)	Total contract value (RMB'000)	Completion status of the underlying project	Balance of amounts due from customers for construction contract (RMB'000)	Balance of trade receivables (RMB'000)	Amounts due from customers and trade receivables (RMB'000)	Percentage of the total amounts due from customer and total trade receivables	Subsequent settlement by customer as at 30 September 2016 (RMB'000)
			(RMB'000)	(RMB'000)	%	(RMB'000)	(RMB'000)	(RMB'000)	%	(RMB'000)
1	A subsidiary of a PRC state-owned enterprise engaged in automobile sales, property leasing and management	Since 2016	54,500	150,000	41	59,552	-	59,552	6.7	23,000
2	A PRC property developer engaged in real estate development and housing sales and leasing	Since 2012	4,000,000	168,049	91	39,621	766	40,387	4.5	8,868
3	A subsidiary of a PRC state-owned enterprise engaged in real estate development, sales and leasing	Since 2013	500,000	95,234	95	25,860	9,892	35,752	4.0	3,944
4	A PRC company engaged in manufacture and sales of lighting products	Since 2015	350,000	119,500	91	-	26,468	26,468	3.0	-
5	A subsidiary of a PRC state-owned enterprise engaged in construction and foundation engineering	Since 2015	206,000	103,000	54	25,038	-	25,038	2.8	18,886
6	A subsidiary of a PRC state-owned enterprise engaged in mine and property construction	Since 2012	400,000	65,000	95	24,457	-	24,457	2.7	-
7	A PRC property developer engaged in real estate development and property management ⁽¹⁾	Since 2013	50,000	45,716	100	7,650	13,511	21,161	2.4	-
8	A PRC furniture distribution mall engaged in furniture retailing and property management	Since 2014	100,000	75,926	89	13,174	7,921	21,095	2.4	-
9	A subsidiary of a PRC state-owned enterprise engaged in engineering construction	Since 2015	2,677,990	131,550	97	19,306	-	19,306	2.2	-
10	A PRC department store based in Qinghai ⁽²⁾	Since 2012	230,770	82,103	100	15,651	4,000	19,651	2.2	-
Sub-total						230,309	62,558	292,867		
Percentage of total						37.1%	23.2%	32.9%		

Notes:

- (1) The project of this customer was completed on 8 November 2015 and was at the stage of final inspection and billing as at 30 June 2016. The customer had made payments continuously during the Track Record Period and we expect that settlement by this customer will be made after completion of the final inspection and billing. We believe that the risk associated with the recoverability of the outstanding balance is low.
- (2) The project of this customer was completed on 26 November 2015 and was at the stage of final inspection and billing as at 30 June 2016. The customer had made payments continuously during the Track Record Period and we expect that settlement by this customer will be made after completion of the final inspection and billing. We believe that the risk associated with the recoverability of the outstanding balance is low.

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As at 30 September 2016, approximately RMB351.6 million or 47.1% and RMB109.3 million or 17.6% of the amounts due from customers for contract work as at 31 December 2015 and 30 June 2016, respectively, was subsequently endorsed by the respective customers.

The amounts billed for work performed, but not yet paid by our customers are included in the consolidated statements of financial position under "trade receivables".

Trade receivables

The following table sets forth our trade and notes receivables as at the dates indicated:

	As at 31 December			As at
	2013	2014	2015	30 June 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	236,032	268,069	305,880	315,738
Less: provision for impairment of receivables	(29,535)	(40,552)	(58,177)	(45,738)
Trade receivable – net	206,497	227,517	247,703	270,000
Notes receivable	–	–	10,579	13,766
	<u>206,497</u>	<u>227,517</u>	<u>258,282</u>	<u>283,766</u>

Trade receivables represent progress billings of work performed by us, for which our invoice have been issued to our customers before the end of reporting period. Substantially all of trade receivables were due from our customers for contract work.

Our trade receivables increased from approximately RMB236.0 million as at 31 December 2013 to approximately RMB268.1 million as at 31 December 2014. The increase was due to the portion of revenue contributed by public buildings and infrastructure over the revenue from construction contracts increased from approximately 12.6% to approximately 19.1%. The customers of these projects were mainly governmental authorities which, to the best knowledge of our Directors, generally take longer time to settle payment due to their internal payment approval process.

Our trade receivables increased from approximately RMB268.1 million as at 31 December 2014 to approximately RMB305.9 million as at 31 December 2015, representing an increase of approximately 14.1%, which is in line with the growth of revenue. We recorded approximately RMB10.6 million of note receivables as at 31 December 2015, representing the commercial acceptance notes endorsed to suppliers, which were usually due less than six months.

Our trade receivables increased from approximately RMB305.9 million as at 31 December 2015 to approximately RMB315.7 million as at 30 June 2016. The increase is in line with the growth of revenue. We recorded note receivables of approximately RMB13.8 million as at 30 June 2016, generally due from six to 12 months.

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The table below sets forth a summary of average turnover days of trade receivables as at the dates indicated:

	For the year ended 31 December			For the six months ended 30 June 2016
	2013	2014	2015	2016
Average turnover days of				
– trade receivables ⁽¹⁾	48	62	64	78
– net trade receivables and amounts due from customers for contract work ⁽²⁾	110	169	204	227

Note:

⁽¹⁾ Average turnover days of trade receivables for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 were derived by dividing the arithmetic mean of the opening and closing balances of trade and note receivables for the relevant period by revenue and multiplying by 365/180 days.

⁽²⁾ Average turnover days of net trade receivables and amounts due from customers for contract work for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 were derived by dividing the arithmetic mean of the opening and closing balances of net trade receivables and amounts due from customers for contract work for the relevant period by revenue and multiplying by 365/180 days.

Average turnover days of trade receivables represent the duration which we would receive the payment after customers endorsed the construction project report and our invoice issued.

Our average turnover days of trade receivables increased from 48 days in 2013 to 62 days in 2014, mainly due to the fact that some customers are governmental authorities or state-owned enterprises. Based on our Directors' best knowledge, governmental authorities or state-owned enterprises will take longer to settle the payment, due to their internal payment approval process.

Our average turnover days of trade receivables remained stable at 64 days for the year ended 31 December 2015, compared to 62 days for the year ended 31 December 2014.

Our average turnover days of trade receivables increased from 64 days for the year ended 31 December 2015 to 78 days for the six months ended 30 June 2016, mainly due to more construction works being endorsed. The customers usually accept more billing in the first half of the year and will pay in the second half.

Our average turnover days of net trade receivables and amounts due from customers for contract work were 110 days, 169 days, 204 days and 227 days for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively, showing an increasing trend. The increase was mainly due to slowdown in the growth of the domestic economy and the public building decoration industry, which was consistent with industry peers. Please refer to the section headed "Industry Overview – Accounts Receivable Performance of China Public Building Decoration Market" for further details on the accounts receivable turnover days of the leading players in the industry.

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The majority of our Group's revenue is generated from construction contracts with credit terms of 15 days according to the terms specified in the relevant contracts. To establish long-term business relationship with some large-scale customers including governmental authorities, large-scale corporations (including listed companies and business conglomerates) and state-owned enterprises who are not financially distressed based on the information publicly available and interviews with the customers by our project managers, we may grant them with a longer settlement period of two to three years based on individual assessment. Our notes receivables are mainly commercial acceptance bills that are usually due from six to 12 months from the date of issue.

Our policy for impairment on trade receivables is based on an evaluation of collectability and aging analysis of the receivables that requires the use of judgment and estimates of our management. Provision would apply to the receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. Our management closely reviews the trade receivables balances and any overdue balances on an ongoing basis, and assessments are made by our management on the collectability of overdue balances. In order to ensure the quality of our assets, at the end of each quarter, our management will assess the recoverability of trade receivables individually and collectively. As at 31 December 2013, 2014 and 2015 and 30 June 2016, trade receivables of our Group amounted to RMB236.0 million, RMB268.1 million, RMB305.9 million and RMB315.7 million, with a provision of RMB29.5 million, RMB40.6 million, RMB58.2 million and RMB45.7 million, respectively. Details of our credit risk assessment are set out below:

(i) Individual Assessment

For outstanding trade receivables of over RMB1 million due from a single customer at the end of each quarter, our management will individually assess our customers and determine provision for bad debts after considering the following factors:

- (a) the construction progress of the relevant project;
- (b) background of the customer, i.e. whether it is a governmental authority, state-owned enterprise, listed company or private company;
- (c) length of business relationship with the customer;
- (d) the historical payment record of the customer (whether there has been any delay in settlement and reasons for such delay);
- (e) the financial condition of the customer as ascertained by information publicly available (if any) and interview(s) with the customer by project managers; and
- (f) any other findings revealed in the interview with the customer by project managers.

In addition, for customers with outstanding trade receivables of less than RMB1 million and with no additional construction works undertaken or additional receivables recorded during the year, we will make full provision for impairment as it is generally considered that recoverability of such receivables is relatively uncertain.

During the Track Record Period, approximately 79% of our total trade receivables was attributed to approximately 72 customers, and such trade receivables were assessed individually.

Based on the individual assessment aforesaid, as at 31 December 2013, 2014 and 2015 and 30 June 2016, trade receivables of our Group amounting to approximately RMB53.1 million, RMB67.0 million, RMB72.2 million and RMB43.7 million were identified as impairment existed and provided with impairments of approximately RMB26.7 million, RMB37.3 million, RMB53.1 million and RMB43.7 million as at the respective dates. The individually assessed and impaired trade receivables mainly relate to customers that were in financial difficulties or in default or being delinquent of payments. Our Directors are of the opinion that only a portion of such receivables is expected to be recovered.

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(ii) Collective Assessment

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For customers with outstanding trade receivables of less than RMB1 million, which usually represented customers engaged in less complex decoration projects and with shorter construction period which considered as a group of assets with similar credit risk characteristics, our management collectively assessed the possibility of impairment taking into account the aging analysis of those receivables and knowledge. During the Track Record Period, approximately 21% of our total trade receivables (each of an amount of less than RMB1 million) spread across approximately over 400 customers.

Management's conclusion of the credit risk assessment

Our evaluation of the collectability of the trade receivables of our Group as at 31 December 2013, 2014, 2015 and 30 June 2016 as indicated as below.

	As at 31 December			As at
	2013	2014	2015	30 June 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Gross trade receivables	236,032	268,069	305,880	315,738
Less: provision for impairment of receivables	(29,535)	(40,552)	(58,177)	(45,738)
Net trade receivables	<u>206,497</u>	<u>227,517</u>	<u>247,703</u>	<u>270,000</u>
Including:				
Past due but not impaired (after individually assessed and collectively assessed)	<u>168,433</u>	<u>182,774</u>	<u>210,350</u>	<u>263,861</u>
Past due and impaired, including				
– Individually assessed and impaired				
Gross trade receivables	53,063	66,951	72,210	43,674
Less: provision for impairment of receivables	(26,657)	(37,254)	(53,122)	(43,674)
Net trade receivables	<u>26,406</u>	<u>29,697</u>	<u>19,088</u>	<u>–</u>
– Collectively assessed and impaired				
Gross trade receivables	14,536	18,344	23,320	8,203
Less: provision for impairment of receivables	(2,878)	(3,298)	(5,055)	(2,064)
Net trade receivables	<u>11,658</u>	<u>15,046</u>	<u>18,265</u>	<u>6,139</u>
Total	<u>206,497</u>	<u>227,517</u>	<u>247,703</u>	<u>270,000</u>

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As at 31 December 2013, 2014, 2015 and 30 June 2016, trade receivables which were past due but not impaired amounted to approximately RMB168.4 million, RMB182.8 million, RMB210.4 million and RMB263.9 million, respectively. Such amounts relate to a number of independent customers that had a good track record with our Group. Most of the customers with a relatively longer outstanding balance not impaired are considered financially healthy, making continuous repayment and not in dispute with us.

As at 30 September 2016, approximately RMB57.5 million or 21.8% of the trade receivables past due but not impaired as at 30 June 2016 has been settled.

Based on the above, our Directors were of the view that no impairment allowance was necessary in respect of these overdue balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, gross trade receivables which were past due and impaired by individual assessment amounted to approximately RMB53.1 million, RMB67.0 million, RMB72.2 million and RMB43.7 million, respectively.

	As at 31 December			As at
	2013	2014	2015	30 June 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Gross trade receivables				
— Individually assessed and impaired				
(1) Impaired due to difference in endorsed value of work				
— (i) a governmental authority	14,298	14,298	14,298	—
— (ii) a state-owned enterprise	9,157	9,157	9,157	657
— (iii) a property management company	5,150	5,150	1,993	1,993
(2) Impaired due to credit risk				
— (iv) a private enterprise in the leisure industry	—	13,938	13,938	6,250
— Others – fully impaired	24,458	24,408	32,824	34,774
	53,063	66,951	72,210	43,674
Less: provision for impairment of receivables	(26,657)	(37,254)	(53,122)	(43,674)
	26,406	29,697	19,088	—

We individually assess impairment of trade receivables mainly based on two criteria: (i) impairment for the difference in value between endorsed work and billed amount; and (ii) impairment based on the credit risk. In the event that the endorsed value of work is below our work value previously recognised, our project team will communicate with the customer and try to agree an amount to settle with the customer. The remaining difference is provided since the amount will not be

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recovered. If the customer delays settlement without valid reason, our Directors will assess the credit risk of the balances with this customer. Our Directors and project team assess the financial status of the customer through communication with them and refer to public information available such as announcements of listed companies.

Our Directors had individually assessed the trade receivables of the above four customers and made impairment:

- (i) the customer is a governmental authority. The project concerned is an infrastructure project completed in 2012, the payment of which is subject to strict inspection procedures and involves onerous internal payment and compliance requirements and policies, fund allocation approval and fiscal budgeting and approval, resulting in delay in settlement. As advised by Frost & Sullivan, long overdue trade receivables in respect of governmental authorities is common in the industry and our Directors consider that there is no material credit risk in relation to the recoverability of this outstanding accounts receivable given the customer's background as a government authority. During the six months ended 30 June 2016, we had fully recovered the balance of RMB14.3 million through factoring arrangement (without recourse) with a licensed bank and reversed provision of approximately RMB2.9 million made in prior years. For details of the factoring arrangement, please refer to the section headed "Business – Credit Management – Factoring arrangements";
- (ii) the customer is a state-owned enterprise whose project is currently suspended due to change of design. During the six months ended 30 June 2016, approximately RMB8.5 million was settled and impairment of approximately RMB0.9 million was reversed. The remaining difference of approximately RMB0.7 million as at 30 June 2016 was fully impaired;
- (iii) the customer is a property management company. The delay in settlement is due to negotiation of the difference in endorsed value. Our Directors assess the provision based on the progress of the negotiation. During 2015, we came to an agreement with the customer on the value and the customer had settled the agreed balance of RMB3.2 million. The remaining difference of approximately RMB2.0 million as at 31 December 2015 and 30 June 2016 was fully provided as our Directors consider the amount uncollectible; and
- (iv) the customer is a private enterprise in the leisure industry. Payments were delayed due to financial difficulty of the customer. Through communications with the customer and information available in the public domain, our Directors noted that the customer was applying for listing in the capital market for financing in 2014. Due to delayed progress of the listing, the customer could not obtain financing to settle the balance in 2014. Based on the uncertainty of the recoverability, our Directors decided to impair 50% of the balance in 2014 and 100% of the amount upon rejection of the customer's listing application in 2015. During the six months ended 30 June 2016, the customer had settled part of the balance in the amount of approximately RMB7.7 million and we reversed the provision of approximately RMB7.7 million made as at 31 December 2015. As at 30 June 2016, approximately RMB6.3 million was still outstanding and was fully provided.

Gross trade receivables of approximately RMB14.5 million, RMB18.3 million, RMB23.3 million and RMB8.2 million as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, were assessed collectively and provided for impairment based on our management's industry experience and judgment. Impairment of approximately RMB2.9 million, RMB3.3 million, RMB5.1 million and RMB2.1 million was provided for the corresponding periods.

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As at 30 September 2016, approximately RMB37.4 million or 100.0% and approximately RMB4.5 million or 73.1% of the net trade receivables past due and impaired as at 31 December 2015 and 30 June 2016, respectively, has been settled.

Overall analysis of the trade receivables

The following table sets forth the aging analysis of our gross trade receivables, as at the dates indicated:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Within 6 months	148,968	112,616	109,179	185,205
6 months to 1 year	37,203	37,615	45,332	38,082
1 year to 2 years	15,877	77,378	61,902	43,562
2 years to 3 years	31,029	9,744	55,947	20,928
Over 3 years	2,955	30,716	33,520	27,961
	<u>236,032</u>	<u>268,069</u>	<u>305,880</u>	<u>315,738</u>
Less: provision for impairment of receivables	<u>(29,535)</u>	<u>(40,552)</u>	<u>(58,177)</u>	<u>(45,738)</u>
	<u>206,497</u>	<u>227,517</u>	<u>247,703</u>	<u>270,000</u>

Due to the short credit period of 15 days granted by our Group to most of our customers as a general term stated in our contracts, substantially all trade receivables as at 31 December 2013, 2014 and 2015 and 30 June 2016 were considered past due from accounting perspective.

The following table sets forth the aging analysis and subsequent settlement of our net trade receivables as at the dates indicated:

	As at 31 December			As at	Subsequent	Unsettled
	2013	2014	2015	30 June	settlement	balance
	RMB'000	RMB'000	RMB'000	2016	up to	as at
					30 September	30 September
					2016	2016
					RMB'000	RMB'000
Trade receivables – net:						
Within 6 months	141,147	112,616	109,179	185,205	32,244	152,961
6 months to 1 year	35,942	37,615	45,332	38,082	6,503	31,579
1 year to 2 years	11,697	57,852	52,304	32,860	9,428	23,432
2 years to 3 years	17,711	5,599	27,332	10,467	10,467	–
Over 3 years	–	13,835	13,556	3,386	3,386	–
	<u>206,497</u>	<u>227,517</u>	<u>247,703</u>	<u>270,000</u>	<u>62,028</u>	<u>207,972</u>

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As at 30 September 2016, approximately RMB203.0 million, RMB218.3 million, RMB207.1 million and RMB62.0 million, representing 98.3%, 95.9%, 83.6% and 23.0%, of our net trade receivables outstanding as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, were settled.

The significant amount of overdue net trade receivables during the Track Record Period was primarily due to our extension of the settlement period for certain customers based on commercial considerations and our management's assessment on the recoverability on an individually assessed basis, taking into account their scale of operations, financial conditions and payment history, which we believe has allowed us to cope with the expansion and development of our business. Further reasons for our overdue net trade receivables as at 30 June 2016 by aging analysis are set forth below:

- (i) gross trade receivables past due over two years amounted to approximately RMB48.9 million, of which approximately RMB13.9 million expected to be recoverable was not provided. The remaining balances were fully provided for impairment for prudence's sake. As at 30 September 2016, approximately RMB13.9 million was subsequently settled;
- (ii) trade receivables aged over six months but within two years mainly arise from unsettled final payment due from customers for close-to-completion or completed projects. Our customers will only settle the outstanding billed amount (exclusive of retention money of 3% to 5% of the total contract value which will be released to us upon expiry of the defect liability period if there is no breach of contract on our part) after completion of final inspection of contract works and if the value of work completed by us is mutually agreed. According to the Frost & Sullivan Report, final inspection generally takes four to 12 months to complete. Our Directors consider there is low credit risk with these trade receivables, based on (i) the payment history of these customers; (ii) latest progress of final inspection; and (iii) our Directors were not aware of any financial difficulties or liquidity issues of these customers. As at 30 September 2016, approximately 75.6% and 22.5% of the net trade receivables outstanding as at 31 December 2015 and 30 June 2016, respectively, were settled; and
- (iii) trade receivables which are past due within six months mainly arise from those ongoing projects due to our usual practice of granting to most of our customers a short credit period of 15 days, while our customers do not generally settle payment promptly within the credit period. According to the Frost & Sullivan Report, delayed settlement is a common practice of the building decoration industry in the PRC.

As at 30 June 2016, gross trade receivables past due over two years amounted to approximately RMB48.9 million, of which approximately RMB13.9 million expected to be recoverable was not provided. The remaining balances were fully provided for impairment for prudence's sake. As at 30 September 2016, approximately RMB13.9 million was subsequently settled.

Our management seeks to maintain strict control over our outstanding receivables and closely monitor such outstanding receivables to minimise credit risk. Our Directors analyse our trade receivables collection process from time to time. Our management checks and reconciles the outstanding balance with our customers at regular intervals in order to ascertain the collectability of our trade receivables. Project managers chase overdue balances on a weekly basis based on the trade receivables aging report prepared by our finance department. We usually pursue collection of delinquent payments through telephone calls and in person. The collection status is reported to our management on a weekly basis. Our management works closely with our project managers to conduct regular review of customers with overdue trade receivables.

Based on the above, our Directors believe that our Group had made adequate provision for impairment of the overdue trade receivables.

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Having considered the financial condition of our customers as ascertained by information publicly available and interviews conducted with our customers by our project managers, we will accelerate the collection process of trade receivables in accordance with our credit control policy. We have recovered approximately RMB207.1 million or 83.6% of the outstanding trade receivables as at 31 December 2015 and approximately RMB62.0 million or 23.0% of the outstanding trade receivables as at 30 June 2016 by 30 September 2016, respectively.

Prepayments and other receivables

Our prepayment and other receivables comprise primarily (i) prepayments; (ii) project reserve funds; (iii) deposits; and (iv) retention receivables.

Prepayments include advance to suppliers, prepayments for properties and [REDACTED] expenses. Our prepayments amounted to approximately RMB20.6 million, RMB28.6 million, RMB35.3 million and RMB39.1 million as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively. The fluctuation of prepayments was mainly due to the fluctuation of advance to suppliers and the [REDACTED] expense. The prepayments increased from RMB20.6 million as at 31 December 2013 to RMB28.6 million as at 31 December 2014 mainly due to the increase in advance to suppliers which was in line with the increase in the numbers and scales of projects being secured.

The increase in the prepayments of approximately RMB6.7 million from 31 December 2014 to 31 December 2015 was mainly due to the prepayment for [REDACTED] expenses of approximately RMB14.5 million, partially offset by the decrease in advances to suppliers.

The increase in the prepayments of approximately RMB3.8 million from 31 December 2015 to 30 June 2016 was mainly due to the increase in prepayment for [REDACTED] expenses of approximately RMB4.6 million, partially offset by the decrease in advances to suppliers.

Project reserve funds are provided to our project managers in respect of projects outside Shenzhen, and can only be used for limited purposes, in urgent situations and based on project progress strictly in compliance with our internal policies for application of project reserve funds, mainly including: (i) procurement of ad hoc and piecemeal raw materials and engagement of temporary workers; and (ii) payment of other ad hoc and miscellaneous expenses. Our project reserve funds amounted to approximately RMB6.8 million, RMB40.6 million, RMB6.1 million and RMB0.9 million as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively. The amount of project reserve funds increased from approximately RMB6.8 million as at 31 December 2013 to approximately RMB40.6 million as at 31 December 2014, because (i) the value of contracts secured in the fourth quarter of 2014 was approximately RMB118.6 million or 38% higher than that in the fourth quarter of 2013; and (ii) the expected project progress for the first quarter in 2015 was higher than that for that in 2014. The additional amount of project reserve funds was therefore allocated to our project managers for ad hoc procurement expenses for raw materials and to settle the expenses in respect of temporary workers. The amount of project reserve fund decreased from RMB40.6 million as at 31 December 2014 to approximately RMB6.1 million as at 31 December 2015, because we relied more on centralised procurement of raw materials. The amount of project reserve fund further decreased from approximately RMB6.1 million as at 31 December 2015 to approximately RMB0.9 million as at 30 June 2016 mainly due to closer supervision on the grant of project reserve funds and proactive chasing of return of the unused project reserve funds. In addition, we have reduced the utilisation of project reserve funds by centralised procurement. As at 30 September 2016, approximately RMB6.8 million, RMB40.5 million, RMB5.7 million and RMB0.4 million of our project reserve funds outstanding as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, were settled, representing 100.0%, 99.9%, 92.4% and 45.7% of the project reserve funds outstanding respectively. For more details, please refer to the section headed "Business – Our Business Operations – Project workflow – (v) Project planning – Provision of project reserve fund".

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Deposits represent the tender and performance bond due from our customers. The amount of deposits depends on the tender terms, contract value and relationship between our customers and us, which normally ranges from approximately 5% to 10% of the contract value. Our deposits amounted to approximately RMB23.0 million, RMB26.7 million, RMB25.4 million and RMB27.7 million as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively. As at 30 September 2016, approximately RMB9.2 million or 33.3% of our deposits related to construction contracts outstanding as at 30 June 2016 was settled.

Retention receivables represent the retention monies retained by our customers at a rate of approximately 3% to 5% of the contract value. The terms and conditions in relation to the release of retention money vary from contract to contract, which may subject to the expiry of the defect liability period or a pre-agreed time period. Our retention receivables amounted to approximately RMB18.8 million, RMB25.6 million, RMB44.9 million and RMB41.6 million as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively. As at 30 September 2016, approximately RMB0.9 million or 2.2% of our retention receivables outstanding as at 30 June 2016 was settled.

Other receivables mainly represent other miscellaneous deposits and amounts due from certain third parties. As at 30 September 2016, approximately RMB0.8 million or 53.1% of the amounts due from certain third parties as at 30 June 2016 had been settled. For more details, please refer to Note 22(e) of the Accountant's Report in Appendix I to this document.

Trade and other payables

Our trade and other payables comprise primarily from trade payables and advances from customers. The following table sets forth our trade and other payables as at the dates indicated:

	As at 31 December			As at
	2013	2014	2015	30 June 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	147,605	410,231	410,380	322,855
Advances from customers	53,462	147,407	100,047	90,076
Payroll payables	6,659	6,654	6,399	7,512
Other payables	48,821	64,924	46,367	53,589
Notes payables	10,000	—	—	—
Total	<u>266,547</u>	<u>629,216</u>	<u>563,193</u>	<u>474,032</u>

Trade payables relate to the cost of sales, which mainly comprises payables to the work forces engaged by us and for the purchase of raw materials and consumables. Our trade payables increased from approximately RMB147.6 million as at 31 December 2013 to approximately RMB410.2 million as at 31 December 2014, and subsequently remained stable at approximately RMB410.4 million as at 31 December 2015. Our trade payables decreased from approximately RMB410.4 million as at 31 December 2015 to approximately RMB322.9 million as at 30 June 2016. In practice, our management will attempt to negotiate with suppliers for a longer settlement term. In order to better manage our working capital, we generally try to pay our suppliers after we receive payments from our customers. Therefore, the balance of our trade payables moved in line with the amounts due from customers for contract work. Such decrease from 31 December 2015 to 30 June 2016 was positively correlated with the drop in the balance of amounts due from customers for contract work.

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The table below sets forth, as at the end of reporting periods indicated, the aging analysis of our trade payables:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Within 6 months	123,501	378,188	396,723	297,090
6 months to 1 year	17,418	19,578	6,902	21,109
1 year to 2 years	6,686	11,025	4,159	2,592
2 years to 3 years	–	1,440	2,596	2,064
Total	<u>147,605</u>	<u>410,231</u>	<u>410,380</u>	<u>322,855</u>

The following table sets out the average trade payables turnover days during the Track Record Period:

	For the year ended 31 December			For the
	2013	2014	2015	six months
	2013	2014	2015	ended
Average turnover days of trade payables ⁽¹⁾	<u>41</u>	<u>79</u>	<u>102</u>	<u>30 June</u>
				<u>2016</u>
				101

Note:

⁽¹⁾ Average turnover days of trade payables for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 was derived by dividing the arithmetic mean of the opening and closing balances of trade and notes payable for the relevant period by cost of sales and multiplying by 365/180 days.

Our average trade payables turnover days increased from 41 days for the year ended 31 December 2013 to 79 days for the year ended 31 December 2014, and further to 102 days for the year ended 31 December 2015. Our average trade payables turnover days remained stable at approximately 101 days for the six months ended 30 June 2016. The continuous increase in the average trade payables turnover days was correlated to the increase in trade receivables. In practice, our management will attempt to negotiate with suppliers for a longer settlement term. In order to better manage our working capital, we generally try to pay our suppliers after we receive payments from our customers.

As at 30 September 2016, approximately RMB299.1 million or 92.6% of trade payables outstanding as at 30 June 2016 had been settled.

Advances from customers represents the deposit prepaid by some of our customers when we have been awarded a project but have not commenced our services. The amount of advances from customers will be offset by the work performed by our Group once the projects begin.

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Our advances from customers increased from approximately RMB53.5 million as at 31 December 2013 to approximately RMB147.4 million as at 31 December 2014, which was mainly attributable to the higher contract value of the new contracts secured in 2014.

Our advances from customers decreased from approximately RMB147.4 million as at 31 December 2014 to approximately RMB100.0 million as at 31 December 2015, mainly because the projects secured in 2014 had commenced, and the advances from customers received in 2014 were partially offset due to the work performed by us in 2015.

Our advances from customers further decreased from approximately RMB100.0 million as at 31 December 2015 to approximately RMB90.1 million as at 30 June 2016, mainly due to decrease in number of newly commenced projects during the period.

Amounts due to customers for contract work

For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Generally for projects recognised as construction contracts, we apply for interim progress payment, based on the terms of the contracts. Our customers certify the portion of works completed by endorsing on the project progress report after inspection. As the project progress reports were endorsed, the amounts due to customers for contract work represent the excess of value of work certified by our customers over the work performed by us. Amounts due to customers for contract work depend on the number and stage of completion of projects.

The amounts due to customers for contract work decreased from approximately RMB136.9 million as at 31 December 2013 to approximately RMB94.2 million as at 31 December 2014, then further decreased to approximately RMB43.2 million as at 31 December 2015. The amounts due to customers for contract work decreased from approximately RMB43.2 million as at 31 December 2015 to approximately RMB36.2 million as at 30 June 2016. The decrease was mainly due to the decrease in difference between project progress (in terms of percentage of completion recorded by us) and progress billings of the projects (the value of the portion of works endorsed by customers on project progress reports).

Borrowings

We financed our business operations by borrowings from the banks. During the Track Record Period, the weighted average interest rates were 7.6%, 7.0%, 6.7% and 5.9% per annum, respectively.

The total borrowings increased from approximately RMB152.0 million as at 31 December 2013 to approximately RMB208.0 million as at 31 December 2014, and further to approximately RMB246.4 million as at 31 December 2015, which was mainly attributable to the increase in borrowings for the working capital needs. The balance then decreased from approximately RMB246.4 million as at 31 December 2015 to approximately RMB224.0 million as at 30 June 2016, mainly due to decreased demand for borrowings to meet working capital needs as a result of improved cash management and enhanced collection of payments from customers.

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The following table sets forth the aging analysis of our borrowings, as at the dates indicated:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Within 1 year	152,000	143,000	246,400	224,000
Between 1 and 2 years	–	65,000	–	–
Total	<u>152,000</u>	<u>208,000</u>	<u>246,400</u>	<u>224,000</u>

CAPITAL EXPENDITURES

The following table sets out our capital expenditures during the Track Record Period:

	For the year ended 31 December			For the
	2013	2014	2015	six months
	RMB'000	RMB'000	RMB'000	ended
Purchases of property and equipment	30,159	889	5,303	30 June
Purchase of land use right	11,242	–	–	2016
Total	<u>41,401</u>	<u>889</u>	<u>5,303</u>	<u>230</u>

Our capital expenditures principally included expenditures on acquisitions of property and equipment in our operations. During the Track Record Period, we incurred capital expenditures of approximately RMB41.4 million, RMB0.9 million, RMB5.3 million and RMB0.2 million, respectively, the majority of which related to the purchase of equipment and a new office building in Shenzhen as well as building improvements. Our total capital expenditures for the year ending 31 December 2016 and 2017 are expected to be nil and RMB90.7 million, respectively.

The following table sets out the breakdown of the capital expenditures for the year ending 31 December 2016 and 2017:

	For the year ending	
	31 December	
	2016	2017
	RMB'000	RMB'000
Last payment of purchase of property	–	652
Expand our service network	–	12,500
Strengthen our in-house design capabilities	–	5,000
Strengthen our research and development capabilities and establish a research and development laboratory	–	6,500
Establish an internal online supply chain management platform and a logistics centre	–	58,500
Enhance the efficiency of our internal IT system	–	7,500
Total	<u>–</u>	<u>90,652</u>

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Our projected capital expenditures are subject to adjustment based upon any future changes in our business plan, market conditions and economic and regulatory environment. We expect that our future capital expenditures will be used primarily for purchases of equipment, software and building decoration works for our branch offices.

We expect to fund our contractual commitments and capital expenditures principally through the net [REDACTED] we receive from the [REDACTED], cash generated from our operating activities and proceeds from borrowings and notes. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months from 30 June 2016.

COMMITMENTS

Operating lease commitments

We had no operating lease commitment as at 31 December 2013, 2014, 2015, 30 June 2016 and 30 September 2016, respectively.

Capital commitments

As at 31 December 2013, 2014, 2015 and 30 June 2016, we had the following capital commitments:

	As at 31 December			As at	As at
	2013	2014	2015	30 June 2016	30 September 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property and equipment contracted but not provided for	–	2,388	652	652	652
Capital expenditure in respect of the acquisition of property authorised but not contracted for	2,388	–	–	–	–

INDEBTEDNESS

The following table sets out the total amount of our debts as at 31 December 2013, 2014, 2015, 30 June 2016 and 30 September 2016:

	As at 31 December			As at	As at
	2013	2014	2015	30 June 2016	30 September 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current portion of bank borrowings	152,000	143,000	246,400	224,000	283,500
Non-current portion of bank borrowings	–	65,000	–	–	–
Total	152,000	208,000	246,400	224,000	283,500

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The following table sets out the range of weighted average interest rates⁽¹⁾ for our borrowings as at the end of each reporting period during the Track Record Period and 30 September 2016:

	As at 31 December			As at	As at
	2013	2014	2015	30 June 2016	30 September 2016
Our Group's borrowings	7.6%	7.0%	6.7%	5.9%	5.3%

Note:

- (1) Weighted average interest rate is calculated by dividing the annualised interest expenses on borrowings for the year/period by the average borrowings of our Group for the respective year/period (sum of opening and closing balances of the borrowings of the respective year/period divided by two) and multiplied by 100%.

The bank borrowings of our Group were secured by personal guarantee provided by our major Shareholders, and pledged by our receivables, property investments and office buildings. Such personal guarantees will be fully released upon [REDACTED] and the outstanding amount of the relevant loans will not be required to be repaid at the time such guarantee is released. As at 30 September 2016, being the latest practicable date for the purpose of this indebtedness statement, the total available banking facilities obtained by us (including banking facilities for working capital, letter of credit, letter of guarantee and bank drafts) was approximately RMB388.0 million, of which approximately RMB77.2 million was unutilised. These facilities were guaranteed by certain of our subsidiaries and/or our Shareholders or Directors and secured by certain assets of our Group.

Contingent liabilities

As at 30 September 2016, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities or guarantees.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at 30 September 2016, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

CAPITAL MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital management

We actively and regularly review and manage our capital structure in order to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and make adjustments to the capital structure in light of the changes in economic conditions. We monitor our capital structure on the basis of the gearing ratio.

Financial risk management

Our Group is exposed to interest rate risk, credit risk and liquidity risk in the normal course of business. Further details on our financial risk management policies and practices are set out in Note 3 to the Accountant's Report in Appendix I to this document.

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TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in the Note 32 in the Accountant's Report in Appendix I to this document, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for each of the years and as at each of the dates indicated:

	For the year ended 31 December			For the six months ended 30 June 2016
	2013	2014	2015	
Gross profit margin (%) ⁽¹⁾	10.6	11.0	11.9	12.3
Net profit margin (%) ⁽²⁾	4.1	5.3	6.1	5.9
Return on equity (%) ⁽³⁾	23.6	24.0	23.8	N/A
Return on total assets (%) ⁽⁴⁾	7.6	7.3	7.6	N/A
Interest coverage ⁽⁵⁾	8.7	8.4	8.8	7.7

	As at 31 December			As at 30 June 2016
	2013	2014	2015	
Current ratio ⁽⁶⁾	1.3	1.3	1.4	1.5
Gearing ratio (%) ⁽⁷⁾	52.1	56.0	52.1	43.3
Net debt to equity ratio (%) ⁽⁸⁾	1.6	16.3	31.1	18.8

Notes:

- (1) Gross profit margin is calculated by dividing the gross profit for the year/period by the revenue for the respective year/period and multiplied by 100%. Please refer to the paragraph headed "Review of Historical Results of Operation" in this section for more details on our gross profit margins.
- (2) Net profit margin is calculated by the total comprehensive income for the year/period divided by the revenue for the respective year/period and multiplied by 100%. Please refer to the paragraph headed "Review of Historical Results of Operation" in this section for more details on our net profit margins.
- (3) Return on equity is calculated by dividing the total comprehensive income for the year attributable to the owners of our Company by the equity of our Company for the respective year (sum of opening and closing balances of the equity of the respective year and then divided by two) and multiplied by 100%.
- (4) Return on total assets is calculated by dividing the total comprehensive income for the year attributable to the owners of our Company by the total assets of our Company for the respective year (sum of opening and closing balances of the total assets of the respective year and then divided by two) and multiplied by 100%.
- (5) Interest coverage is calculated by dividing the profit before interest and tax for the year/period by the finance costs for the respective year/period.
- (6) Current ratio is calculated by dividing the current assets by the current liabilities as at the respective dates.

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- (7) *Gearing ratio is calculated by dividing the total debt as at the respective dates by equity attributable to our Shareholders as at the respective dates and multiplied by 100%.*
- (8) *Net debt to equity ratio is calculated by dividing the net debt (being total borrowings net of cash and cash equivalents) as at the respective dates by equity attributable to our Shareholders as at the respective dates.*

Return on equity

Our return on equity was approximately 23.6%, 24.0% and 23.8% for each of the three years ended 31 December 2013, 2014 and 2015, respectively. During the Track Record Period, no dividend had been declared and the increase in equity was mainly due to the increase in retained earnings, which contributed to the decrease in return on equity.

Return on total assets

Our return on total assets remained stable at approximately 7.6%, 7.3% and 7.6% for each of the three years ended 31 December 2013, 2014 and 2015, respectively. The decrease in return on total assets is in line with the decrease in net profit margin due to increased administrative expenses as a percentage of revenue.

Interest coverage

Our interest coverage was approximately 8.7, 8.4 and 8.8 for the years ended 31 December 2013, 2014 and 2015, respectively, which remained relatively stable.

Our interest coverage decreased from approximately 8.8 for the year ended 31 December 2015 to approximately 7.7 for the six months ended 30 June 2016, which was mainly due to increase in finance cost due to factoring arrangement.

Current ratio

Our current ratio was approximately 1.3, 1.3, 1.4 and 1.5 as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively, which remained relatively stable.

Gearing ratio

Our gearing ratio was approximately 52.1%, 56.0%, 52.1% and 43.3% as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively.

Our gearing ratio increased from 52.1% as at 31 December 2013 to 56.0% as at 31 December 2014. Such increase was attributable to the increase in borrowings to meet the financing needs of our projects.

Our gearing ratio decreased from 56.0% as at 31 December 2014 to 52.1% as at 31 December 2015. The decrease was due to the increase in equity as a result of increase in retained earnings, since no dividend has been paid or declared, which is partially offset by increasing in borrowings.

Our gearing ratio decreased from 52.1% as at 31 December 2015 to 43.3% as at 30 June 2016. The decrease was due to (i) the increase in equity as a result of the increase in retained earnings, since no dividend has been paid or declared; and (ii) the decrease in borrowings as a result of repayment.

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Net debt to equity ratio

Our net debt to equity ratio was approximately 1.6%, 16.3%, 31.1% and 18.8% as at 31 December 2013, 2014 and 2015 and 30 June 2016, respectively. The continuous increase from 2013 to 2015 in net debt to equity ratio was attributable to the increase in borrowings and decrease in cash balances to meet the financing needs of our projects.

Our net debt to equity ratio surged from 16.3% as at 31 December 2014 to 31.1% as at 31 December 2015. Such increase was attributable to (i) the increase in borrowings to meet the financing needs of our projects; and (ii) the decrease in cash and cash equivalents as a result of overdue settlements from our customers. Please refer to the paragraph headed "Description of Certain Items of Consolidated Statements of Financial Position – Trade receivables" in this section for the discussion of overdue settlements.

Our net debt to equity ratio decreased from 31.1% as at 31 December 2015 to 18.8% as at 30 June 2016. The decrease was attributable to the increase in cash and cash equivalents as a result of acceleration in the collection of trade receivables to improve our liquidity position.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or document since 30 June 2016 and there has been no event since 30 June 2016 which would materially affect the information in our consolidated financial statements included in the Accountant's Report set forth in Appendix I to this document, in each case except as otherwise disclosed therein.

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, we were awarded approximately 41 projects (each with a contract value of more than RMB1 million) in the PRC, the total contract value of which amounted to approximately RMB208.3 million and among which approximately six projects and one project were each with a contract value of more than RMB10 million and RMB30 million, respectively.

As at 30 September 2016, we had approximately 446 projects on hand (each of contract value of more than RMB1 million), the total contract value of which was approximately RMB4,485.6 million. The revenue of the projects on hand expected to be recognised for the year ending 31 December 2016 is approximately RMB1,312.7 million. Please refer to the section headed "Business – Our Business Operations – Our projects" for further details on our projects on hand as at the Latest Practicable Date.

Based on our Group's unaudited management accounts, our revenue and gross profit for the three months ended 30 September 2016 decreased moderately, compared to the corresponding period in 2015. Our gross margin for the three months ended 30 September 2016 increased slightly compared to that of the corresponding period in 2015. As at 30 September 2016, approximately RMB351.6 million or 47.1% and RMB109.3 million or 17.6% of the amounts due from customers for contract work as at 31 December 2015 and 30 June 2016, respectively, was subsequently endorsed by the respective customers. As at 30 September 2016, we had recovered approximately RMB207.1 million

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and approximately RMB62.0 million of net trade receivables outstanding as at 31 December 2015 and 30 June 2016, respectively, with a recovery rate of 83.6% and 23.0%, respectively.

Subsequent to the Track Record Period and up to the date of this document, there had been no significant change in our principal business, pricing policy and cost structure. Our Directors confirm that, subsequent to the Track Record Period and up to the date of this document, there had been no material adverse change in our financial or trading position or prospects since 30 June 2016 and there had been no event since 30 June 2016 which would materially affect the information in our consolidated financial statements included in the Accountant's Report set forth in Appendix I to this document.

[REDACTED] EXPENSES

Based on the mid-point of the proposed **[REDACTED]** range, the total expenses for the **[REDACTED]** are estimated to be approximately RMB**[REDACTED]**, of which (i) approximately RMB**[REDACTED]** is directly attributable to the issue of new Shares to the public and will be accounted for as deduction from equity; and (ii) approximately RMB**[REDACTED]** will be charged to profit and loss of our Group for the year ending 31 December 2016. Up to 30 June 2016, approximately RMB**[REDACTED]** of **[REDACTED]** expenses was incurred and recognised as prepayments. Approximately RMB**[REDACTED]** and RMB**[REDACTED]** were charged to profit or loss for the year ended 31 December 2015 and the six months ended 30 June 2016.

DIVIDEND

As at the Latest Practicable Date, we did not have any fixed dividend policy nor pre-determined dividend payout ratios. After completion of the **[REDACTED]** our Shareholders will be entitled to receive dividends declared by us. The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Since the establishment of our Company and up to the Latest Practicable Date, no dividend had been declared or distributed to our Shareholders. There can be no assurance that we will be able to declare or distribute any dividend after completion of the **[REDACTED]**. Any dividend distribution shall also be subject to the approval of our Shareholders in a Shareholders' meeting.

Under the PRC Company Law and our Articles of Association, we will pay dividends out of our after-tax profit only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory reserve fund equivalent to 10% of our after-tax profit; and
- allocations, if any, to a discretionary reserve fund approved by the Shareholders in a Shareholders' meeting.

When the statutory reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations will be required. Our profit distributable for the above-mentioned allocations and our dividend distributions shall be paid out of our after-tax profit as determined by PRC GAAP or HKFRSs, whichever is lower.

All of our Shareholders have equal rights to dividends and distributions in the form of stock or cash. For holders of our **[REDACTED]**, cash dividend payments, if any, will be declared and paid in Hong Kong dollars.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

As at 30 June 2016, we had distributable reserves of approximately RMB297.5 million available for distribution to our Shareholders.

UNAUDITED [REDACTED] ADJUSTED NET TANGIBLE ASSETS

The following unaudited [REDACTED] adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of our Group attributable to the owners of our Company as at 30 June 2016 as if the [REDACTED] had taken place on that date.

The unaudited [REDACTED] adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the [REDACTED] been completed as at 30 June 2016 or at any future dates.

	Audited consolidated net tangible assets attributable to the owners of our Company as at 30 June 2016	Estimated net [REDACTED] from the [REDACTED]	Unaudited [REDACTED] adjusted net tangible assets attributable to the owners of our Company	Unaudited [REDACTED] adjusted net tangible assets per Share	
	RMB'000 ^(Note 1)	RMB'000 ^(Note 2)	RMB'000 ^(Note 3)	RMB	HK\$
Based on [REDACTED] of [REDACTED] per [REDACTED]	517,683	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on [REDACTED] of [REDACTED] per [REDACTED]	517,683	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The audited consolidated net tangible assets of our Group attributable to the owners of our Company as at 30 June 2016 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of our Group attributable to the owners of our Company as at 30 June 2016 of RMB517,683,000.
- (2) The estimated net [REDACTED] from the [REDACTED] are based on the indicative [REDACTED] of [REDACTED] and [REDACTED] per Share, respectively, after deduction of the [REDACTED] fees and other related expenses payable by our Company and takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED] or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] were in issue assuming that the [REDACTED] has been completed on 30 June 2016 but takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED] or any Shares which may be granted and issued or repurchased by our Company pursuant to the General Mandate and the Repurchase Mandate.
- (4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 30 June 2016.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.87.

FINANCIAL INFORMATION

QUANTITATIVE AND QUALITATIVE DISCLOSURES ON MARKET RISKS

We are exposed to various types of market risks as follows:

Interest rate risks

Our interest rate risks mainly arise from borrowings. While we regularly seek the most favourable interest rates available for borrowings, borrowings issued at variable rates expose our Group to cash flow interest rate risks. As at 31 December 2013, 2014 and 2015 and 30 June 2016, if the market interest rates had been 0.5% higher, with all other variables held constant, post-tax profit would have been reduced by RMB571,000, RMB735,000, RMB1,000,000 and RMB494,000 lower, respectively, mainly as a result of higher interest expense on borrowings net off by higher interest income on bank deposits.

Our Group has not entered into any interest rate swaps to hedge our exposure to interest rate risks.

Credit risks

Credit risks mainly arise from bank balances, trade receivables, deposits and other receivables. The carrying amount of these balances in the consolidated statements of financial position represents our maximum exposure to credit risks in relation to our financial assets. We have a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

The majority of our bank balances is placed in banks and financial institutions incorporated in the PRC which are reputable local listed commercial banks or state-owned banks. Our management does not expect to incur any loss as a result of non-performance by such banks and financial institutions as they have no default history.

In respect of trade receivables as well as deposits and retentions recorded as other receivables, individual credit evaluations are performed on significant customers. These evaluations focus on the customer's payment history and its current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Our Group generally requires customers to settle progress payments and other outstanding balances in accordance with the agreements. Normally, our Group does not obtain collateral from customers.

Liquidity risks

Our policy is to regularly monitor our current and expected liquidity requirements and our compliance with debt covenants, in order to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet our liquidity requirements in the short and long term.

We are committed to tightening our credit terms offered to customers and speeding up our collection of outstanding balances by available means in order to maintain sufficient cash to meet our obligations. Moreover, our Group continues to explore our available funding through different financial facilities to maintain sufficient flexibility in funding. We closely monitor our policies so as to maintain sufficient cash flows and ensure that they are effective. Our management considers that there is no significant liquidity risk as our Group has sufficient committed facilities to fund our operations.

FUTURE PLANS AND USE OF [REDACTED]

FUTURE PLANS

Please refer to the section headed "Business – Business Strategies" for a detailed description of our future plans.

USE OF [REDACTED]

The net [REDACTED] from the [REDACTED], after deducting [REDACTED] and estimated total expenses paid and payable by us in connection thereto, are estimated to be approximately HK\$[REDACTED] before any exercise of the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per Share. We intend to use such net [REDACTED] as follows:

- approximately [REDACTED]%, or HK\$[REDACTED], will be used to establish an internal online supply-chain management platform which aims to serve as a centralised procurement online platform for our existing and prospective suppliers, and a logistics centre to facilitate the storage and delivery of raw materials;
- approximately [REDACTED]%, or HK\$[REDACTED], will be used to further expand the geographical coverage of our services and optimise our branch network;
- approximately [REDACTED]%, or HK\$[REDACTED], will be used to enhance the efficiency of our internal IT system by improving and upgrading our internal integrated IT infrastructure for business management;
- approximately [REDACTED]%, or HK\$[REDACTED], will be used to strengthen our research and development capabilities and establish a research and development laboratory;
- approximately [REDACTED]%, or HK\$[REDACTED], will be used to strengthen our internal design capabilities by upgrading our design system, recruiting more design professionals and enhancing the synergy with our new research and development laboratory; and
- approximately [REDACTED]%, or HK\$[REDACTED], will be used for working capital and general corporate purposes.

If the [REDACTED] is set at the highest or lowest point of the indicative [REDACTED] range, the net [REDACTED] of the [REDACTED], assuming that the [REDACTED] is not exercised, will increase to approximately HK\$[REDACTED] or decrease to approximately HK\$[REDACTED], respectively. In such event, we will increase or decrease the intended use of the net [REDACTED] for the above purposes on a pro-rata basis.

If the [REDACTED] is exercised in full, the net [REDACTED] from the [REDACTED] will increase to approximately HK\$[REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per Share, being the mid-point of the proposed [REDACTED] range. If the [REDACTED] is set at the high-end or low-end of the proposed [REDACTED] range, the net [REDACTED] of the [REDACTED], including the [REDACTED] from the exercise of the [REDACTED], will increase or decrease to approximately HK\$[REDACTED] or HK\$[REDACTED], respectively. In such event, we will increase or decrease the allocation of the net [REDACTED] to the above purposes on a pro-rata basis.

FUTURE PLANS AND USE OF [REDACTED]

To the extent that the net [REDACTED] of the [REDACTED] are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net [REDACTED] into interest-bearing bank accounts with licensed banks and/or financial institutions.

We will issue an appropriate announcement if there is any material change to the above proposed use of [REDACTED].

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the [REDACTED], assuming that the [REDACTED] is not exercised, the following Shareholders will have or deemed or taken to have an interest and/or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be 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 any other member of our Company.

Name of Shareholder	Class of Shares held after the [REDACTED]	Nature of interest/capacity	Number of Shares or underlying Shares held after the [REDACTED]	Approximate percentage of shareholding in the relevant class of Shares after the [REDACTED] <i>(Note 1)</i>	Approximate percentage of shareholding in the total share capital of our Company after the [REDACTED] <i>(Note 2)</i>
YE Yujing (葉玉敬) ^(Note 3)	Domestic Shares	Beneficial Owner	[REDACTED]	[REDACTED]	[REDACTED]
		Interest of spouse	[REDACTED]	[REDACTED]	[REDACTED]
YE Xiujin (葉秀近) ^(Note 4)	Domestic Shares	Beneficial Owner	[REDACTED]	[REDACTED]	[REDACTED]
		Interest of spouse	[REDACTED]	[REDACTED]	[REDACTED]
South China Sea LP ^(Note 5)	Domestic Shares	Beneficial Owner	[REDACTED]	[REDACTED]	[REDACTED]
Shenzhen Co-Win Asset ^(Note 5)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
Shenzhen Co-Win Venture Capital ^(Note 5)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
Shenzhen Co-Win Jinxiu Asset ^(Note 5)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
Zheng Wei He (鄭偉鶴) ^(Note 5)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
Huang Li (黃荔) ^(Note 5)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]

SUBSTANTIAL SHAREHOLDERS

Name of Shareholder	Class of Shares held after the [REDACTED]	Nature of interest/capacity	Number of Shares or underlying Shares held after the [REDACTED]	Approximate percentage of shareholding in the relevant class of Shares after the [REDACTED] <i>(Note 1)</i>	Approximate percentage of shareholding in the total share capital of our Company after the [REDACTED] <i>(Note 2)</i>
Ding Bao Yu (丁寶玉) ^(Note 5)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
YE Xian (葉縣) ^(Note 6)	Domestic Shares	Beneficial Owner	[REDACTED]	[REDACTED]	[REDACTED]
YE Bingquan (葉炳權)	Domestic Shares	Beneficial Owner	[REDACTED]	[REDACTED]	[REDACTED]
Shenzhen Gong Xiang Li ^(Note 7)	Domestic Shares	Beneficial Owners	[REDACTED]	[REDACTED]	[REDACTED]
YE Guofeng (葉國鋒) ^(Note 7)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
YE Weiqing (葉偉青) ^(Note 7)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

1. The calculation is based on the total number of Domestic Shares held after the [REDACTED], assuming the [REDACTED] is not exercised.
2. The calculation is based on the total number of [REDACTED] in issue after the [REDACTED], assuming the [REDACTED] is not exercised.
3. Mr. YE Yujing is the husband of Ms. YE Xiujin. Under the SFO, Mr. YE Yujing will be deemed to be interested in the same number of Shares in which Ms. YE Xiujin is interested.
4. Ms. YE Xiujin is the wife of Mr. YE Yujing. Under the SFO, Ms. YE Xiujin will be deemed to be interested in the same number of Shares in which Mr. YE Yujing is interested.
5. South China Sea LP, a limited partnership entity established under PRC laws on 13 April 2011, is controlled by four general partners who were as at the Latest Practicable Date, (i) Shenzhen Co-Win Jinxiu Asset, (ii) Zheng Wei He; (iii) Huang Li; and (iv) Ding Bao Yu. Shenzhen Co-Win Jinxiu Asset, a limited liability company established under PRC laws on 24 December 2014, is a wholly-owned subsidiary of Shenzhen Co-Win Asset. Shenzhen Co-Win Asset, a limited liability company established under PRC laws on 27 December 2010 is owned as to 35.6% by Shenzhen Co-Win Venture Capital, 15.9% by Zheng Wei He, 15.9% by Huang Li, 10.5% by Shenzhen Co-Win Victory LP, 7.1% by Shenzhen Co-Win South China Asset Management Company Limited (深圳市同創偉業南海資產管理有限公司) which is a limited liability company established under PRC laws on 5 February 2013 and is wholly-owned by Shenzhen Co-Win Venture Capital, 4.5% by Ding Bao Yu, 2.6% by Ma Weiguo (馬衛國), 1.2% by Tang Zhongcheng (唐忠誠), with the remaining 6.7% owned by other shareholders. Shenzhen Co-Win Venture Capital, a limited liability company established under PRC laws on 26 June 2000, is owned as to 45% by Zheng Wei He and 55% by Huang Li. In light of the above, Shenzhen Co-Win Jinxiu Asset, Shenzhen Co-Win Asset, Shenzhen Co-Win Venture Capital, Zheng Wei He, Huang Li and Ding Bao Yu are deemed to be interested in all Shares held by South China Sea LP under the SFO.

SUBSTANTIAL SHAREHOLDERS

6. *Mr. YE Xian is our Supervisor.*
7. *Shenzhen Gong Xiang Li, a limited partnership entity established under the PRC laws of which Ms. YE Weiqing is its executive partner, is owned as to 66.32% by Mr. YE Guofeng (葉國鋒), our Executive Director. In light of the above, YE Weiqing and YE Guofeng are deemed to be interested in all the Shares held by Shenzhen Gong Xiang Li.*

As at the Latest Practicable Date, so far as is known to our Directors, other than our Company, no other persons were 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 our subsidiaries.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following completion of the [REDACTED], without taking into account any [REDACTED] that may be allotted and issued pursuant to the exercise of the [REDACTED], have an interest or a short position in any Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the [REDACTED], or be 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 our Company and are therefore regarded as Substantial Shareholders under the Listing Rules.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

SHARE CAPITAL

BEFORE THE [REDACTED]

As at the Latest Practicable Date, the registered share capital of our Company was RMB158,287,000.00, divided into 158,287,000 Domestic Shares with a nominal value of RMB1.00 each.

UPON COMPLETION OF THE [REDACTED]

Immediately following completion of the [REDACTED], assuming that the [REDACTED] is not exercised, our registered and issued share capital will be as follows:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate percentage of issued share capital</u>
<u>[REDACTED]</u>	Domestic Shares ^(note)	<u>[REDACTED]</u>
<u>[REDACTED]</u>	[REDACTED] to be issued by our Company under the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u>	Total	<u>100.00%</u>

Note: Such Domestic Shares can be converted into [REDACTED]. Please refer to the paragraph headed "Conversion of our Domestic Shares into [REDACTED]" in this section for further details.

Immediately following completion of the [REDACTED], assuming that the [REDACTED] is exercised in full, our registered and issued share capital will be as follows:

<u>Number of Shares</u>	<u>Description of Shares</u>	<u>Approximate percentage of issued share capital</u>
<u>[REDACTED]</u>	Domestic Shares ^(note)	<u>[REDACTED]</u>
<u>[REDACTED]</u>	[REDACTED] to be issued by our Company under the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u>	Total	<u>100.00%</u>

Note: Such Domestic Shares can be converted into [REDACTED]. Please refer to the paragraph headed "Conversion of our Domestic Shares into [REDACTED]" in this section for further details.

PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the [REDACTED] require there to be an open market in the securities for which [REDACTED] is sought and for a sufficient [REDACTED] of an issuer's [REDACTED] securities to be maintained. This normally means that (i) at least 25% of the issuer's total issued share capital must at all times be held by the public; and (ii) where an issuer has one class or more than one class of securities apart from the class of securities for which [REDACTED] is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Hong Kong Stock Exchange) at the time of [REDACTED] must be at least 25% of the issuer's total issued share

SHARE CAPITAL

capital. However, the class of securities for which [REDACTED] is sought must not be less than 15% of the issuer's total issued share capital and must have an expected market capitalisation at the time of [REDACTED] of not less than HK\$50,000,000.00.

According to the information disclosed in the above table, our Company will meet the [REDACTED] requirements under the Listing Rules immediately following completion of the [REDACTED] (whether the [REDACTED] is exercised in full). We will make appropriate disclosure of the [REDACTED] and confirm sufficiency of public float in successive annual reports after the [REDACTED].

The table above assumes that the [REDACTED] has become unconditional and has been completed.

OUR SHARES

Our Domestic Shares and [REDACTED] are both ordinary shares in the share capital of our Company. [REDACTED] may only be [REDACTED] for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be [REDACTED] for and transferred in RMB. Apart from certain qualified domestic institutional investors in the PRC and any subscription or trading made under Several Provisions on the Pilot Inter-connected Mechanism for Trading on the Shanghai Stock Market and the Hong Kong Stock Market (滬港股票市場交易互聯互通機制試點若干規定) and Pilot Measures of the Shanghai Stock Exchange for Shanghai-Hong Kong Connect (上海證券交易所滬港通試點辦法), [REDACTED] generally cannot be [REDACTED] for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be [REDACTED] for by and transferred between legal or natural persons of the PRC and qualified foreign strategic investors. We must pay all dividends in respect of [REDACTED] in Hong Kong dollars and all dividends in respect of Domestic Shares in RMB.

Our promoters, namely Mr. Ye Yujing, Mr. Ye Yuling and Ms. Ye Jinmei, hold their existing 103,870,000 Domestic Shares as promoter shares as defined in the PRC Company Law (as at the Latest Practicable Date, the Domestic Shares of Mr. Ye Yuling are held by Mr. Ye Xian and Mr. Ye Bingquan in equal shares by way of inheritance). Under the PRC Company Law, promoter shares may not be sold within a period of one year from 3 December 2007, the date on which we were converted into a joint stock limited liability company. This lock-up period expired on 2 December 2008. The PRC Company Law further provides that in relation to the public [REDACTED] of a company, the shares of the company which have been issued prior to the [REDACTED] shall not be transferred within one year from the date of the [REDACTED] on any stock exchange. Upon the approval of the CSRC and with the consent of the Hong Kong Stock Exchange, the Domestic Shares may be converted into [REDACTED].

Except as described in this document and in relation to the despatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix V to this document, our Domestic Shares and our [REDACTED] will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions to be declared, paid or made after the date of this document. However, the transfer of Domestic Shares is subject to such restrictions as the PRC laws may impose from time to time. Save for the [REDACTED], we do not propose to carry out any public or private issue or to place securities simultaneously with the [REDACTED] or within the next six months from the date of this document. We have not approved any share issue plan other than the [REDACTED].

Upon the completion of the [REDACTED], we will have two classes of ordinary shares, [REDACTED] as one class of Shares and Domestic Shares as another class of Shares. As at the date of this document, the Domestic Shares are [REDACTED] Shares which are not [REDACTED] or traded on any stock exchange. Upon the completion of the [REDACTED], all [REDACTED] Shares will be Domestic Shares held by our existing 19 Shareholders, and therefore, the scope of our [REDACTED] Shares is the same as the scope of our Domestic Shares. The term "[REDACTED]"

SHARE CAPITAL

Shares" is used to describe whether certain Shares are [REDACTED] on a stock exchange and is not unique to the PRC laws. Given the above, our legal advisor as to the PRC laws, has advised us that the use of the term "[REDACTED] Shares" in the Articles of Association does not contravene, and is not inconsistent with, any PRC law or regulation (including the Special Regulations and Mandatory Provisions).

CONVERSION OF OUR DOMESTIC SHARES INTO [REDACTED]

According to the stipulations by the CSRC and the Articles of Association, our [REDACTED] Shares may be converted into [REDACTED], and such converted [REDACTED] may be [REDACTED] or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted [REDACTED] any requisite internal approval processes, including approval by Shareholders, shall have been duly completed and the approval from the CSRC shall have been obtained. In addition, such conversion, trading and [REDACTED] shall in all respects comply with the regulations prescribed by the CSRC and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required for the [REDACTED] of such converted [REDACTED] on the Stock Exchange. Based on the methodology and procedures for the conversion of our [REDACTED] Shares into [REDACTED] as described in this section, we can apply for the [REDACTED] of all or any portion of our [REDACTED] Shares on the Stock Exchange as [REDACTED] in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice of the Stock Exchange and delivery of shares for entry on the [REDACTED] register. As any [REDACTED] of additional shares after our initial [REDACTED] on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for [REDACTED] at the time of our initial [REDACTED] in Hong Kong. No Shareholder voting by class is required for the [REDACTED] and trading of the converted shares on an overseas stock exchange. Any application for [REDACTED] of the converted shares on the Stock Exchange after our initial [REDACTED] is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion. Following the [REDACTED] of the converted shares on the Stock Exchange, any sale or possible sale of the converted shares may cause a significant decrease in the market price of the [REDACTED]. Please refer to section headed "Risk Factors – Risks relating to the [REDACTED]" for further details.

MECHANISM AND PROCEDURE FOR CONVERSION

After all requisite approvals as set out above have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant [REDACTED] Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our [REDACTED] register maintained in Hong Kong and instruct the [REDACTED] to issue [REDACTED] certificates. Registration on our [REDACTED] register will be conditional on (a) the [REDACTED] Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant [REDACTED] on the [REDACTED] register and the due despatch of [REDACTED] certificates and (b) the admission of the [REDACTED] to trade on the Stock Exchange in compliance with the Listing Rules, the General Rules of [REDACTED] and the [REDACTED] Operational Procedures in force from time to time. Until the converted Shares are reregistered on our [REDACTED] register, such Shares will not be [REDACTED] as [REDACTED].

So far as our Directors are aware, none of our existing Shareholders currently proposes to convert any of the Domestic Shares held by it into [REDACTED].

SHARE CAPITAL

REGISTRATION OF SHARES NOT [REDACTED] ON THE OVERSEAS HONG KONG STOCK EXCHANGE

According to the Notice of Centralised Registration and Deposit of Non-overseas [REDACTED] Shares of Companies [REDACTED] on an Overseas Stock Exchange (關於境外[REDACTED]公司非境外[REDACTED]股份集中登記存管有關事宜的通知) issued by the CSRC, an overseas [REDACTED] company is required to register its shares that are not [REDACTED] on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days after [REDACTED] and provide a written report to the CSRC regarding the centralised registration and deposit of its non-overseas [REDACTED] shares as well as the current [REDACTED] and [REDACTED] of shares.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by us

Pursuant to [REDACTED] of the Listing Rules, except pursuant to the [REDACTED] (including pursuant to the [REDACTED]) or any issue of shares or securities in circumstances prescribed by [REDACTED] of the Listing Rules, we will not, at any time within six months from the [REDACTED], issue any shares or other securities convertible into our equity securities or enter into any agreement or arrangement to issue such shares or securities (whether or not such issue of shares or securities will be completed within six months from the [REDACTED]).

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Commission and Expenses

Under the terms and conditions of the [REDACTED], the [REDACTED] will receive an [REDACTED] commission equal to [REDACTED]% on the aggregate [REDACTED] payable in respect of all of the [REDACTED]. The respective entitlements of the [REDACTED] to the [REDACTED] commission will be paid as separately agreed between the [REDACTED] and the Hong Kong [REDACTED].

Assuming the [REDACTED] and based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED]), the aggregate commissions and fees, together with the Stock Exchange [REDACTED] fees, the SFC [REDACTED], the Stock Exchange [REDACTED], legal and other professional fees and printing and other expenses relating to the [REDACTED] to be borne by us are estimated to amount to approximately HK\$[REDACTED] in aggregate (assuming an [REDACTED] of HK\$[REDACTED], being the mid-point of the indicative range of the [REDACTED] of HK\$[REDACTED] to HK\$[REDACTED]).

[REDACTED] Interests in our Company

Save for their respective obligations under the [REDACTED] or as otherwise disclosed in this [REDACTED], none of the [REDACTED] is interested legally or beneficially in any [REDACTED] of any of our members or has any right or option (whether legally enforceable or not) to [REDACTED] for or purchase or to nominate persons to [REDACTED] for or purchase securities in any of our members in the [REDACTED].

Following completion of the [REDACTED], the [REDACTED] and their affiliated companies may hold a certain portion of the [REDACTED] as a result of fulfilling their obligations under the [REDACTED].

Independence of the Sole Sponsor

Guotai Junan Capital Limited satisfies the independence criteria applicable to Sole Sponsor as set out in Rule 3A.07 of the Listing Rules.

[REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR HONG KONG [REDACTED]

[REDACTED]

HOW TO APPLY FOR HONG KONG [REDACTED]

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[REDACTED]

HOW TO APPLY FOR HONG KONG [REDACTED]

[REDACTED]

HOW TO APPLY FOR HONG KONG [REDACTED]

[REDACTED]

APPENDIX I

ACCOUNTANT'S REPORT

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

15 November 2016

The Directors
Guangdong Adway Construction (Group) Holdings Company Limited

Guotai Junan Capital Limited

Dear Sirs,

We report on the financial information of Guangdong Adway Construction (Group) Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated and Company's statements of financial position as at 31 December 2013, 2014 and 2015 and 30 June 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the document of the Company dated [REDACTED] (the "Document") in connection with the initial [REDACTED] of [REDACTED] of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was established with limited liability under the name of Guangdong Yahe Decoration Construction Company Limited (廣東雅和裝飾工程有限公司) in the People's Republic of China (the "PRC") on 18 December 1996 under the Company Law of the PRC. On 3 December 2007, the Company was converted into a joint stock company with limited liability and changed into its current name.

As at the date of this report, the Company has direct interests in the subsidiaries as set out in Note 14 of Section II below. All of these companies are private companies established in the PRC and have substantially the same characteristics as a Hong Kong incorporated private company.

The Company and its subsidiaries have adopted 31 December as their financial year end date. The statutory audited financial statements of the companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in the PRC. The statutory auditor of the Company for the years ended 31 December 2013 and 2014 was Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)). The Company engaged Shenzhen Hong Da Xin Certified Public Accountants LLP (深圳市宏達信會計師事務所(普通合夥)) as its statutory auditor for the year ended 31 December 2015. The details of the statutory auditors of the subsidiaries are set out in Note 14 of Section II.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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ACCOUNTANT'S REPORT

The directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods (the "Underlying Financial Statements"), in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSA") issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the financial position of the Group and the Company as at 31 December 2013, 2014 and 2015 and 30 June 2016 and of the Group's financial performance and cash flows for the Relevant Periods.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Document which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2015 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSA and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

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I. FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2013, 2014 and 2015 and 30 June 2016 and for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016 (the "Financial Information").

(a) Consolidated statements of comprehensive income

	Note	Year ended 31 December			Six months ended 30 June	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	6	1,484,634	1,479,719	1,659,693	705,197	746,213
Cost of sales	7	(1,327,950)	(1,316,276)	(1,461,994)	(615,133)	(654,581)
Gross profit		156,684	163,443	197,699	90,064	91,632
Selling and marketing expenses	7	(5,163)	(5,997)	(3,792)	(1,711)	(1,998)
Administrative expenses	7	(67,103)	(53,446)	(61,114)	(29,524)	(30,127)
Other income – net	9	521	1,596	1,024	240	330
Operating profit		84,939	105,596	133,817	59,069	59,837
Finance income		540	410	238	179	54
Finance costs		(9,820)	(12,672)	(15,275)	(7,473)	(7,737)
Finance costs – net	10	(9,280)	(12,262)	(15,037)	(7,294)	(7,683)
Profit before income tax		75,659	93,334	118,780	51,775	52,154
Income tax expense	11	(15,002)	(14,227)	(18,070)	(8,186)	(7,855)
Profit for the year/period		60,657	79,107	100,710	43,589	44,299
Other comprehensive income for the year/period		–	–	–	–	–
Total comprehensive income for the year/period		60,657	79,107	100,710	43,589	44,299
Total comprehensive income attributable to:						
Owners of the Company		61,731	79,630	100,710	43,589	44,299
Non-controlling interests		(1,074)	(523)	–	–	–
		60,657	79,107	100,710	43,589	44,299
Earnings per share						
– Basic and diluted (RMB)	12	39.00 cents	50.31 cents	63.62 cents	27.54 cents	27.99 cents

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(b) Consolidated statements of financial position

	Note	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
				RMB'000	
ASSETS					
Non-current assets					
Property and equipment	15	102,877	93,595	87,620	83,973
Lease prepayment					
– land use rights	16	11,080	10,790	10,504	10,361
Investment properties	17	2,245	2,148	863	841
Deferred income tax assets	18	11,370	14,745	18,405	20,616
Prepayments and other receivables	22	16,496	21,229	37,218	31,515
		<u>144,068</u>	<u>142,507</u>	<u>154,610</u>	<u>147,306</u>
Current assets					
Inventories	19	1,003	1,188	–	–
Amounts due from customers for contract work	20	303,448	635,722	746,219	620,372
Trade receivables	21	206,497	227,517	258,282	283,766
Prepayments and other receivables	22	58,807	164,526	76,819	79,275
Restricted cash	23	10,000	–	–	2,146
Cash and cash equivalents	24	137,434	147,328	99,216	126,545
		<u>717,189</u>	<u>1,176,281</u>	<u>1,180,536</u>	<u>1,112,104</u>
Total assets		<u><u>861,257</u></u>	<u><u>1,318,788</u></u>	<u><u>1,335,146</u></u>	<u><u>1,259,410</u></u>

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	Note	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
				RMB'000	
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	25	158,287	158,287	158,287	158,287
Share premium		17,839	17,839	17,839	17,839
Other reserves	26	25,014	32,466	43,454	44,029
Retained earnings		90,816	162,994	253,804	297,528
		291,956	371,586	473,384	517,683
Non-controlling interests		(53)	–	–	–
Total equity		<u>291,903</u>	<u>371,586</u>	<u>473,384</u>	<u>517,683</u>
LIABILITIES					
Non-current liabilities					
Borrowings	28	–	65,000	–	–
Deferred revenue		–	1,302	1,255	1,883
		–	66,302	1,255	1,883
Current liabilities					
Trade and other payables	27	266,547	629,216	563,193	474,032
Amounts due to customers for contract work	20	136,941	94,234	43,212	36,234
Borrowings	28	152,000	143,000	246,400	224,000
Amounts due to related parties	32(d)	1,153	1,088	–	–
Current income tax liabilities		12,713	13,362	7,702	5,578
		569,354	880,900	860,507	739,844
Total liabilities		<u>569,354</u>	<u>947,202</u>	<u>861,762</u>	<u>741,727</u>
Total equity and liabilities		<u>861,257</u>	<u>1,318,788</u>	<u>1,335,146</u>	<u>1,259,410</u>
Net current assets		<u>147,835</u>	<u>295,381</u>	<u>320,029</u>	<u>372,260</u>
Total assets less current liabilities		<u>291,903</u>	<u>437,888</u>	<u>474,639</u>	<u>519,566</u>

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ACCOUNTANT'S REPORT

(c) Statements of financial position – Company

	Note	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
					RMB'000
ASSETS					
Non-current assets					
Investments in subsidiaries	14	15,282	14,781	10,704	10,608
Property and equipment	15	101,759	92,873	86,931	83,300
Investment properties	17	2,245	2,148	863	841
Deferred income tax assets	18	11,370	14,745	18,405	20,616
Prepayments and other receivables	22	16,496	21,229	37,218	31,515
		<u>147,152</u>	<u>145,776</u>	<u>154,121</u>	<u>146,880</u>
Current assets					
Inventories	19	–	1,188	–	–
Amounts due from customers for contract work	20	303,448	635,722	746,219	620,372
Trade receivables	21	206,342	227,517	258,282	283,766
Prepayments and other receivables	22	55,314	164,526	76,819	79,274
Amounts due from subsidiaries	14	2,100	11,300	11,420	11,422
Restricted cash	23	10,000	–	–	2,146
Cash and cash equivalents	24	136,853	147,049	99,148	126,376
		<u>714,057</u>	<u>1,187,302</u>	<u>1,191,888</u>	<u>1,123,356</u>
Total assets		<u><u>861,209</u></u>	<u><u>1,333,078</u></u>	<u><u>1,346,009</u></u>	<u><u>1,270,236</u></u>

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	Note	As at 31 December			As at
		2013	2014	2015	30 June
		RMB'000	RMB'000	RMB'000	2016
				RMB'000	
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company					
Share capital	25	158,287	158,287	158,287	158,287
Share premium		17,839	17,839	17,839	17,839
Other reserves	26	25,009	32,461	43,434	44,009
Retained earnings		90,775	163,724	254,995	298,871
Total equity		291,910	372,311	474,555	519,006
LIABILITIES					
Non-current liabilities					
Borrowings	28	–	65,000	–	–
Deferred revenue		–	1,302	1,255	1,883
		–	66,302	1,255	1,883
Current liabilities					
Trade and other payables	27	252,585	629,105	563,193	474,032
Amounts due to customers for contract work	20	136,941	94,234	43,212	36,234
Borrowings	28	152,000	143,000	246,400	224,000
Amounts due to related parties	32(d)	1,073	1,073	–	–
Amounts due to subsidiaries	14	13,992	13,692	9,692	9,503
Current income tax liabilities		12,708	13,361	7,702	5,578
		569,299	894,465	870,199	749,347
Total liabilities		569,299	960,767	871,454	751,230
Total equity and liabilities		861,209	1,333,078	1,346,009	1,270,236
Net current assets		144,758	292,837	321,689	374,009
Total assets less current liabilities		291,910	438,613	475,810	520,889

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(d) Consolidated statements of changes in equity

	Attributable to owners of the Company						Total
	Share capital	Reserves			Sub-total	Non-controlling interests	
		Share premium	Other reserves	Retained earnings			
	RMB'000 (Note 25)	RMB'000	RMB'000 (Note 26)	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2013	93,110	83,016	18,417	35,682	230,225	1,121	231,346
Comprehensive income							
– Profit/(loss) for the year	-	-	-	61,731	61,731	(1,074)	60,657
Total comprehensive income	-	-	-	61,731	61,731	(1,074)	60,657
Share premium transfer to share capital (Note 25(a))	65,177	(65,177)	-	-	-	-	-
Deregistration of a subsidiary	-	-	-	-	-	(100)	(100)
Transfer to statutory reserve	-	-	6,122	(6,122)	-	-	-
Transfer to safety reserve	-	-	475	(475)	-	-	-
Balance at 31 December 2013	158,287	17,839	25,014	90,816	291,956	(53)	291,903
Balance at 1 January 2014	158,287	17,839	25,014	90,816	291,956	(53)	291,903
Comprehensive income							
– Profit/(loss) for the year	-	-	-	79,630	79,630	(523)	79,107
Total comprehensive income	-	-	-	79,630	79,630	(523)	79,107
Capital injection to a subsidiary (Note 14(d)(ii))	-	-	-	-	-	5,880	5,880
Transfer to statutory reserve	-	-	8,105	(8,105)	-	-	-
Disposal of a subsidiary (Note 14(d)(ii))	-	-	-	-	-	(5,304)	(5,304)
Utilisation of safety reserve	-	-	(653)	653	-	-	-
Balance at 31 December 2014	158,287	17,839	32,466	162,994	371,586	-	371,586

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	Attributable to owners of the Company						
	Share capital	Reserves			Sub-total	Non-controlling interests	Total
		Share premium	Other reserves	Retained earnings			
	RMB'000 (Note 25)	RMB'000	RMB'000 (Note 26)	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2015	158,287	17,839	32,466	162,994	371,586	-	371,586
Comprehensive income							
– Profit for the year	-	-	-	100,710	100,710	-	100,710
Total comprehensive income	-	-	-	100,710	100,710	-	100,710
Transfer to statutory reserve	-	-	10,141	(10,141)	-	-	-
Utilisation of safety reserve	-	-	(241)	241	-	-	-
Contribution from shareholder (Note 32(d)(i))	-	-	1,088	-	1,088	-	1,088
Balance at 31 December 2015	<u>158,287</u>	<u>17,839</u>	<u>43,454</u>	<u>253,804</u>	<u>473,384</u>	<u>-</u>	<u>473,384</u>
Balance at 1 January 2016	158,287	17,839	43,454	253,804	473,384	-	473,384
Comprehensive income							
– Profit for the period	-	-	-	44,299	44,299	-	44,299
Total comprehensive income	-	-	-	44,299	44,299	-	44,299
Transfer to safety reserve	-	-	575	(575)	-	-	-
Balance at 30 June 2016	<u>158,287</u>	<u>17,839</u>	<u>44,029</u>	<u>297,528</u>	<u>517,683</u>	<u>-</u>	<u>517,683</u>
Unaudited:							
Balance at 1 January 2015	158,287	17,839	32,466	162,994	371,586	-	371,586
Comprehensive income							
– Profit for the period	-	-	-	43,589	43,589	-	43,589
Total comprehensive income	-	-	-	43,589	43,589	-	43,589
Utilisation of safety reserve	-	-	(212)	212	-	-	-
Balance at 30 June 2015	<u>158,287</u>	<u>17,839</u>	<u>32,254</u>	<u>206,795</u>	<u>415,175</u>	<u>-</u>	<u>415,175</u>

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ACCOUNTANT'S REPORT

(e) Consolidated statements of cash flows

	Note	Year ended 31 December			Six months ended 30 June	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)						
Cash flows from operating activities						
Cash generated from/(used in) operations	29	3,418	28,326	(51,587)	(90,051)	71,882
PRC corporate income tax paid		(22,822)	(16,953)	(27,389)	(15,820)	(12,190)
Net cash (used in)/generated from operating activities		(19,404)	11,373	(78,976)	(105,871)	59,692
Cash flows from investing activities						
Purchases of property and equipment		(30,159)	(50,889)	(5,303)	(4,450)	(230)
Refund of deposits for purchases of property and equipment		–	–	50,000	50,000	–
Purchase of land use rights		(11,242)	–	–	–	–
Proceeds from government grants related to assets		–	1,320	–	–	660
Decrease in amounts due from related parties		31,000	–	–	–	–
(Increase)/decrease in amounts due from certain third parties		(3,033)	(9,222)	12,913	5,736	–
Interest received		540	410	238	179	54
Net cash (used in)/generated from investing activities		(12,894)	(58,381)	57,848	51,465	484

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Note	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cash flows from financing activities					
Proceeds from borrowings	115,000	252,000	190,600	62,600	138,000
Repayment of borrowings	(70,200)	(196,000)	(152,200)	(54,800)	(160,400)
Interest paid	(9,774)	(12,487)	(15,047)	(7,589)	(7,032)
Increase/(decrease) in amounts due to related parties	310	(65)	-	-	-
(Decrease)/increase in amounts due to certain third parties	(1,217)	7,574	(37,590)	(24,787)	-
Payments to non-controlling interests in relation to the liquidation of a subsidiary	(100)	-	-	-	-
Capital contribution from non-controlling interests	-	5,880	-	-	-
Prepayments for [REDACTED] costs	-	-	(12,747)	(1,488)	(3,415)
Net cash generated from/(used in) financing activities	34,019	56,902	(26,984)	(26,064)	(32,847)
Net increase/(decrease) in cash and cash equivalents					
Cash and cash equivalents at beginning of the year/period	135,713	137,434	147,328	147,328	99,216
Cash and cash equivalents at end of the year/period	24 <u>137,434</u>	<u>147,328</u>	<u>99,216</u>	<u>66,858</u>	<u>126,545</u>

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ACCOUNTANT'S REPORT

II. NOTES TO THE FINANCIAL INFORMATION

1 General information

The Company was established with limited liability under the name of Guangdong Yahe Decoration Construction Company Limited (廣東雅和裝飾工程有限公司) in the People's Republic of China (the "PRC") on 18 December 1996 under the Companies Law of the PRC. The Company was originally incorporated with registered capital of RMB5,000,000.

On 3 December 2007, the Company was converted into a joint stock company with limited liability with registered capital of RMB30,800,000 and changed into its current name. Subsequently, with a series of capital injection in cash and share premium transferred as capital, prior to the [REDACTED], registered capital of the Company was increased to RMB158,287,000.

Mr. Ye Yujing ("Mr. Ye") and Ms. Ye Xiujin ("Ms. Ye"), the wife of Mr. Ye, have been the controlling shareholders of the Group since its establishment.

The address of the Company's registered office is 3rd Floor, Pengyi Garden Building 1, Bagua No. 1 Road, Futian District, Shenzhen, China.

The Group is principally engaged in provision of interior and exterior building decoration and design services (the "[REDACTED] Business") in the PRC.

The Financial Information is presented in thousands of Renminbi ("RMB"), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied during each of the year ended 31 December 2013, 2014 and 2015 and each of the six months ended 30 June 2015 and 2016, unless otherwise stated.

2.1 Basis of preparation

The principal accounting policies applied in the preparation of the Financial Information of the Group which is in accordance with HKFRSs issued by the HKICPA are set out below. The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4 of this section.

Up to the date of issuance of this report, the HKICPA has issued the following new standards, amendments and interpretation which are not yet effective for the Relevant Periods and have not been early adopted:

		Effective for annual periods beginning on or after
Amendments to HKAS 12	Income taxes	1 January 2017
Amendments to HKAS 7	Statement of cash flows	1 January 2017
Amendments to HKFRS 2	Share-based payment	1 January 2018
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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Further information about below HKFRS that is expected to be applicable to the Group is as follows:

HKFRS 15, "Revenue from Contracts with Customers", establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) identify the contracts with customer; (2) identify separate performance obligations in a contract; (3) determine the transaction price; (4) allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. HKFRS 15 replaces the previous revenue standards: HKAS 18 Revenue and HKAS 11 Construction Contracts, and the related Interpretations on revenue recognition. The standard is not effective until 1 January 2018. Management is currently assessing the effects of applying the new standard on the Group's financial statements. At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before 1 January 2018.

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018. While the Group has yet to undertake a detailed assessment, it would appear that no impact on the Group's current classification, measurement and derecognition of financial assets and financial liabilities. Hedge accounting is not relevant to the Group. The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on the statement of financial position for lessees. The standard replaces HKAS 17 'Leases', and related interpretations, which is effective for annual periods beginning on or after 1 January 2019.

Management is in the process of making an assessment on the impact of these standards, amendments and interpretations to existing HKAS and HKFRS and is not yet in a position to state whether they will have a significant impact on the Group's results of operations and financial position.

2.2 Subsidiaries

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

Intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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(a) Changes in ownership interests in subsidiaries without change of control

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

(b) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

2.3 Separate financial statements

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

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

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

2.6 Property and equipment

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

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

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

Buildings	30 years
Building improvements	5 years
Machinery	10 years
Motor vehicles	5 years
Furniture and office equipment	5 years

Construction-in-progress represents buildings, vessels and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the construction period. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and available for use. When the assets concerned become available for use, the costs are transferred to appropriate category of property and equipment and depreciated in accordance with the policy as stated above.

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

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

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

2.7 Investment property

Investment property, principally comprising buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. The Group adopts the cost model for subsequent measurement of investment properties. Buildings are depreciated to their estimated net residual values over their estimated useful lives. The estimated useful lives are between 26 to 30 years.

The carrying amount of investment properties shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount.

2.8 Lease prepayments

Lease prepayments represent upfront prepayment made for the land use rights and are expensed in the consolidated statement of comprehensive income on a straight-line basis over the period of the lease which is 39 years. Lease prepayment is carried at cost less accumulated amortisation and impairment losses.

2.9 Impairment of non-financial assets

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

2.10 Financial assets

2.10.1 Classification

The Group currently only has financial assets in the category of loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables", "Other receivables" and "cash and cash equivalents" in the consolidated statement of financial position (Notes 21, 22 and 24). Management determines the classification of its financial assets at initial recognition.

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2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date—the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.11 Offsetting financial instruments

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

2.12 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2.13 Inventories

Inventories comprise raw materials and finished goods, which are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Construction contract

A construction contract is defined by HKAS11, "Construction contracts", as a contract specifically negotiated for the construction of an asset.

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

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

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

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenue of each asset can be separately identified. A group of contracts performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as receipt in advance. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under "trade receivables".

2.15 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.16 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks with original terms within 3 months. Bank deposits which are restricted to use are included in "Restricted cash". Restricted cash are excluding from cash and cash equivalents included in the consolidated statement of cash flows.

2.17 Share capital

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

2.18 Trade and other payables and amounts due to related parties

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables and amounts due to related parties are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

2.20 Borrowing costs

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

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

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

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2.22 Employee benefits

(a) Pension obligations

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The Group's contributions to these plans are expensed as incurred.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits.

(c) Housing funds, medical insurances and other social insurances

Employees of the Group companies in the PRC are entitled to participate in various government-supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each period. Contributions to these funds are expensed of as incurred.

(d) Bonus entitlements

The expected cost of bonus payments are recognised as a liability when the Group has a present contractual or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided or goods sold, stated net of discounts, returns and sales related taxes.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) Construction contracts

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

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(b) Rendering of services

The Group provided design services to external parties. Design fee is recognised as revenue in the accounting period in which the services are rendered, by reference to the amount provided in the service period stipulated in the contract.

(c) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(d) Rental income

Rental income from investment property is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

2.25 Interest income

Interest income is recognised using the effective interest method.

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor), are charged to the profit or loss on a straight-line basis over the period of the lease.

The Group is the lessor

When assets are leased out under an operating lease, the assets are included in the consolidated statement of financial position based on the nature of the assets. Lease income is recognised in the profit or loss on a straight-line basis over the period of the lease.

2.27 Research and development

Research expenditures are recognised as expenses or cost of sales as incurred. Costs incurred on development projects (relating to the design and developing of new or improved utility models and utility patents) are recognised as intangible assets if, and only if, the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other development expenditures that do not meet these criteria are recognised as expenses or cost of sales when incurred. Development costs previously recognised as expenses or cost of sales are not recognised as an asset in a subsequent period.

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2.28 Dividend distribution

Dividend distribution to the owners of the companies comprising the Group is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by these companies' shareholders or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the financial department under policies approved by the Board of Directors.

3.1.1 Market risk

Cash flow interest rate risk

The Group's interest-rate risk mainly arises from borrowings. The Group regularly seeks the most favourable interest rates available for borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Information relating to the interest rates and terms of the Group's borrowings are disclosed in Notes 28. As at 31 December 2013, 2014 and 2015 and 30 June 2016, if the market interest rates had been 0.5 percent higher with all other variables held constant, post-tax profit for the year/period then ended would have been RMB571,000, RMB735,000, RMB1,030,000 and RMB494,000 lower, mainly as a result of higher interest expense on borrowings net off with higher interest income on bank deposits.

The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

3.1.2 Credit risk

Credit risk mainly arises from bank balances, trade receivables, deposits and other receivables and amounts due from related parties. The carrying amount of these balances in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to its financial assets. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

Majority of the Group's bank balances are placed in those banks and financial institutions incorporated in the PRC which are reputable local listed commercial banks or state-owned banks. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past.

In respect of trade receivables and deposits and retentions recorded as other receivables, individual credit evaluations are performed on significant customers. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group generally requires customers to settle progress billings in accordance with contracted terms and other debts in accordance with agreements. Normally, the Group does not obtain collateral from customers.

Further quantitative disclosures in respect of trade receivables, deposits and other receivables are set out in Note 21 and 22.

3.1.3 Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with debt covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks and other financial institutions to meet their liquidity requirements in the short and longer term.

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Management devotes to tighten its credit terms to customers and fasten its collection of debtors by available means in order to maintain sufficient cash to meet the obligations. Moreover, the Group continues to explore its available funding through different financial facilities to maintain sufficient flexibility in funding as well. The Group closely monitors its policies to maintain sufficient cash flows and ensure they are effective. Management considers that there is no significant liquidity risk as the Group has sufficient committed facilities to fund their operations.

The table below analyses the Group's and the Company's non-derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Group	Less than 1 year <i>RMB'000</i>	1 to 2 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2013			
Borrowings	158,309	–	158,309
Trade and other payables	191,967	–	191,967
Amounts due to related parties	1,153	–	1,153
	351,429	–	351,429
As at 31 December 2014			
Borrowings	154,214	67,978	222,192
Trade and other payables	450,635	–	450,635
Amounts due to related parties	1,088	–	1,088
	605,937	67,978	673,915
As at 31 December 2015			
Borrowings	252,829	–	252,829
Trade and other payables	419,805	–	419,805
	672,634	–	672,634
As at 30 June 2016			
Borrowings	230,171	–	230,171
Trade and other payables	334,571	–	334,571
	564,742	–	564,742

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Company	Less than 1 year <i>RMB'000</i>	1 to 2 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2013			
Borrowings	158,309	–	158,309
Trade and other payables	178,165	–	178,165
Amounts due to related parties	1,073	–	1,073
Amounts due to subsidiaries	13,992	–	13,992
	351,539	–	351,539
As at 31 December 2014			
Borrowings	154,214	67,978	222,192
Trade and other payables	450,524	–	450,524
Amounts due to related parties	1,073	–	1,073
Amounts due to subsidiaries	13,692	–	13,692
	619,503	67,978	687,481
As at 31 December 2015			
Borrowings	252,829	–	252,829
Trade and other payables	419,805	–	419,805
Amounts due to subsidiaries	9,692	–	9,692
	682,326	–	682,326
As at 30 June 2016			
Borrowings	230,171	–	230,171
Trade and other payables	334,571	–	334,571
Amounts due to subsidiaries	9,503	–	9,503
	574,245	–	574,245

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long term.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the owner, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated statement of financial position) less cash and cash equivalents and restricted cash. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

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During the Relevant Periods, the Group's strategy was to maintain the gearing ratio at a reasonable level. The gearing ratios at 31 December 2013, 2014 and 2015 and 30 June 2016 were as follows:

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings (Note 28)	152,000	208,000	246,400	224,000
Less: cash and cash equivalents (Note 24)	(137,434)	(147,328)	(99,216)	(126,545)
Restricted cash (Note 23)	(10,000)	–	–	(2,146)
Net debt	4,566	60,672	147,184	95,309
Total equity	291,903	371,586	473,384	517,683
Total capital	<u>296,469</u>	<u>432,258</u>	<u>620,568</u>	<u>612,992</u>
Gearing ratio	<u>2%</u>	<u>14%</u>	<u>24%</u>	<u>16%</u>

The gearing ratios were increasing from the year 2013 to 2015, which were primarily attributable to the increase in borrowings to meet the financing needs of projects. Attributable to the enhancement in budget and analysis control over the collection of trade receivables and payments as well as utilizing banking products such as factoring without recourse, the gearing ratio as at 30 June 2016 decreased.

3.3 Fair value estimation

The Group's financial assets and financial liabilities are mainly receivables and payables, respectively, which are carried at amortised cost. The fair values of these financial instruments approximate their carrying amount.

4 Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Percentage of completion of construction works

The Group recognises the revenue according to the percentage of completion of the individual contract of construction. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting period. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses and regularly reviews the progress of the contracts.

(b) Estimation of foreseeable losses in respect of construction works

Management estimates the amount of foreseeable losses of construction works based on the management budgets prepared for the construction works. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise service charges of work forces engaged and costs of materials are prepared by management on the basis of quotations from time to time provided by the major labour agencies, suppliers and vendors involved and experience of management. In order to keep the budget accurate and up-to-date, management conducts periodic review on the management

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budgets by comparing the budgeted amounts to the actual amounts incurred. Items that are subject to significant variances and impact the amount of provision of foreseeable losses of construction contracts include the changes in estimations or the actual costs incurred for materials, staff costs, the amount of variation orders and claims as compared to management's budget.

Furthermore, where revenue has been validly recognised on a contract, but an uncertainty subsequently arises about the recoverability of the related amount due from the customer, a loss consisting of incurred cost which exceed contract revenue recoverable and the accumulated profit recognised previously, should be recognised. Management would individually assess the recoverability of the amounts due from customer for contract work to focus the customer's settlement history and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operate.

(c) Impairment of receivables

The policy for allowance for bad and doubtful debt of the Group is determined by the management based on the evaluation of collectability and aging analysis of accounts and management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and debtor. If the financial positions of customers and debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) Income taxes and deferred taxation

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

On 11 October 2013, the Company was awarded High and New Technology Enterprises Certificate (the "HNTE Certificate") which is effective for three years commencing on 1 January 2013. The applicable income tax rate is 15% for the years from 2013 to 2015. The Company has applied for renewal of HNTE Certificate. Assuming that there is no change to the relevant laws and regulations, the directors consider that the Company will obtain an approval by end of 2016 and continue to be granted the preferential tax treatment, and accordingly, tax rate of 15% will be applicable.

5 Segment information

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

The Group is principally engaged in provision of interior and exterior building decoration and design services in the PRC. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the Board of Directors of the Company regards that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measure reported to the executive directors for the purpose of resources allocation and performance assessment.

All of the operating entities of the Group are domiciled in the PRC. Accordingly, all of the Group's revenue is derived in the PRC during the Relevant Periods.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, all of the non-current assets were located in the PRC.

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6 Revenue

Revenue of the Group for the Relevant Periods is as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue from construction contracts	1,466,919	1,467,010	1,638,229	696,643	742,078
Design and other income	7,495	7,997	12,948	3,561	4,135
Sales of goods	10,220	4,712	8,516	4,993	–
Total	1,484,634	1,479,719	1,659,693	705,197	746,213

For the six months ended 30 June 2016, there was one customer accounted for 18% of the Group's revenue (for the years of 2013, 2014 and 2015 and six months ended 30 June 2015: nil, nil, 1% and nil). No customers individually accounted for more than 10% of the Group's revenue during the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015.

7 Expenses by nature

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Raw materials and consumables used	813,127	810,763	924,538	396,280	432,667
Remuneration paid or payable to work forces engaged by the Group	450,976	448,070	472,163	188,200	204,455
Business and other taxes	48,834	49,298	53,641	23,984	15,037
Trading merchandise consumed	9,610	3,602	7,224	4,219	–
Staff costs (including directors' emoluments)	21,935	21,211	21,924	10,509	12,194
Provision/(reversal) for receivables	12,049	14,579	18,214	10,759	(12,439)
Provision for foreseeable losses on construction contracts	24,978	6,999	8,999	4,018	23,900
Consulting and professional fee	2,383	1,825	2,052	694	3,663
Rental expenses	1,937	931	168	112	90
Depreciation and amortisation expenses	3,505	9,380	9,717	4,809	4,755
Travelling expenses	1,769	1,200	1,313	362	551
Entertainment expenses	1,912	869	757	342	302
Office expenses	1,098	191	636	247	203
Insurance fee	426	551	650	299	298
Advertising fee	575	2,297	97	51	44
Auditors' remuneration					
– Audit services	284	284	120	–	–
– Non-audit services	–	–	–	–	–
Utilities	379	419	306	103	82
[REDACTED] costs	–	–	1,000	–	280
Miscellaneous	4,439	3,250	3,381	1,380	624
Total cost of sales, selling and marketing expenses and administrative expenses	1,400,216	1,375,719	1,526,900	646,368	686,706

Note: Research and development expenses during the years of 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016 were RMB48,504,000, RMB50,388,000, RMB64,518,000, RMB23,547,000 and RMB26,200,000, respectively, which mainly included materials consumed and related staff costs. No research and development expenses had been capitalised for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016.

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8 Staff costs (including directors' emoluments)

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, wages and bonuses	18,401	18,587	18,965	9,215	10,503
Housing funds, medical insurances and other social insurances	1,444	914	1,185	529	697
Pension costs – defined contribution plans	1,555	985	1,276	569	750
Other welfare and allowance	535	725	498	196	244
	<u>21,935</u>	<u>21,211</u>	<u>21,924</u>	<u>10,509</u>	<u>12,194</u>

(a) Directors', supervisors' and chief executive's emoluments

The remuneration of each director, supervisor and chief executive for the year ended 31 December 2013 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Ye (i)	–	678	84	762
Mr. Dong Zhiguang (iii)	–	407	50	457
Mr. Ye Niangting	–	339	42	381
Mr. Ye Guofeng	–	203	25	228
Ms. Ye	–	136	17	153
Non-executive director				
Mr. Tian Wen	80	–	–	80
Independent non-executive directors				
Mr. Li Bingren	80	–	–	80
Mr. Guo Yuanxian (ii)	80	–	–	80
Mr. Liu Xuesheng (ii)	80	–	–	80
Supervisors				
Mr. Wu Hanguang (iv)	–	102	13	115
Mr. Luo Jianming (iv)	–	–	–	–
Mr. Ye Xian (iv)	–	–	–	–
	<u>320</u>	<u>1,865</u>	<u>231</u>	<u>2,416</u>

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The remuneration of each director, supervisor and chief executive for the year ended 31 December 2014 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Ye (i)	–	678	84	762
Mr. Dong Zhiguang (iii)	–	407	50	457
Mr. Ye Niangting	–	339	42	381
Mr. Ye Guofeng	–	203	25	228
Ms. Ye	–	136	17	153
Non-executive director				
Mr. Tian Wen	80	–	–	80
Independent non- executive directors				
Mr. Li Bingren	80	–	–	80
Mr. Guo Yuanxian (ii)	80	–	–	80
Mr. Liu Xuesheng (ii)	80	–	–	80
Supervisors				
Mr. Wu Hanguang (iv)	–	102	13	115
Mr. Luo Jianming (iv)	–	–	–	–
Mr. Ye Xian (iv)	–	–	–	–
	320	1,865	231	2,416

The remuneration of each director, supervisor and chief executive for the year ended 31 December 2015 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Ye (i)	–	688	84	772
Mr. Dong Zhiguang (iii)	–	292	36	328
Mr. Ye Niangting	–	360	44	404
Mr. Ye Guofeng	–	246	30	276
Ms. Ye	–	138	17	155
Mr. Liu Yilun (iii)	–	120	15	135
Non-executive director				
Mr. Tian Wen	80	–	–	80
Independent non- executive directors				
Mr. Li Bingren	80	–	–	80
Mr. Guo Yuanxian (ii)	53	–	–	53
Mr. Liu Xuesheng (ii)	53	–	–	53
Mr. Fung Yat Sang (ii)	27	–	–	27
Mr. Lin Zhiyang (ii)	27	–	–	27
Supervisors				
Mr. Wu Hanguang (iv)	–	120	15	135
Mr. Luo Jianming (iv)	–	–	–	–
Mr. Ye Xian (iv)	–	17	2	19
	320	1,981	243	2,544

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The remuneration of each director and chief executive for the six months ended 30 June 2015 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Executive directors				
Mr. Ye (i)	–	339	42	381
Mr. Dong Zhiguang (iii)	–	203	25	228
Mr. Ye Niangting	–	170	21	191
Mr. Ye Guofeng	–	102	13	115
Ms. Ye	–	68	8	76
Non-executive director				
Mr. Tian Wen	40	–	–	40
Independent non-executive directors				
Mr. Li Bingren	40	–	–	40
Mr. Guo Yuanxian (ii)	40	–	–	40
Mr. Liu Xuesheng (ii)	40	–	–	40
Supervisors				
Mr. Wu Hanguang (iv)	–	51	6	57
Mr. Luo Jianming (iv)	–	–	–	–
Mr. Ye Xian (iv)	–	–	–	–
	<u>160</u>	<u>933</u>	<u>115</u>	<u>1,208</u>

The remuneration of each director and chief executive for the six months ended 30 June 2016 is set out below:

Name	Fees	Salaries and other benefits	Contribution to pension scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Ye (i)	–	338	42	380
Mr. Ye Niangting	–	183	23	206
Mr. Ye Guofeng	–	135	17	152
Ms. Ye	–	68	8	76
Mr. Liu Yilun (iii)	–	203	25	228
Non-executive director				
Mr. Tian Wen	40	–	–	40
Independent non-executive directors				
Mr. Li Bingren	40	–	–	40
Mr. Fung Yat Sang (ii)	40	–	–	40
Mr. Lin Zhiyang (ii)	40	–	–	40
Supervisors				
Mr. Wu Hanguang (iv)	–	64	8	72
Mr. Luo Jianming (iv)	–	–	–	–
Mr. Ye Xian (iv)	–	24	3	27
	<u>160</u>	<u>1,015</u>	<u>126</u>	<u>1,301</u>

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- (i) Mr. Ye is also the chief executive of the Company.
- (ii) On 21 August 2015, Mr. Guo Yuanxian and Mr. Liu Xuesheng, independent non-executive directors, resigned. Mr. Fung Yat Sang and Mr. Lin Zhiyang were appointed as independent non-executive directors accordingly.
- (iii) Mr. Dong Zhiguang, executive director of the Company resigned on 19 September 2015. Mr. Liu Yilun was appointed as executive director accordingly.
- (iv) During the years ended at 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016, Mr. Wu Hanguang, Mr. Luo Jianming and Mr. Ye Xian, supervisors of the Company waived their fees as for supervisors.

(b) Five highest paid individuals

For the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2015 and 2016, the five individuals whose emoluments were the highest in the Group included three directors, whose emoluments are reflected in the analysis presented above. The emoluments paid to the remaining individuals during the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2015 and 2016, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Basic salaries, housing funds, other social welfares and benefits	610	610	627	373	379
Pension costs – defined contribution plans	76	76	77	46	47
	<u>686</u>	<u>686</u>	<u>704</u>	<u>419</u>	<u>426</u>

The emoluments of these remaining individuals of the Group fell within the following bands:

Emolument bands	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	(Unaudited)				
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

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9 Other income – net

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants	–	1,097	747	24	232
Rental income from investment properties	661	636	402	327	112
Others	36	57	59	52	8
	697	1,790	1,208	403	352
Outgoings related to rental income	(176)	(194)	(184)	(163)	(22)
	<u>521</u>	<u>1,596</u>	<u>1,024</u>	<u>240</u>	<u>330</u>

10 Finance costs – net

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Finance income					
– Interest income derived from bank deposits	540	410	238	179	54
Finance costs					
– Expense for factoring arrangement (Note 21)	–	–	–	–	(778)
– Interest expense on borrowings	(9,820)	(12,672)	(15,275)	(7,473)	(6,959)
	<u>(9,820)</u>	<u>(12,672)</u>	<u>(15,275)</u>	<u>(7,473)</u>	<u>(7,737)</u>
Finance costs – net	<u>(9,280)</u>	<u>(12,262)</u>	<u>(15,037)</u>	<u>(7,294)</u>	<u>(7,683)</u>

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11 Income tax expense

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
PRC current tax	17,399	17,602	21,730	10,440	10,066
Deferred taxation	(2,397)	(3,375)	(3,660)	(2,254)	(2,211)
	<u>15,002</u>	<u>14,227</u>	<u>18,070</u>	<u>8,186</u>	<u>7,855</u>

Current taxation primarily represented the provision for PRC Enterprise Income Tax ("EIT") for companies operating in the PRC. These companies are subject to EIT on their taxable income as reported in their respective statutory financial statements adjusted in accordance with the relevant tax laws and regulations in the PRC.

Pursuant to the PRC Enterprise Income Tax Law ("EIT Law"), the EIT rate for domestic enterprises and foreign invested enterprises is 25%. On 11 October 2013, the Company was awarded the HNTE Certificate which is effective for three years commencing on 1 January 2013. The applicable income tax rate is 15% for the years from 2013 to 2015. Assuming that there is no change to the relevant laws and regulations, the Directors consider that the Company will continue to be granted the preferential tax treatment through an application of renewal in 2016, and accordingly, tax rate of 15% has been applied when considering the deferred tax. All the other PRC entities of the Group are subject to EIT at a rate of 25% in accordance with EIT Law.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the consolidated entities as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit before income tax	75,659	93,334	118,780	51,775	52,154
Calculated at applicable tax rate	11,349	14,000	17,817	7,766	7,823
Expenses not deductible for tax purposes	23	135	175	121	18
Unrecognised temporary difference (a)	41	92	78	299	14
Re-measurement of deferred tax – change in the tax rate (b)	3,589	–	–	–	–
	<u>15,002</u>	<u>14,227</u>	<u>18,070</u>	<u>8,186</u>	<u>7,855</u>

- (a) Unrecognised temporary differences include the losses of subsidiaries which were not recognised as deferred tax assets as it is not probable that sufficient profits will be earned by subsidiaries in foreseeable future.
- (b) Re-measurement of deferred tax was resulted from the change of effective income tax rate of the Company, which was from 25% to 15% since year 2013 when the HNTE Certificate was granted.

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12 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2015 and 2016.

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
				(Unaudited)	
Profit attributable to owners of the Company (<i>RMB'000</i>)	61,731	79,630	100,710	43,589	44,299
Weighted average number of shares in issue (<i>thousand shares</i>)	158,287	158,287	158,287	158,287	158,287
Basic earnings per share (<i>RMB</i>)	39.00 cents	50.31 cents	63.62 cents	27.54 cents	27.99 cents

The calculation of earnings per share for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016 are based on 158,287,000 ordinary shares of the Company in issue as if the capitalisation of share premium to share capital on 9 August 2013 were taken place from the beginning of the year (Note 25).

The Company did not have any potential ordinary shares outstanding during the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2015 and 2016. Diluted earnings per share are the same as the basic earnings per share.

13 Dividends

No dividend has been paid or declared by the Company since its establishment.

14 Interests in subsidiaries and balances with subsidiaries

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current portions				
Investments at cost, unlisted (a)	17,125	16,095	11,095	11,095
Less: provision for impairment (b)	(1,843)	(1,314)	(391)	(487)
	15,282	14,781	10,704	10,608
Current portions (c)				
Amounts due from subsidiaries	2,100	11,300	11,420	11,422
Amounts due to subsidiaries	(13,992)	(13,692)	(9,692)	(9,503)
	(11,892)	(2,392)	1,728	1,919

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- (a) Investments in subsidiaries are stated at cost, which is the fair value of the consideration paid at the acquisition date.

The movements of investments in subsidiaries are as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Opening balances	27,025	17,125	16,095	16,095	11,095
Capital injections	–	6,620	–	–	–
Disposal of a subsidiary	(9,900)	(7,650)	(5,000)	–	–
	<u>17,125</u>	<u>16,095</u>	<u>11,095</u>	<u>16,095</u>	<u>11,095</u>

- (b) The Company considers that the investments in Shenzhen City Jingdi Gardening Construction Engineering Company Limited, Shenzhen Poem Oxidation Industry Science Technology Company Limited and Guangdong Adway Construction (Group) Dalian Holdings Company Limited would not be recoverable because there were limited operations to generate sufficient cash flows. Shenzhen Poem Oxidation Industry Science Technology Company Limited was subsequently disposed of in late 2014 and Guangdong Adway Construction (Group) Dalian Holdings Company Limited was deregistered in December 2015.

The movements of provision of investment loss are as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Opening balances	(467)	(1,843)	(1,314)	(1,314)	(391)
Provision for impairment	(1,376)	(1,056)	(59)	(39)	(96)
Disposal of a subsidiary	–	1,585	982	–	–
	<u>(1,843)</u>	<u>(1,314)</u>	<u>(391)</u>	<u>(1,353)</u>	<u>(487)</u>

- (c) The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

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(d) Particulars of subsidiaries of the Group as at 31 December 2013, 2014, 2015 and 30 June 2016 are set out as below.

Name of companies	Date of incorporation/ establishment	Type of legal status	Place of incorporation/ establishment	Principal activities and place of operation	Registered/ paid up capital RMB'000	Proportion of ownership interest				Statutory auditors	Years as auditors
						31 December		30 June			
						2013	2014	2015	2016		
Directly held											
Shenzhen City Jingdi Gardening Construction Engineering Company Limited	7 August 2007	Limited liability company	Shenzhen, the PRC	Garden landscaping, design and construction work of construction engineering; the PRC	10,100	100%	100%	100%	100%	Pan-China Certified Public Accountants LLP	2013-2014
Guangdong Adway Construction (Group) Dalian Holdings Company Limited	21 September 2011	Limited liability company	Dalian, the PRC	Building decoration, electrical and mechanical installation, curtain wall engineering, fire safety engineering; the PRC	5,000	100%	100%	-	-	Pan-China Certified Public Accountants LLP	2013
Shenzhen Poem Oxidation Industry Science Technology Company Limited	28 June 2012	Limited liability company	Shenzhen, the PRC	Development and trading of construction materials; the PRC	15,000	51%	-	-	-	Pan-China Certified Public Accountants LLP	2013
Huidong Yip's Development Limited Company	30 November 2012	Limited liability company	Huizhou, the PRC	Development and construction of industrial park; the PRC	500	100%	100%	100%	100%	Pan-China Certified Public Accountants LLP	2013-2014
Huidong Shikuan Decorative Furniture Creative Culture Company Limited	27 February 2014	Limited liability company	Huizhou, the PRC	Design and sale of mobile and fixed furniture suitable for the use of construction decoration works, soft decoration product; the PRC	500	N/A	100%	100%	100%	N/A	-
Indirectly held											
Dongguan City Poem Oxidation Company Limited	15 August 2012	Limited liability company	Dongguan, the PRC	Manufacture and trading of construction materials; the PRC	900	51%	-	-	-	Pan-China Certified Public Accountants LLP	2013

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- (i) *The subsidiary was deregistered in December 2015. No audited financial statement had been issued for year 2014, as it is not required to issue audited financial statement under the statutory requirements of its place of incorporation.*
- (ii) *The subsidiary was incorporated on 28 June 2012 with a registered capital of RMB3,000,000. The Company owns 51% interests in the subsidiary and a non-controlling shareholder owns the remaining 49% equity interests. In early 2014, registered capital of the subsidiary was increased to RMB15,000,000 by its existing two shareholders proportionally.*

In November 2014, the 51% interests in the subsidiary were sold to the non-controlling shareholder at a consideration of RMB5,368,000, resulting in no gain or loss on disposal.
- (iii) *The subsidiary was established in 2014 with a registered capital of RMB500,000. No audited financial statement had been issued for year 2014 as it was newly established and not required to issue audited financial statement under the statutory requirements of its place of incorporation.*
- (iv) *The Company was a subsidiary of Shenzhen Poem Oxidation Industry Science Technology Company Limited.*
- (v) *The statutory financial statements of these companies for the years ended 31 December 2013 and 2014, if applicable, were prepared in accordance with Accounting Policies for Business Enterprises and Accounting Systems for Business Enterprises applicable to the enterprises in the PRC and were audited by Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合伙)), a certified public accountants firm in the PRC. The Group did not involve any local auditor in respect of the audit for statutory financial statements with respect to individual subsidiaries for the year ended 31 December 2015 as there were no such statutory requirements.*

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15 Property and equipment

Group

	Buildings	Building improvements	Machinery	Motor vehicles	Furniture and office equipment	Constructions in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2013							
Cost	20,437	–	5	4,465	1,048	54,360	80,315
Accumulated depreciation	(324)	–	–	(1,665)	(447)	–	(2,436)
Net book amount	<u>20,113</u>	<u>–</u>	<u>5</u>	<u>2,800</u>	<u>601</u>	<u>54,360</u>	<u>77,879</u>
Year ended 31 December 2013							
Opening net book amount	20,113	–	5	2,800	601	54,360	77,879
Additions	14,714	1,649	48	354	3,017	8,561	28,343
Transfer from Constructions in progress	37,160	23,479	–	–	1,136	(61,775)	–
Disposal	–	–	–	–	(2)	–	(2)
Depreciation	(1,193)	(783)	(8)	(740)	(619)	–	(3,343)
Closing net book amount	<u>70,794</u>	<u>24,345</u>	<u>45</u>	<u>2,414</u>	<u>4,133</u>	<u>1,146</u>	<u>102,877</u>
At 31 December 2013							
Cost	72,311	25,128	53	4,819	5,158	1,146	108,615
Accumulated depreciation	(1,517)	(783)	(8)	(2,405)	(1,025)	–	(5,738)
Net book amount	<u>70,794</u>	<u>24,345</u>	<u>45</u>	<u>2,414</u>	<u>4,133</u>	<u>1,146</u>	<u>102,877</u>
Year ended 31 December 2014							
Opening net book amount	70,794	24,345	45	2,414	4,133	1,146	102,877
Additions	710	–	–	–	110	69	889
Transfer from constructions in progress	226	–	–	–	–	(226)	–
Disposal of a subsidiary	–	–	(19)	–	(73)	(989)	(1,081)
Depreciation	(2,296)	(5,026)	(12)	(775)	(981)	–	(9,090)
Closing net book amount	<u>69,434</u>	<u>19,319</u>	<u>14</u>	<u>1,639</u>	<u>3,189</u>	<u>–</u>	<u>93,595</u>
At 31 December 2014							
Cost	73,247	25,128	31	4,819	5,141	–	108,366
Accumulated depreciation	(3,813)	(5,809)	(17)	(3,180)	(1,952)	–	(14,771)
Net book amount	<u>69,434</u>	<u>19,319</u>	<u>14</u>	<u>1,639</u>	<u>3,189</u>	<u>–</u>	<u>93,595</u>

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	Buildings	Building improvements	Machinery	Motor vehicles	Furniture and office equipment	Constructions in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015							
Opening net book amount	69,434	19,319	14	1,639	3,189	-	93,595
Additions	945	-	-	2,620	212	-	3,777
Disposal	-	-	-	(257)	(64)	-	(321)
Depreciation	(2,347)	(5,026)	(10)	(1,091)	(957)	-	(9,431)
Closing net book amount	<u>68,032</u>	<u>14,293</u>	<u>4</u>	<u>2,911</u>	<u>2,380</u>	<u>-</u>	<u>87,620</u>
At 31 December 2015							
Cost	74,192	25,128	31	7,000	5,255	-	111,606
Accumulated depreciation	(6,160)	(10,835)	(27)	(4,089)	(2,875)	-	(23,986)
Net book amount	<u>68,032</u>	<u>14,293</u>	<u>4</u>	<u>2,911</u>	<u>2,380</u>	<u>-</u>	<u>87,620</u>
Six months ended 30 June 2016							
Opening net book amount	68,032	14,293	4	2,911	2,380	-	87,620
Additions	862	-	-	-	103	-	965
Disposal	-	-	-	-	-	-	-
Depreciation	(1,181)	(2,513)	(4)	(442)	(472)	-	(4,612)
Closing net book amount	<u>67,713</u>	<u>11,780</u>	<u>-</u>	<u>2,469</u>	<u>2,011</u>	<u>-</u>	<u>83,973</u>
At 30 June 2016							
Cost	75,054	25,128	31	7,000	5,358	-	112,571
Accumulated depreciation	(7,341)	(13,348)	(31)	(4,531)	(3,347)	-	(28,598)
Net book amount	<u>67,713</u>	<u>11,780</u>	<u>-</u>	<u>2,469</u>	<u>2,011</u>	<u>-</u>	<u>83,973</u>
Unaudited:							
Six months ended 30 June 2015							
Opening net book amount	69,434	19,319	14	1,639	3,189	-	93,595
Additions	945	-	-	2,620	94	-	3,659
Disposal	-	-	-	(257)	-	-	(257)
Depreciation	(1,172)	(2,513)	(5)	(501)	(475)	-	(4,666)
Closing net book amount	<u>69,207</u>	<u>16,806</u>	<u>9</u>	<u>3,501</u>	<u>2,808</u>	<u>-</u>	<u>92,331</u>
At 30 June 2015							
Cost	74,192	25,128	31	7,000	5,235	-	111,586
Accumulated depreciation	(4,985)	(8,322)	(22)	(3,499)	(2,427)	-	(19,255)
Net book amount	<u>69,207</u>	<u>16,806</u>	<u>9</u>	<u>3,501</u>	<u>2,808</u>	<u>-</u>	<u>92,331</u>

As at 31 December 2013, 2014 and 2015 and 30 June 2016, buildings with net book value totalling RMB19,682,000, RMB19,035,000, RMB18,549,000 and RMB31,265,000 respectively, were pledged as collateral for the Group's borrowings (Note 28).

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Depreciation of the property and equipment has been charged to profit or loss as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Selling and marketing expenses	11	11	9	5	1
Administrative expenses	3,332	9,079	9,422	4,661	4,611
	<u>3,343</u>	<u>9,090</u>	<u>9,431</u>	<u>4,666</u>	<u>4,612</u>

During the Relevant Periods, all of the Group's buildings were located in the PRC.

Company

	Buildings	Building improvements	Motor vehicles	Furniture and office equipment	Constructions in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013						
Cost	20,437	-	4,465	1,021	54,201	80,124
Accumulated depreciation	(324)	-	(1,665)	(444)	-	(2,433)
Net book amount	<u>20,113</u>	<u>-</u>	<u>2,800</u>	<u>577</u>	<u>54,201</u>	<u>77,691</u>
Year ended 31 December 2013						
Opening net book amount	20,113	-	2,800	577	54,201	77,691
Additions	14,714	1,649	354	2,931	7,733	27,381
Transfer from constructions in progress	37,160	23,479	-	1,136	(61,775)	-
Disposal	-	-	-	(2)	-	(2)
Depreciation	(1,193)	(783)	(740)	(595)	-	(3,311)
Closing net book amount	<u>70,794</u>	<u>24,345</u>	<u>2,414</u>	<u>4,047</u>	<u>159</u>	<u>101,759</u>
At 31 December 2013						
Cost	72,311	25,128	4,819	5,045	159	107,462
Accumulated depreciation	(1,517)	(783)	(2,405)	(998)	-	(5,703)
Net book amount	<u>70,794</u>	<u>24,345</u>	<u>2,414</u>	<u>4,047</u>	<u>159</u>	<u>101,759</u>

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	Buildings	Building improvements	Motor vehicles	Furniture and office equipment	Constructions in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2014						
Opening net book amount	70,794	24,345	2,414	4,047	159	101,759
Additions	-	-	-	95	67	162
Transfer from constructions in progress	226	-	-	-	(226)	-
Depreciation	(2,294)	(5,026)	(775)	(953)	-	(9,048)
Closing net book amount	<u>68,726</u>	<u>19,319</u>	<u>1,639</u>	<u>3,189</u>	<u>-</u>	<u>92,873</u>
At 31 December 2014						
Cost	72,537	25,128	4,819	5,140	-	107,624
Accumulated depreciation	(3,811)	(5,809)	(3,180)	(1,951)	-	(14,751)
Net book amount	<u>68,726</u>	<u>19,319</u>	<u>1,639</u>	<u>3,189</u>	<u>-</u>	<u>92,873</u>
Year ended 31 December 2015						
Opening net book amount	68,726	19,319	1,639	3,189	-	92,873
Additions	945	-	2,620	212	-	3,777
Disposal	-	-	(257)	(64)	-	(321)
Depreciation	(2,324)	(5,026)	(1,091)	(957)	-	(9,398)
Closing net book amount	<u>67,347</u>	<u>14,293</u>	<u>2,911</u>	<u>2,380</u>	<u>-</u>	<u>86,931</u>
At 31 December 2015						
Cost	73,482	25,128	7,000	5,254	-	110,864
Accumulated depreciation	(6,135)	(10,835)	(4,089)	(2,874)	-	(23,933)
Net book amount	<u>67,347</u>	<u>14,293</u>	<u>2,911</u>	<u>2,380</u>	<u>-</u>	<u>86,931</u>
Six months ended 30 June 2016						
Opening net book amount	67,347	14,293	2,911	2,380	-	86,931
Additions	862	-	-	103	-	965
Disposal	-	-	-	-	-	-
Depreciation	(1,169)	(2,513)	(442)	(472)	-	(4,596)
Closing net book amount	<u>67,040</u>	<u>11,780</u>	<u>2,469</u>	<u>2,011</u>	<u>-</u>	<u>83,300</u>
At 30 June 2016						
Cost	74,344	25,128	7,000	5,357	-	111,829
Accumulated depreciation	(7,304)	(13,348)	(4,531)	(3,346)	-	(28,529)
Net book amount	<u>67,040</u>	<u>11,780</u>	<u>2,469</u>	<u>2,011</u>	<u>-</u>	<u>83,300</u>

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	Buildings	Building improvements	Motor vehicles	Furniture and office equipment	Constructions in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unaudited:						
Six months ended						
30 June 2015						
Opening net book amount	68,726	19,319	1,639	3,189	-	92,873
Additions	945	-	2,620	94	-	3,659
Disposal	-	-	(257)	-	-	(257)
Depreciation	(1,160)	(2,513)	(501)	(475)	-	(4,649)
Closing net book amount	<u>68,511</u>	<u>16,806</u>	<u>3,501</u>	<u>2,808</u>	<u>-</u>	<u>91,626</u>
At 30 June 2015						
Cost	73,482	25,128	7,000	5,234	-	110,844
Accumulated depreciation	(4,971)	(8,322)	(3,499)	(2,426)	-	(19,218)
Net book amount	<u><u>68,511</u></u>	<u><u>16,806</u></u>	<u><u>3,501</u></u>	<u><u>2,808</u></u>	<u><u>-</u></u>	<u><u>91,626</u></u>

As at 31 December 2013, 2014 and 2015 and 30 June 2016, buildings with net book value totalling, RMB19,682,000, RMB19,035,000, RMB18,549,000 and RMB31,265,000, respectively, were pledged as collateral for the Company's borrowings (Note 28).

Depreciation of the property and equipment has been charged to profit or loss as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Selling and marketing expenses	10	10	8	4	1
Administrative expenses	3,301	9,038	9,390	4,645	4,595
	<u>3,311</u>	<u>9,048</u>	<u>9,398</u>	<u>4,649</u>	<u>4,596</u>

During the Relevant Periods, all of the Company's buildings were located in the PRC.

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16 Lease prepayment – land use rights

The balance represented prepaid operating lease payment for one piece of land located in the PRC for a lease term of 39 years. The movements are as follows:

Group	Leasehold land
	<i>RMB'000</i>
Year ended 31 December 2013	
Opening net book amount	–
Additions	11,242
Amortisation	(162)
	<hr/>
Closing net book amount	11,080
	<hr/> <hr/>
At 31 December 2013	
Cost	11,242
Accumulated amortisation	(162)
	<hr/>
Net book amount	11,080
	<hr/> <hr/>
Year ended 31 December 2014	
Opening net book amount	11,080
Amortisation	(290)
	<hr/>
Closing net book amount	10,790
	<hr/> <hr/>
At 31 December 2014	
Cost	11,242
Accumulated amortisation	(452)
	<hr/>
Net book amount	10,790
	<hr/> <hr/>
Year ended 31 December 2015	
Opening net book amount	10,790
Amortisation	(286)
	<hr/>
Closing net book amount	10,504
	<hr/> <hr/>
At 31 December 2015	
Cost	11,242
Accumulated amortisation	(738)
	<hr/>
Net book amount	10,504
	<hr/> <hr/>

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	<u>Leasehold land</u>
	<i>RMB'000</i>
Six months ended 30 June 2016	
Opening net book amount	10,504
Amortisation	(143)
	<hr/>
Closing net book amount	<u>10,361</u>
At 30 June 2016	
Cost	11,242
Accumulated amortisation	(881)
	<hr/>
Net book amount	<u>10,361</u>
Unaudited:	
Six months ended 30 June 2015	
Opening net book amount	10,790
Amortisation	(143)
	<hr/>
Closing net book amount	<u>10,647</u>
At 30 June 2015	
Cost	11,242
Accumulated amortisation	(595)
	<hr/>
Net book amount	<u>10,647</u>

As at 31 December 2015 and 30 June 2016, land use rights with net book value totalling RMB10,504,000 and RMB10,361,000 were pledged as collateral for the Group's borrowings (Note 28). No land use rights were pledged as at 31 December 2013 and 2014.

Amortisation charges were expensed in the following categories in the consolidated statements of comprehensive income.

	<u>Year ended 31 December</u>			<u>Six months ended</u>	
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>30 June</u>	<u>2016</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Administrative expenses	<u>162</u>	<u>290</u>	<u>286</u>	<u>143</u>	<u>143</u>

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17 Investment properties – Group and Company

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At beginning of the year/period					
Cost	2,828	2,828	2,828	2,828	1,374
Accumulated depreciation	(487)	(583)	(680)	(680)	(511)
Net book amount	2,341	2,245	2,148	2,148	863
For the year/period					
Opening net book amount	2,341	2,245	2,148	2,148	863
Depreciation	(96)	(97)	(135)	(114)	(22)
Disposal	–	–	(1,150)	(1,150)	–
Closing net book amount	2,245	2,148	863	884	841
At end of the year/period					
Cost	2,828	2,828	1,374	1,374	1,374
Accumulated depreciation	(583)	(680)	(511)	(490)	(533)
Net book amount	2,245	2,148	863	884	841

- (a) As at 31 December 2013, 2014 and 2015 and 30 June 2016, investment properties with net book value amounting to RMB949,000, RMB905,000, RMB863,000 and RMB841,000 respectively, were pledged as collateral for the Group's borrowings (Note 28).
- (b) Rental income of the Group's investment properties were recognised in other income. Relevant direct expenses, such as depreciation and management fees were recognised in other expenses. Details are set out in Note 9.
- (c) As at 31 December 2013, 2014 and 2015 and 30 June 2016, the fair value of the investment properties was estimated to be approximately RMB6,417,000, RMB6,524,000, RMB5,442,000 and RMB5,730,000, respectively. The valuation was determined using the sale comparison approach and the fair value measurement is classified as Level 3 in the fair value hierarchy. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter. The valuation of these investment properties has not been taken up in these consolidated financial statements as these investment properties are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any, under the Group's accounting policies.
- (d) During the Relevant Periods, all investment properties were located in the PRC with lease periods of 26 to 30 years.

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18 Deferred income tax assets – Group and Company

(a) The analysis of deferred income tax assets is as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Deferred income tax assets				
– to be recovered after more than 12 months	8,139	9,871	16,213	18,675
– to be recovered within 12 months	3,231	4,874	2,192	1,941
	<u>11,370</u>	<u>14,745</u>	<u>18,405</u>	<u>20,616</u>

The gross movements on the deferred income tax assets are as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
At beginning of the year/period	8,973	11,370	14,745	14,745	18,405
Tax credited to the consolidated statement of comprehensive income	2,397	3,375	3,660	2,254	2,211
At end of the year/period	<u>11,370</u>	<u>14,745</u>	<u>18,405</u>	<u>16,999</u>	<u>20,616</u>

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(b) The movements in deferred income tax assets during the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, are as follows:

Deferred income tax assets

	Provision for foreseeable contract losses	Deferred revenue – government grants related to assets	Provision for receivables	Tax loss	Accruals	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2013	–	–	8,047	117	809	8,973
Tax credited/(charged) to the consolidated statement of comprehensive income	3,747	–	(1,421)	159	(88)	2,397
At 31 December 2013	3,747	–	6,626	276	721	11,370
Tax credited/(charged) to the consolidated statement of comprehensive income	1,019	195	2,198	(73)	36	3,375
At 31 December 2014	4,766	195	8,824	203	757	14,745
Tax credited/(charged) to the consolidated statement of comprehensive income	1,350	(7)	2,517	(144)	(56)	3,660
At 31 December 2015	6,116	188	11,341	59	701	18,405
Tax credited/(charged) to the consolidated statement of comprehensive income	3,585	94	(1,606)	(59)	197	2,211
At 30 June 2016	<u>9,701</u>	<u>282</u>	<u>9,735</u>	<u>–</u>	<u>898</u>	<u>20,616</u>
Unaudited:						
At 1 January 2015	4,766	195	8,824	203	757	14,745
Tax credited/(charged) to the consolidated statement of comprehensive income	603	(3)	1,614	–	40	2,254
At 30 June 2015	<u>5,369</u>	<u>192</u>	<u>10,438</u>	<u>203</u>	<u>797</u>	<u>16,999</u>

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- (c) Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The tax losses with no deferred tax assets recognised carried forward are as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Year of expiry of tax losses				
2017	258	258	258	258
2018	15	15	15	15
2019	–	340	340	340
2020	–	–	1,401	1,401
2021	–	–	–	90
	<u>273</u>	<u>613</u>	<u>2,014</u>	<u>2,104</u>

19 Inventories

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Finished goods	–	1,188	–	–
Raw materials	1,003	–	–	–
	<u>1,003</u>	<u>1,188</u>	<u>–</u>	<u>–</u>

Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Finished goods	–	1,188	–	–
	<u>–</u>	<u>1,188</u>	<u>–</u>	<u>–</u>

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20 Amounts due from/to customers for contract work – Group and Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Aggregate costs incurred plus recognised profit less foreseeable losses	1,605,023	1,627,522	2,170,718	1,421,624
Less: progress billings	(1,438,516)	(1,086,034)	(1,467,711)	(837,486)
	<u>166,507</u>	<u>541,488</u>	<u>703,007</u>	<u>584,138</u>
Analysed for reporting purposes as:				
Amounts due from customers for contract work	303,448	635,722	746,219	620,372
Amounts due to customers for contract work	(136,941)	(94,234)	(43,212)	(36,234)
	<u>166,507</u>	<u>541,488</u>	<u>703,007</u>	<u>584,138</u>

At 31 December 2013, 2014 and 2015 and 30 June 2016, retentions held by customers for contract work amounted to approximately RMB18,796,000, RMB25,591,000, RMB44,862,000 and RMB41,634,000 respectively, and have been included in prepayments and other receivables (Note 22). Advances received from customers for contract work not yet commenced as at 31 December 2013, 2014 and 2015 and 30 June 2016 amounted to approximately RMB53,462,000, RMB147,407,000, RMB100,047,000 and RMB90,076,000 respectively, and have been included in trade and other payables under current liabilities (Note 27).

21 Trade receivables

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Trade receivables (a)	236,032	268,069	305,880	315,738
Less: provision for impairment of receivables (e)	(29,535)	(40,552)	(58,177)	(45,738)
Trade receivables – net	206,497	227,517	247,703	270,000
Notes receivable (d)	–	–	10,579	13,766
	<u>206,497</u>	<u>227,517</u>	<u>258,282</u>	<u>283,766</u>

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Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Trade receivables (a)	235,877	268,069	305,880	315,738
Less: provision for impairment of receivables (e)	(29,535)	(40,552)	(58,177)	(45,738)
Trade receivable – net	206,342	227,517	247,703	270,000
Notes receivable (d)	–	–	10,579	13,766
	<u>206,342</u>	<u>227,517</u>	<u>258,282</u>	<u>283,766</u>

(a) Aging analysis of trade receivables based on invoice date is as follows:

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Within 6 months	148,968	112,616	109,179	185,205
6 months to 1 year	37,203	37,615	45,332	38,082
1 year to 2 years	15,877	77,378	61,902	43,562
2 years to 3 years	31,029	9,744	55,947	20,928
Over 3 years	2,955	30,716	33,520	27,961
	<u>236,032</u>	<u>268,069</u>	<u>305,880</u>	<u>315,738</u>

Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Within 6 months	148,813	112,616	109,179	185,205
6 months to 1 year	37,203	37,615	45,332	38,082
1 year to 2 years	15,877	77,378	61,902	43,562
2 years to 3 years	31,029	9,744	55,947	20,928
Over 3 years	2,955	30,716	33,520	27,961
	<u>235,877</u>	<u>268,069</u>	<u>305,880</u>	<u>315,738</u>

Majority of the Group's revenues are generated through construction contracts with the credit terms of 15 days according to terms specified in the contracts governing the relevant transactions.

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Due to the short credit period granted by the Group to its customers, substantially all trade receivables as at 31 December 2013, 2014 and 2015 and 30 June 2016 were considered past due from accounting perspective. When determining the amount of impairment of trade receivables, management first assesses whether objective evidence of impairment exists for trade receivables that are individually significant. Collective assessment for impairment would be performed on a group of trade receivables which are with similar credit risk characteristics. Trade receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

- (b) The aging analysis of the Group's and the Company's trade receivables which are past due but not impaired is as follows:

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within 6 months	128,628	112,616	109,179	185,205
6 months to 1 year	35,943	37,615	45,332	38,082
1 year to 2 years	1,862	30,020	41,670	29,831
2 years to 3 years	2,000	523	14,169	8,046
Over 3 years	–	2,000	–	2,697
	<u>168,433</u>	<u>182,774</u>	<u>210,350</u>	<u>263,861</u>

Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within 6 months	128,473	112,616	109,179	185,205
6 months to 1 year	35,943	37,615	45,332	38,082
1 year to 2 years	1,862	30,020	41,670	29,831
2 years to 3 years	2,000	523	14,169	8,046
Over 3 years	–	2,000	–	2,697
	<u>168,278</u>	<u>182,774</u>	<u>210,350</u>	<u>263,861</u>

- (c) As at 31 December 2013, 2014 and 2015 and 30 June 2016, trade receivables of the Group and the Company amounted to RMB53,063,000, RMB66,951,000, RMB72,210,000 and RMB43,674,000 were individually assessed and provided with impairments of RMB26,657,000, RMB37,254,000, RMB53,122,000 and RMB43,674,000 at the respective dates. The individually assessed impaired trade receivables mainly related to customers that were in financial difficulties or customers that were in default or delinquency in payments. The Directors are of the opinion that only a portion of the receivables is expected to be recovered.
- (d) As at 31 December 2015 and 30 June 2016, notes receivable of the Group and the Company mainly were commercial acceptance notes, with due period between 6 to 12 months.

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(e) Movements in the provision for impairment of trade receivables are as follows:

Group and Company

	Year ended 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Beginning of the year/period	19,802	29,535	40,552	58,177
Provision for impairment	9,733	11,017	17,625	1,950
Reversal of provision	–	–	–	(14,389)
End of the year/period	<u>29,535</u>	<u>40,552</u>	<u>58,177</u>	<u>45,738</u>

(f) The carrying amounts of trade receivables and notes receivable approximate their fair values due to their short term maturities. The Group's and the Company's trade receivables are denominated in RMB.

(g) As at 31 December 2013, 2014 and 2015 and 30 June 2016, trade receivables with book value totalling RMB135,000,000, RMB54,794,000, RMB99,239,000 and RMB100,000,000, were pledged as collateral for the Group's borrowings (Note 28).

(h) As at 30 June 2016, outstanding trade receivables of RMB32,990,000 were derecognised under the trade receivables factoring arrangements without recourse. The finance cost for the factoring arrangements was RMB778,000 (Note 10). There were no factoring arrangements for each of the three years ended 31 December 2013, 2014 and 2015.

22 Prepayments and other receivables

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Prepayments (a)	20,573	28,645	35,333	39,080
Project reserve funds (b)	6,766	40,571	6,139	860
Deposits (c)	22,982	26,696	25,441	27,711
Retention receivables (c)	18,796	25,591	44,862	41,634
Deposits for purchase of properties (d)	–	50,000	–	–
Other receivables (e)	6,186	14,252	2,262	1,505
	<u>75,303</u>	<u>185,755</u>	<u>114,037</u>	<u>110,790</u>
Less: non-current portion				
Prepayments for properties	(1,816)	(1,816)	(3,342)	(2,607)
Deposits	(8,731)	(3,341)	(4,751)	(3,556)
Retention receivables	(5,949)	(16,072)	(29,125)	(25,352)
	<u>58,807</u>	<u>164,526</u>	<u>76,819</u>	<u>79,275</u>

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Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Prepayments (a)	18,578	28,645	35,333	39,080
Project reserve funds (b)	6,759	40,571	6,139	860
Deposits (c)	22,982	26,696	25,441	27,711
Retention receivables (c)	18,796	25,591	44,862	41,634
Deposits for purchase of properties (d)	–	50,000	–	–
Other receivables (e)	4,695	14,252	2,262	1,504
	<u>71,810</u>	<u>185,755</u>	<u>114,037</u>	<u>110,789</u>
Less: non-current portion				
Prepayment for properties	(1,816)	(1,816)	(3,342)	(2,607)
Deposits	(8,731)	(3,341)	(4,751)	(3,556)
Retention receivables	(5,949)	(16,072)	(29,125)	(25,352)
	<u>55,314</u>	<u>164,526</u>	<u>76,819</u>	<u>79,274</u>

- (a) Included in prepayments are advances to suppliers, prepayments for [REDACTED] costs and prepayments for properties.
- (b) Project reserve funds represented balances held by project managers to facilitate them to manage and operate construction projects at locations away from the head office. The funds were mainly for procurement of additional raw materials, engagement of labour agencies and settlement of other expenses. The level of funds being held by project managers varies with (i) the number of construction projects in progress; (ii) the progress status of construction projects; (iii) the estimated construction progress of construction projects in the coming few months.
- (c) Deposits represented tender and performance bonds due from customers. Retention receivables represented amounts due from customers upon completion of the free maintenance period of the construction work, normally one year or two years for larger projects.

Group and Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Retention receivables	18,796	25,591	44,862	41,634
Deposits	22,982	26,696	25,441	27,711
	<u>41,778</u>	<u>52,287</u>	<u>70,303</u>	<u>69,345</u>
Among which –				
Neither past due nor impaired	41,037	49,039	66,282	64,124
Past due and partially impaired	13,316	19,385	20,747	21,947
Provision for impairment	(12,575)	(16,137)	(16,726)	(16,726)
	<u>41,778</u>	<u>52,287</u>	<u>70,303</u>	<u>69,345</u>

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- (d) In December 2014, the Company planned to purchase two properties locating in Shenzhen for development of new business, and made a deposit of RMB50,000,000. Subsequently, the deal was aborted due to the change in business strategy of the Company and the deposit was refunded in January 2015.
- (e) Other receivables are mainly the amounts due from third parties, which are unsecured, interest-free and repayable on demand. The Directors are of the opinion that no provision for impairment is necessary and the balances are fully recoverable.
- (f) The carrying amounts of other receivables approximate their fair values due to their short term maturities. The Group's and the Company's other receivables are denominated in RMB.
- (g) Operating leases rental receivables – group as lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
No later than 1 year	342	454	227	216
Later than 1 year and no later than 5 years	534	180	812	666
	<u>876</u>	<u>634</u>	<u>1,039</u>	<u>882</u>

The Company leases its investment properties with several agreements which are terminated between 2013 and 2020. The agreements do not include an extension option.

23 Restricted cash – Group and Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Denominated in RMB	<u>10,000</u>	<u>–</u>	<u>–</u>	<u>2,146</u>

As at 31 December 2013, the Group placed cash deposits of approximately RMB10,000,000 with designated banks as collateral for the issuance of the bank acceptance notes and letter of guarantee. There were no cash deposits placed as pledge as at 31 December 2014 and 2015.

As at 30 June 2016, the restricted cash of RMB2,146,000 consisted of deposits for a closed lawsuit which was under execution and deposits to protect the construction workers engaged by the Group as required for one project.

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24 Cash and cash equivalents

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Denominated in RMB				
– Cash at bank	137,428	147,201	99,167	126,526
– Cash on hand	6	127	49	19
	<u>137,434</u>	<u>147,328</u>	<u>99,216</u>	<u>126,545</u>

Company

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Denominated in RMB				
– Cash at bank	136,851	146,940	99,100	126,358
– Cash on hand	2	109	48	18
	<u>136,853</u>	<u>147,049</u>	<u>99,148</u>	<u>126,376</u>

25 Share capital

Group and Company

	Number of Shares	Share Capital
	<i>(thousands)</i>	<i>RMB'000</i>
Issued and fully paid:		
At 31 December 2012	93,110	93,110
Share premium transferred as capital (a)	<u>65,177</u>	<u>65,177</u>
At 31 December 2013, 2014 and 2015 and 30 June 2016	<u>158,287</u>	<u>158,287</u>

(a) In accordance with the resolution of the annual shareholders' meeting dated on 9 August 2013, a share premium of RMB65,177,000 was approved to be transferred as share capital.

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26 Other reserves

Group

	Statutory reserve	Safety reserve	Capital reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2013	15,382	3,030	5	18,417
Transfer to statutory reserve	6,122	–	–	6,122
Transfer to safety reserve	–	475	–	475
Balance at 31 December 2013	<u>21,504</u>	<u>3,505</u>	<u>5</u>	<u>25,014</u>
Balance at 1 January 2014	21,504	3,505	5	25,014
Transfer to statutory reserve	8,105	–	–	8,105
Utilisation of safety reserve	–	(653)	–	(653)
Balance at 31 December 2014	<u>29,609</u>	<u>2,852</u>	<u>5</u>	<u>32,466</u>
Balance at 1 January 2015	29,609	2,852	5	32,466
Transfer to statutory reserve	10,141	–	–	10,141
Utilisation of safety reserve	–	(241)	–	(241)
Contribution from a shareholder (Note 32(d)(i))	–	–	1,088	1,088
Balance at 31 December 2015	<u>39,750</u>	<u>2,611</u>	<u>1,093</u>	<u>43,454</u>
Balance at 1 January 2016	39,750	2,611	1,093	43,454
Transfer to safety reserve	–	575	–	575
Balance at 30 June 2016	<u>39,750</u>	<u>3,186</u>	<u>1,093</u>	<u>44,029</u>
Unaudited:				
Balance at 1 January 2015	29,609	2,852	5	32,466
Utilisation of safety reserve	–	(212)	–	(212)
Balance at 30 June 2015	<u>29,609</u>	<u>2,640</u>	<u>5</u>	<u>32,254</u>

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Company

	Statutory reserve	Safety reserve	Capital reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2013	15,382	3,030	–	18,412
Transfer to statutory reserve	6,122	–	–	6,122
Transfer to safety reserve	–	475	–	475
Balance at 31 December 2013	<u>21,504</u>	<u>3,505</u>	<u>–</u>	<u>25,009</u>
Balance at 1 January 2014	21,504	3,505	–	25,009
Transfer to statutory reserve	8,105	–	–	8,105
Utilisation of safety reserve	–	(653)	–	(653)
Balance at 31 December 2014	<u>29,609</u>	<u>2,852</u>	<u>–</u>	<u>32,461</u>
Balance at 1 January 2015	29,609	2,852	–	32,461
Transfer to statutory reserve	10,141	–	–	10,141
Utilisation of safety reserve	–	(241)	–	(241)
Contribution from a shareholder (Note 32(d)(i))	–	–	1,073	1,073
Balance at 31 December 2015	<u>39,750</u>	<u>2,611</u>	<u>1,073</u>	<u>43,434</u>
Balance at 1 January 2016	39,750	2,611	1,073	43,434
Transfer to safety reserve	–	575	–	575
Balance at 30 June 2016	<u>39,750</u>	<u>3,186</u>	<u>1,073</u>	<u>44,009</u>
Unaudited:				
Balance at 1 January 2015	29,609	2,852	–	32,461
Utilisation of safety reserve	–	(212)	–	(212)
Balance at 30 June 2015	<u>29,609</u>	<u>2,640</u>	<u>–</u>	<u>32,249</u>

(a) Statutory reserve

In accordance with relevant rules and regulations in the PRC and the Company's Articles of Association, the Company is required to transfer not less than 10% of their profit after taxation calculated under PRC accounting standards and regulations to the reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies.

(b) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside an amount to a safety reserve at different rates ranging from 1.5% to 2% of the total construction contract revenue recognised for the three years ended 31 December 2013, 2014 and

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2015 and six months ended 30 June 2015 and 2016. The reserve can be utilised for improvements of safety on the construction work, and the amounts are generally expenses in nature and charged to the consolidated statement of comprehensive income as incurred.

27 Trade and other payables

Group

	As at 31 December			As at
	2013	2014	2015	June
	RMB'000	RMB'000	RMB'000	2016
Trade payables (a)	147,605	410,231	410,380	322,855
Notes payable	10,000	–	–	–
Advances from customers	53,462	147,407	100,047	90,076
Payroll payable	6,659	6,654	6,399	7,512
Other payables (b)	48,821	64,924	46,367	53,589
	<u>266,547</u>	<u>629,216</u>	<u>563,193</u>	<u>474,032</u>

Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Trade payables (a)	145,858	410,231	410,380	322,855
Notes payable	10,000	–	–	–
Advances from customers	53,462	147,407	100,047	90,076
Payroll payable	6,504	6,654	6,399	7,512
Other payables (b)	36,761	64,813	46,367	53,589
	<u>252,585</u>	<u>629,105</u>	<u>563,193</u>	<u>474,032</u>

(a) As at 31 December 2013, 2014 and 2015 and 30 June 2016, ageing analysis of trade payables based on invoice date is as follows:

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Within 6 months	123,501	378,188	396,723	297,090
6 months to 1 year	17,418	19,578	6,902	21,109
1 year to 2 years	6,686	11,025	4,159	2,592
2 years to 3 years	–	1,440	2,596	2,064
	<u>147,605</u>	<u>410,231</u>	<u>410,380</u>	<u>322,855</u>

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	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within 6 months	121,754	378,188	396,723	297,090
6 months to 1 year	17,418	19,578	6,902	21,109
1 year to 2 years	6,686	11,025	4,159	2,592
2 years to 3 years	–	1,440	2,596	2,064
	<u>145,858</u>	<u>410,231</u>	<u>410,380</u>	<u>322,855</u>

- (b) Other payables include other tax payables, accruals of [REDACTED] costs and the amounts due to certain third parties, which are unsecured, interest-free and repayable on demand.
- (c) The Group's and the Company's trade and other payables were interest-free and denominated in RMB as at 31 December 2013, 2014 and 2015 and 30 June 2016.
- (d) The carrying amounts of trade and other payables approximate their fair values due to their short term maturities.

28 Borrowings

Group and Company

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Bank borrowings – secured	152,000	208,000	246,400	224,000
Less: current portion	(152,000)	(143,000)	(246,400)	(224,000)
Non-current portion	<u>–</u>	<u>65,000</u>	<u>–</u>	<u>–</u>

As at 31 December 2013, 2014, 2015 and 30 June 2016, all of the Group's borrowings are denominated in RMB.

The weighted average effective interest rates as at 31 December 2013, 2014 and 2015 and 30 June 2016 were 7.31%, 7.32%, 6.30% and 5.99%, respectively.

The Group's bank borrowings were repayable as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Within 1 year	152,000	143,000	246,400	224,000
Between 1 and 2 years	–	65,000	–	–
	<u>152,000</u>	<u>208,000</u>	<u>246,400</u>	<u>224,000</u>

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ACCOUNTANT'S REPORT

As at 31 December 2013, 2014 and 2015 and 30 June 2016, bank borrowings were secured by the Group's property and equipment (Note 15), land use rights (Note 16), investment properties (Note 17), trade receivables (Note 21) and guarantees provided by Mr. Ye and certain shareholders, subsidiaries of the Group and certain independent guarantee companies.

Upon Listing, all guarantees provided by Mr. Ye and certain shareholders will be fully released and replaced with the Group companies. The outstanding amounts of the relevant loans will not be required to be repaid at the time such guarantee is released.

29 Cash generated from/(used in) operations

Reconciliation of profit before income tax to net cash generated from/(used in) operations are as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit before income tax	75,659	93,334	118,780	51,775	52,154
Adjustments for:					
– Depreciation of property and equipment and investment properties	3,439	9,187	9,566	4,780	4,634
– Amortisation of land use right	162	290	286	143	143
– Provision/(reversal) of bad debt	12,049	14,579	18,214	10,759	(12,439)
– Provision of foreseeable contract loss	24,978	6,999	8,999	4,018	23,900
– Finance cost – net	9,280	12,262	15,037	7,294	7,683
– Amortisation of government grants related to assets	–	18	47	23	32
	125,567	136,669	170,929	78,792	76,107
Changes in working capital:					
– Inventories	(92)	(185)	1,188	25	–
– Amount due from/to customers for contract work	(28,403)	(381,980)	(170,518)	(10,019)	94,969
– Trade and other receivables, and prepayments	(50,737)	(96,051)	(24,105)	(230,431)	(13,549)
– Trade and other payables, and deposits received	(44,134)	359,873	(29,081)	71,582	(83,499)
– Changes of restricted cash on operating activities	1,217	10,000	–	–	(2,146)
Cash generated from/(used in) operations	3,418	28,326	(51,587)	(90,051)	71,882

(a) Non-cash transactions

In 2014, the Company disposed of a subsidiary and the corresponding consideration of RMB5,368,000 was offsetting with trade payables to a third party according to the relevant agreement.

30 Contingencies

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group and the Company had no material contingencies.

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ACCOUNTANT'S REPORT

31 Commitments

(a) Capital commitments

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group had the following capital commitments:

Group

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Capital expenditure in respect of the acquisition of property and equipment contracted but not provided for	–	2,388	652	652
Capital expenditure in respect of the acquisition of property authorised but not contracted for	2,388	–	–	–

32 Related party transactions

(a) Name and relationship with a related party

Name	Relationship
Ms. Ye	Controlling Shareholder, wife of Mr. Ye

(b) Significant transactions with a related party

During the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, the Group had the following significant transactions with a related party:

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Office leases expense:					
– Ms. Ye	310	–	–	–	–

In the opinion of the directors, this transaction was carried out on terms agreed with the related party in the ordinary course of business.

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ACCOUNTANT'S REPORT

(c) Key management compensation

	Year ended 31 December			Year ended
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Basic salaries, housing funds, other social welfares and benefits	2,522	2,522	2,927	1,485
Pension costs – defined contribution plans	273	273	379	165
Total	<u>2,795</u>	<u>2,795</u>	<u>3,306</u>	<u>1,650</u>

Since April 2015, as part of the remuneration package of the key management personnel, the Company has granted the benefit to him of staying in a residential property owned by the Company for free.

(d) Balances with related parties

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group had the following material balances with related parties:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Amounts due to a related party:				
Rentals payable (Note(i))				
– Ms. Ye	<u>1,073</u>	<u>1,073</u>	<u>–</u>	<u>–</u>
Other payables (Note(i))				
– Ms. Ye	<u>80</u>	<u>15</u>	<u>–</u>	<u>–</u>

(i) The amounts due to a related party mainly represented rental payables for office building and others, which are unsecured, interest-free, waived in July and September 2015 respectively, and recognised in other reserves.

33 Subsequent events

There is no significant event subsequent to 30 June 2016.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2016 and up to the date of this report. Saved as disclosed in this report, no dividend or distribution has been declared or made by the Company or any of the other companies comprising the Group in respect of any period subsequent to 30 June 2016.

Yours faithfully
PricewaterhouseCoopers
 Certified public accountants
 Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

I. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I in this document, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this document and the Accountant's Report set out in Appendix I to this document.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with [REDACTED] of the Listing Rules are set out below to illustrate the effect of the [REDACTED] on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2016 as if the [REDACTED] had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the [REDACTED] been completed as at 30 June 2016 or at any future dates.

	Audited consolidated net tangible assets attributable to the owners of our Company as at 30 June 2016	Estimated net [REDACTED] from the [REDACTED]	Unaudited [REDACTED] adjusted net tangible assets attributable to the owners of our Company	Unaudited [REDACTED] adjusted net tangible assets per Share	
	<u>RMB'000^(Note 1)</u>	<u>RMB'000^(Note 2)</u>	<u>RMB'000^(Note 3)</u>	<u>RMB</u>	<u>HK\$</u>
Based on [REDACTED] of [REDACTED] per [REDACTED]	517,683	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on [REDACTED] of [REDACTED] per [REDACTED]	517,683	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2016 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company as at 30 June 2016 of RMB517,683,000.
- (2) The estimated net [REDACTED] from the [REDACTED] are based on the indicative [REDACTED] of [REDACTED] and [REDACTED] per [REDACTED], respectively, after deduction of the [REDACTED] fees and other related expenses payable by the Company and takes no account of any [REDACTED] which may fall to be issued upon the exercise of the [REDACTED] or any [REDACTED] which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.

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- (3) *The unaudited [REDACTED] net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that [REDACTED] were in issue assuming that the [REDACTED] has been completed on 30 June 2016 but takes no account of any Shares which may fall to be issued upon the exercise of the [REDACTED] or any Shares which may be granted and issued or repurchased by the Company pursuant to the General Mandate and the Repurchase Mandate.*
- (4) *No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2016.*
- (5) *For the purpose of this unaudited [REDACTED] adjusted net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at the rate of HK\$1.00 to RMB0.87.*

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

[REDACTED]

APPENDIX III

TAXATION AND FOREIGN EXCHANGES

This Appendix contains a summary of the laws and regulations in respect of taxation and foreign exchange in the PRC and Hong Kong.

1. TAXATION IN THE PRC

Taxes Applicable to the Company

i. Enterprise Income Tax

According to the *Enterprise Income Tax Law of the People's Republic of China*, which was promulgated on 16 March 2007 and became effective on 1 January 2008 and *Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China* (Order No. 512 of the State Council), which was promulgated on 6 December 2007 and became effective on 1 January 2008, the applicable enterprise income tax rate of both domestic and foreign-funded enterprises shall be 25%. Enterprises are classified into resident and non-resident enterprises. A resident enterprise shall pay enterprise income tax on its incomes derived from both inside and outside China. The enterprise income tax rate shall be 25%. For a non-resident enterprise having offices or establishments inside China, it shall pay enterprise income tax on its incomes derived from China as well as on incomes that it earns outside China but which has real connection with the said offices or establishments. The enterprise income tax rate shall be 25%. For a non-resident enterprise having no office or establishment inside China or for a non-resident enterprise whose incomes have no actual connection to its office or establishment inside China, it shall pay enterprise income tax on the incomes derived from China. The enterprise income tax rate shall be 10%.

According to the *Notice of the State Council on the Implementation of the Transitional Preferential Policies in Respect of Enterprise Income Tax* (No. 39 [2007] of the State Council) and *Notice of the Ministry of Finance and State Administration of Taxation about Implementation of Preferential Policies of the State Council on Transition of Enterprise Income Tax* (No. 21 [2008] of the Ministry of Finance), as from 1 January 2008, enterprises originally entitled to low rate preferential policies shall be gradually subject to the statutory tax rate within five years after the implementation of the *Enterprise Income Tax Law of the People's Republic of China*. In particular, enterprises enjoying an enterprise income tax rate of 15% shall be subject to a tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011, and 25% in 2012; those originally enjoying a tax rate of 24% shall be subject to a tax rate of 25% since 2008. In addition, since 1 January 2008, enterprises originally enjoying fixed term preferential tax treatment like "full exemption for two years and 50% exemption for three years" and "full exemption for five years and 50% exemption for five years" will continue to enjoy the preferential treatment in accordance with the original laws and administrative regulations on taxation and related documents after the implementation of the *Enterprise Income Tax Law of the People's Republic of China* until the term expires. However, for enterprises which have not made any profits and thus have not enjoyed such preferential treatments, their preferential term shall start from 2008.

According to the *Administrative Measures for Determination of High and New Tech Enterprises* (No. 172 [2008] of the Ministry of Science and Technology), which was promulgated on 14 April 2008 and became effective on 1 January 2008, an enterprise which is determined as a high and new tech enterprise may apply for a preferential enterprise income tax rate of 15% pursuant to the *Enterprise Income Tax Law of the People's Republic of China* and *Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China*.

ii. Value-added Tax

Pursuant to the *Provisional Regulations of the People's Republic of China on Value-added Tax* (Order No. 538 of the State Council), which was promulgated on 13 December 1993, revised on 10 November 2008, and became effective on 1 January 2009, and *Detailed Rules for the Implementation*

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TAXATION AND FOREIGN EXCHANGES

of the *Provisional Regulations of the People's Republic of China on Value-added Tax*, which was promulgated on 18 December 2008, revised and became effective on 28 October 2011, entities and individuals engaged in the sale of goods, provision of processing, repair and replacement services, and the importation of goods within the territory of the People's Republic of China must pay value-added tax and the tax rate is generally 17%, unless otherwise specified. Since 2012, China has implemented the pilot plan of levying value added tax in lieu of business tax (referred to as "**levying value added tax in lieu of business tax**"). As at 2013, the policy of "levying value added tax in lieu of business tax" has been implemented across China. Currently, the taxable services rendered under the pilot plan of "levying value added tax in lieu of business tax" implemented across China include land transportation services, marine transportation services, air transport services, pipeline transportation services, universal post services, special post services, other post services, R&D and technical services, information technology services, cultural creation services, logistic assistance services, rental services of movable tangible assets, forensic consulting services, radio and television services as well as telecommunication services. The value added tax rate ranges from 6% to 17% of the assessable items.

iii. Business Tax

According to the *Provisional Regulations of the People's Republic of China on Business Tax* (Order No. 540 of the State Council), which was promulgated on 13 December 1993, revised on 10 November 2008 and became effective on 1 January 2009, and *Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Business Tax*, which was promulgated on 18 December 2008, revised and became effective on 28 October 2011, entities and individuals engaged in the provision of taxable labour services (excluding the tax payable services within the scope of "levying value added tax in lieu of business tax" above), the transfer of intangible assets or the sale of immovable properties within the territory of the People's Republic of China shall pay business tax. The applicable tax rate shall range from 3% to 20%.

iv. Urban Maintenance and Construction Tax

According to the *Interim Regulations on Urban Maintenance and Construction Tax of the People's Republic of China*, which was promulgated on 8 February 1985 and became effective on 1 January 1985 (on 8 January 2011, the *Decision of the State Council on Abolishing and Amending Some Administrative Regulations* (Order No. 588 of the State Council amended Article 2, Article 3 and Article 5 of the said Interim Regulations), all units and individuals paying consumption tax, value-added tax and business tax shall pay urban maintenance and construction tax. The urban maintenance and construction tax shall be collected according to the location of the taxpayers, namely by the rate of 1%, 5% or 7% respectively. According to the *Notice of the State Council on Extending the Urban Maintenance and Construction Tax and Educational Surcharges from Chinese to Foreign-funded Enterprises and Citizens* (No. 35 [2010] of the State Council), from 1 December 2010, foreign-funded enterprises, foreign enterprises and individuals shall be subject to the *Interim Regulations on Urban Maintenance and Construction Tax of the People's Republic of China* promulgated by the State Council in 1985 and the urban maintenance and construction tax-related regulations, rules and policies issued by the State Council and tax department of the State Council in 1985.

v. Stamp Duty

According to the *Provisional Rules of the People's Republic of China on Stamp Duty*, which was promulgated on 6 August 1988 and became effective on 1 October 1988 (on 8 January 2011, the *Decision of the State Council on Abolishing and Amending Some Administrative Regulations* (Order No. 588 of the State Council amended Article 14 of the said Provisional Rules), and *Detailed Rules for Implementation of Provisional Rules of the People's Republic of China on Stamp Duty*, which was

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promulgated on 29 September 1988 and became effective on 1 October 1988, all units and individuals creating and obtaining taxable documents within the People's Republic of China shall pay stamp duty. The taxable documents include purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents that resemble a contract in nature, title transfer deeds, business account books, certificates of rights, licenses and other taxable documents specified by the Ministry of Finance. The taxable items and rates of stamp duty shall be subject to the *Table of Taxable Items and Rates of Stamp Duty attached to the Provisional Rules of the People's Republic of China on Stamp Duty*.

Taxation Applicable to Shareholders of the Company

vi. Dividend-related Tax

A. Individual

Pursuant to the *Individual Income Tax Law of the People's Republic of China*, which was promulgated on 10 September 1980, amended respectively on 31 October 1993, 30 August 1999, 27 October 2005, 29 June 2007, 29 December 2007 and 30 June 2011, and became effective on 1 September 2011, a 20% individual income tax shall generally be levied on dividends paid by PRC companies. For a foreign individual who is not a resident of the PRC, his receipt of dividends from a PRC company shall be subject to an individual income tax of 20% unless reduced or exempted under an applicable tax treaty or specially exempted by the competent tax authority under the State Council.

On 28 June 2011, the State Administration of Taxation ("SAT") issued *Notice of State Administration of Taxation on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Document Guo Shui Fa [1993] No. 045* (Guo Shui Han [2011] No. 348). Pursuant to the said notice, dividends received by overseas resident individual shareholders from domestic non-foreign invested enterprises which have issued shares in Hong Kong are subject to individual income tax, which shall be withheld and paid by such domestic non-foreign invested enterprises acting as a withholding agent according to the items of "interest, dividend and bonus income". Overseas resident individual shareholders of domestic non-foreign invested enterprises which have issued shares in Hong Kong are entitled to relevant preferential tax treatment pursuant to the provisions in the tax treaties between the countries in which they are residents and China, and the tax arrangements between Mainland China and Hong Kong (Macau). According to the *Notice of SAT in relation to the Administrative Measures on Preferential Treatment entitled by Non-residents under Tax Treaties (Tentative)* (Guo Shui Fa [2009] No. 124), overseas resident individuals shall apply for relevant preferential tax treatment and complete relevant formalities in person or through a proxy appointed in writing. Since dividends are generally subject to income tax at a rate of 10% as required by the above tax treaties and tax arrangements, and there is a large number of shareholders and in order to simplify the collection of tax, individual shareholders are generally subject to a withholding tax rate of 10% without any application when domestic non-foreign invested enterprises which have issued shares in Hong Kong distribute dividends. Where the tax rates on dividends are not 10%, the following requirements shall apply: (1) For individuals receiving dividends who are citizens from countries that have entered into tax treaties with China with tax rates lower than 10%, the withholding agent will apply on behalf of them to seek entitlement of preferential tax treatments pursuant to Guo Shui Fa [2009] No. 124, and upon approval by the competent tax authorities, the excess amounts withheld will be refunded; (2) For individuals receiving dividends who are citizens from countries that have entered into tax treaties with China with tax rates higher than 10% but lower than 20%, the withholding agent will, upon distribution of dividends, withhold and pay the individual income tax at the agreed effective tax rates under the treaties, without seeking such approval; (3) For individuals receiving dividends who are citizens from countries without tax treaties with China or under other circumstances, the withholding agent will, upon distribution of dividends, withhold and pay the individual income tax at the rate of 20%.

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B. Enterprise

In accordance with the *Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income* signed on 21 August 2006, the PRC government may impose tax on dividends paid to a Hong Kong resident including natural person and legal person from a PRC company, but such tax shall not exceed 10% of the total sum of dividends payable. If a Hong Kong resident company holds more than 25% of the entire shareholders' equity and voting shares in a PRC company at any time for 12 consecutive months before the distribution of dividends, such tax shall not exceed 5% of the dividends payable by that PRC company.

According to the *Enterprise Income Tax Law of the People's Republic of China*, which was promulgated on 16 March 2007 and became effective on 1 January 2008, and *Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China* (Order No. 512 of the State Council), which was promulgated by the State Council on 6 December 2007 and became effective on 1 January 2008, for a non-resident enterprise having no office or establishment inside China, or for a non-resident enterprise whose incomes have no actual connection to its office or establishment inside China, it shall pay enterprise income tax on the incomes derived from China. The enterprise income tax rate shall be 10%. Such enterprise income tax may be reduced or exempted according to the applicable double taxation treaty.

Pursuant to the *Notice Regarding Questions on Withholding Enterprise Income Tax When China Resident Enterprises Distribute Dividends to Foreign Non-resident Enterprise Shareholders of [REDACTED]* (Guo Shui Han [2008] No. 897), which was promulgated by the SAT of the PRC and became effective on 6 November 2008, a PRC resident enterprise, when distributing dividends to foreign non-resident enterprise shareholders of [REDACTED] for 2008 and for the years onwards, shall be subject to the enterprise income tax withheld at a uniform rate of 10%. Upon receipt of such dividends, a non-resident enterprise shareholder may apply to the competent tax authorities for relevant treatment under the tax treaties (arrangements) in person or through a proxy or a withholding agent and provide evidence in support of its status as a beneficial owner as defined in the tax treaties (arrangements). Upon verification by the competent tax authority, the difference between the tax levied and the amount of tax payable as calculated at the tax rate under the tax treaties (arrangements) will be refunded.

In addition, according to the *Notice on the Issues Concerning the Application of the Dividends Clauses of Tax Agreements* (Guo Shui Han [2009] No. 81), which was promulgated by the SAT and became effective on 2 February 2009, under the provisions on dividends of the tax treaties, where a PRC resident company pays dividends to a fiscal resident of the other contracting party to a tax treaty and such fiscal resident of the other party (or dividend recipient) is the beneficiary of such dividends, such dividends received by the fiscal resident of the other party are entitled to the preferential tax treatment, i.e. payment of its income tax payable in China at the rate stated in the tax treaties. If the tax rate stated in the tax treaties is higher than that as stipulated in the PRC tax laws. The taxpayer shall meet the following requirements to enjoy the preferential tax treatment under the tax treaties provided in the clause above: (1) the taxpayer entitled to the preferential tax treatment under the tax treaties shall be the fiscal resident of the other contracting party; (2) the taxpayer entitled to the preferential tax treatment under the tax treaties shall be the beneficiary of relevant dividends; (3) dividends entitled under the preferential tax treatment in the tax treaties shall be the equity investment income such as dividends and bonuses determined under the PRC tax laws; (4) other requirements provided by the SAT. Guo Shui Han [2009] No. 81 also provides that, under the provisions of dividends under the preferential tax treatment in the tax treaties, where the fiscal resident of the other contracting party directly owns more than a certain proportion of the capital in the PRC resident company which pays dividends (usually 25% or 10%), the fiscal resident of the other party shall pay tax for the dividends received at the tax rate stated under the tax treaties. Such fiscal

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resident of the other party shall meet the following requirements to enjoy such preferential tax treatment under the tax treaties: (1) the fiscal resident of the other contracting party shall be a company; (2) the fiscal resident of the other contracting party shall directly hold a specified percentage of all the shareholders' equity and voting shares of the said PRC resident company as per the relevant regulations; (3) the percentage of the capital of the said PRC company held by the fiscal resident of the other contracting party shall consistently comply with the tax agreements in the 12 months before obtaining dividends.

In accordance with the *Administrative Measures for Non-residents to Enjoy the Treatments of Tax Treaties* (for Trial Implementation) promulgated by the SAT on 24 August 2009 and effective as from 1 October 2009, any non-resident intending to enjoy the treatments of tax treaties shall submit relevant applications to the competent tax authority or approving tax authority. Non-resident enterprises not granted approval shall not enjoy the treatment of tax treaties.

vii. Tax on Equity Transfer

A. Individual

In accordance with the *Individual Income Tax Law of the People's Republic of China and Detailed Rules for the Implementation of the Individual Income Tax Law of the People's Republic of China*, which was promulgated on 28 January 1994, revised respectively on 19 December 2005, 18 February 2008 and 19 July 2011, and became effective on 1 September 2011, the individual income tax shall be levied at a rate of 20% of the gains from selling company shares by any individual who has domicile inside the PRC or who does not have any domicile inside the PRC but has lived for one year inside the PRC.

The Regulation on the Implementation of the Individual Income Tax Law of the People's Republic of China stipulates that, the measure to impose individual income tax for shares transfer shall be determined separately by the Ministry of Commerce ("MOF") under the State Council and to be implemented after an approval is granted by the State Council. Pursuant to *Notice On Continuing The Income Tax-Free Policy On the Share Transfer of Individual Holders* (Cai Shui Zi No. [1998]61) jointly promulgated by the MOF and the SAT, from 1 January 1997 onwards, the income from transfer of shares of [REDACTED] companies by individuals continues to be provisionally exempt from individual income tax. Pursuant to the *Notice of Issues concerning the Individual Income Tax on Individuals' Income from the Transfer of Restricted Shares of Listed Companies* (Cai Shui No. [2009]167) jointly promulgated on 31 December 2009 by the MOF, the SAT and the CSRC, individual income tax shall continue to be exempted for transfer of shares held from open offer by [REDACTED] company on the Shanghai Stock Exchange and Shenzhen Stock Exchange or transfer of [REDACTED] shares purchased from the market, except for the income from the transfer of restricted shares of certain specific companies (as defined by the Notice and *Supplemental Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation* promulgated on 10 November 2010).

As at the Latest Practicable Date, no legislation has expressly provided individual income tax shall be collected from non-Chinese resident individuals on the sale of shares in PRC resident enterprises [REDACTED] on overseas stock exchanges. To our knowledge, in practice, individual income tax from non-Chinese resident individuals on the sale of shares in PRC resident enterprises [REDACTED] on overseas stock exchanges has not been collected by the PRC tax authorities. However, we cannot assure that the PRC tax authorities will not change these practices which could result in the levying of individual income tax on non-Chinese resident individuals for gains from the sale of our [REDACTED].

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B. Enterprise

In accordance with the *Enterprise Income Tax Law of the People's Republic of China and Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China*, a resident enterprise shall pay enterprise income tax at a rate of 25% for the capital gains obtained from selling company shares. For a non-resident enterprise having no office or establishment inside China, or for a non-resident enterprise whose incomes have no actual connection to its office or establishment inside China, it shall pay enterprise income tax at the rate of 10% for the capital gains from selling company shares.

Pursuant to the *Enterprise Income Tax Law of the People's Republic of China, Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China and Notice of the State Administration of Taxation on Some Tax Issues Concerning the Implementation of the Enterprise Income Tax Law* (Guo Shui Han [2010] No. 79), revenue of an enterprise arising from the equity transfer shall be recognised upon the transfer agreement becoming effective and the completion of formalities relating to the change in equity. The amount of revenue generated from the equity transfer less costs incurred for the acquisition of such equity shall be deemed as income arising from the equity transfer. In computing its income arising from the equity transfer, an enterprise should not deduct the amount of retained earnings (unallocated profit) of the investee that might be attributable to the equity transferred.

viii. Stamp Duty

According to the *Provisional Rules of the People's Republic of China on Stamp Duty*, the applicable stamp duty of PRC on transfers of shares of PRC public companies shall not apply to purchases and disposals of [REDACTED] that take place outside the PRC. The said Provisional Rules specifies that PRC stamp duty shall apply only to documents executed or received and legally binding inside the PRC and protected under PRC laws.

ix. Estate Duty

Currently, no estate duty is payable in China.

2. FOREIGN EXCHANGE CONTROL IN PRC

PRC Laws and Regulations Concerning Foreign Exchange Control

China exercises control on foreign exchange. Legal tender of PRC is RMB, which cannot be converted to foreign currencies freely as limited by foreign exchange control for now. State Administration of Foreign Exchange ("**SAFE**") under the People's Bank of China is responsible for administrating all affairs related to foreign exchange, including executing foreign exchange control regulations.

The *Regulation of the People's Republic of China on Foreign Exchange Administration* (Order No. 193 of the State Council, hereinafter referred to as "**Regulation on Foreign Exchange Administration**"), which was promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and revised respectively on 14 January 1997 and 1 August 2008, specifies the principles and penalties on management of matters like foreign exchange revenues and expenditures. The People's Bank of China stipulates the basic rules of foreign exchange control, and the SAFE and its lower organs are responsible for the implementation of the specific rules and foreign exchange control.

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Under the *Regulation on Foreign Exchange Administration*, there are two categories of foreign exchange transactions: those under the current account and those under the capital account. Current account refers to the transactions concerning goods, services and current transfers in balance of payments ("BoP"), such as trade income and expenditure, labour service income and expenditure and one-off transfer of funds; capital account refers to the transactions that will result in the increase/decrease of assets and liabilities in BoP, such as capital transfer, direct investment, securities investments, derivative products and loans. China does not restrict the international payment and account transfer under current accounts. Convertibility of foreign exchange under the capital accounts, including direct investments and capital contributions, is still subject to restrictions, and approval from the SAFE and its subordinates must be obtained.

The *Provisions on the Settlement, Sale of and Payment in Foreign Exchange* promulgated by the People's Bank of China on 20 June 1996 and effective as from 1 July 1996 specifies the rules for foreign exchange control, aiming to regulate the settlement and sale of and payment of foreign exchange inside the PRC conducted by any enterprise, individual, economic organisation and social organisation inside the PRC. *Clarification and Explanation of Issues relating to Regulations for the Settlement, Sale and Payment of Foreign Exchange* promulgated by SAFE on 4 July 1996 specifies that the outbound remittance of profits and bonuses by foreign-funded enterprises is considered as a current account.

On 21 July 2005, People's Bank of China promulgated *Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime*, providing that starting from 21 July 2005, PRC will reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The People's Bank of China will announce the closing price of a foreign currency such as the US dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day. Furthermore, the People's Bank of China will, with reference to exchange rate on international foreign exchange market, publish exchange rates of RMB traded against other major currencies. In foreign exchange transactions, designated foreign exchange banks may by themselves draw up applicable foreign exchange rate within specific scope in accordance with the exchange rate published by the People's Bank of China.

Registration Certificate of Overseas [REDACTED]

According to the *Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing* promulgated on and effective as from 28 January 2013, the SAFE and its subordinates shall oversee, regulate and inspect domestic companies regarding their business registration, opening and use of accounts, trans-border payments and receipts, exchange of funds and other conducts involved in overseas [REDACTED]. A domestic company shall, within 15 working days upon the end of its [REDACTED] overseas, handle registration formalities for overseas [REDACTED] at the foreign exchange authority at its place of registration with the relevant documents. Such company may engage in overseas [REDACTED]-related business as per the registration certificate of overseas [REDACTED] issued by the foreign exchange authority upon verification of the relevant documents.

A domestic company shall, based on its registration certificate of overseas [REDACTED], open respective special domestic account for the [REDACTED] (or additional [REDACTED]) overseas and buy-back business at the bank where it is located so as to handle corresponding funds remittance and transfer. Where a domestic company or its domestic shareholder needs to open special overseas accounts for the purpose of handling overseas [REDACTED] business, the scope of balance of such special overseas accounts shall meet the requirements as specified in the aforesaid notice.

APPENDIX III

TAXATION AND FOREIGN EXCHANGES

A domestic enterprise's [REDACTED] from the overseas [REDACTED] may be remitted to the domestic account or deposited in an overseas account, but the use of the [REDACTED] shall be consistent with the content of the document or other disclosure documents. The [REDACTED] which is from the corporate bonds convertible to share certificates and intends to be remitted to the domestic account shall be remitted to its foreign debts account and used in accordance with the relevant regulations of foreign debts administration; the [REDACTED] from other types of securities which are to be remitted to the domestic account shall be remitted to its corresponding special domestic account for overseas [REDACTED].

A domestic enterprise applying for a special domestic account for settlements of funds for overseas [REDACTED] shall obtain an approval document for settlements issued by the local SAFE to complete the settlement procedures at a bank.

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

This Appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to the operations and business of our Company. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix III to this document. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between the PRC Company Law, the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, certain requirements of the Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers.

1. PRC LAWS AND REGULATIONS

The PRC Legal System

The PRC legal system is based on the *Constitution of the People's Republic of China* (hereinafter referred to as "**the Constitution**") and is made up of written laws, administrative regulations, local regulations and rules, autonomy regulations and separate rules and regulations of State Council departments, regulations of local governments and international treaties of which the PRC Government is a signatory. Court judgments and arbitral awards do not constitute legally binding precedents, although they are used for judicial reference and guidance.

According to the *Constitution and the Legislation Law of the People's Republic of China* (hereinafter referred to as "**Legislation Law**"), the National People's Congress of the People's Republic of China (hereinafter referred to as "**National People's Congress**") and the Standing Committee of the National People's Congress are empowered to exercise the legislative power of the State. The National People's Congress has the power to enact and amend basic laws governing criminal offence, civil affairs, the State organs and other matters. The Standing Committee of the National People's Congress has the power to enact and amend laws other than those that shall be formulated by the National People's Congress, and during the period of adjournment of the National People's Congress, may partially supplement and amend the laws enacted by the National People's Congress, but not in contradiction to the basic principles of such laws.

The State Council is the highest organ of state administration and has the power to enact administrative regulations based on the *Constitution* and laws.

The people's congresses of the provinces, autonomous regions and municipalities directly under the central government and their standing committees may, in light of the specific circumstances and actual needs of their respective administrative areas, enact local regulations, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people's congresses of comparatively larger cities and their standing committees may, in light of the specific local conditions and actual needs, enact local regulations, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations or local regulations of their respective provinces or autonomous regions, and they shall submit the regulations to the standing committees of the people's congresses of the provinces or autonomous regions for approval before implementation. The standing committees of the people's congresses of the provinces or autonomous regions shall examine the legality of such local regulations which are submitted for approval, and shall approve them within four months if they do not contravene any provision of the *Constitution*, laws, administrative regulations, or local regulations of their respective provinces or autonomous regions. When the standing committee of the people's congress of a province or autonomous region examines the local regulations of a comparatively larger city submitted for approval, it shall make a decision to deal with the matter if it finds that the said regulations contravene the rules of the people's government of the province or autonomous region. A comparatively larger city refers to a city where a provincial or autonomous regional people's government is located or where a special economic zone is located, or a city approved as such by the State Council.

APPENDIX IV

SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

The people's congresses of the national autonomous regions have the power to enact autonomous regulations and separate regulations on the basis of the political, economic and cultural characteristics of the local nationality (nationalities). The autonomous regulations and separate regulations of the autonomous regions shall be submitted to the Standing Committee of the National People's Congress for approval and shall go into effect upon approval. The autonomous regulations and separate regulations of the autonomous prefectures or counties shall be submitted to the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the central government for approval and shall go into effect upon approval. Where certain provisions of the laws and administrative regulations are concerned, adaptation on the basis of the characteristics of the local nationality (nationalities) may be made in autonomous regulations and separate regulations, but such adaptation may not contradict the basic principles of the laws and administrative regulations; where the provisions of the Constitution and the Law on Regional National Autonomy of the People's Republic of China as well as the provisions in other laws and administrative regulations specially formulated to govern the national autonomous areas are concerned, no adaptation may be made.

The ministries and commissions of the State Council, the People's Bank of China, the National Audit Office as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within the limits of their power, formulate departmental rules. Matters governed by the departmental rules shall be those for the enforcement of the laws or the administrative regulations, decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities directly under the central government and the comparatively larger cities may, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities directly under the central government, formulate rules of local governments.

According to the *Constitution*, the power of legal interpretation belongs to the Standing Committee of the National People's Congress. According to *Resolutions of the Standing Committee of the National People's Congress on Improving Interpretation of Laws* passed on 10 June 1981, in cases where the scope of provisions of laws or decrees needs to be further defined or additional stipulations need to be made, the Standing Committee of the National People's Congress shall provide interpretations or make stipulations by means of decrees. Interpretation of questions involving the specific application of laws and decrees in court trials shall be provided by the Supreme People's Court. Interpretation of questions involving the specific application of laws and decrees in procuratorial work of the procuratorates shall be provided by the Supreme People's Court. If the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the Standing Committee of the National People's Congress for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and the competent departments. In cases where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of the provinces, autonomous regions, and municipalities directly under the central government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the competent departments under the people's governments of the provinces, autonomous regions, and municipalities directly under the central government.

The PRC Judicial System

According to the *Constitution* and the *Law of Organisation of the People's Courts of the People's Republic of China* (hereinafter referred to as "**Law of Organisation of the People's Courts**"), the People's Courts consist of the Supreme People's Court, the local people's courts, the military courts and other special people's courts.

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The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may set up civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts, and other special divisions, such as the intellectual property division, where necessary. The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The people's procuratorates also have the power to exercise legal supervision over the litigation proceedings of people's courts at the same level or below. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people's courts at all levels and by the special people's courts.

The people's courts have adopted a second instance as final appellate system. A party may appeal against a judgment or ruling by the people's court of first instance to the people's court at the next higher level before the judgment or the ruling of the first instance is legally effective. The judgment or the ruling of the second instance by the people's court at the next higher level is final and legally binding. First judgments or rulings by the Supreme People's Court are final as well. In the case that the Supreme People's Court or the people's court at a higher level finds definite error(s) in the legally effective judgment or ruling by the people's court at a lower level, or the presiding judge of the people's court finds definite error(s) in the legally effective judgement or ruling by the court over which he/she presides, the case may then be retried in accordance with the judicial supervisory procedures.

The *Civil Procedure Law of the People's Republic of China* (hereinafter referred to as "**Civil Procedure Law**") sets forth provisions for the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC shall comply with the Civil Procedure Law. A civil case is generally heard by a local court in the defendant's place of domicile. The parties to a contract may, by express agreement, select a court of jurisdiction where civil actions may be brought, provided that the court of jurisdiction is located in either the plaintiff's or the defendant's place of domicile, or the place of execution or implementation of the contract, or the place of the object of the action, and provided that the provisions of the Civil Procedure Law regarding jurisdiction by level and exclusive jurisdiction shall not be violated.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. Should the judicial system of a foreign country limits the litigation rights of PRC citizens or enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country in PRC according to principle of reciprocity. If any party to a civil action refuses to comply with a legally effective judgment or ruling by a people's court or a legally effective award by an arbitration tribunal in the PRC, the other party may apply to the people's court for compulsory enforcement of the judgment, ruling or award within a stipulated time. However, specific time limits are imposed on the right to apply for such compulsory enforcement. The time limit for the submission of an application for compulsory enforcement shall be two years. The suspension or cessation of the time limit for the submission of an application for compulsory enforcement shall be governed by the provisions on suspension or cessation.

When a party applies to a people's court for enforcing a legally effective judgment or ruling by a people's court against a party that is not located within the territory of the PRC or does not have any property in the PRC, the party may directly apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or ruling. Likewise, a foreign judgment or ruling may also be recognised and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country on the mutual recognition and enforcement of judgments and rulings, or if the relevant judgment or ruling satisfies the court's examination based on the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in the violation of the basic legal principles of the PRC, its sovereignty or security, or for reasons related to the public interests.

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

The Company Law of the People's Republic of China, Special Provisions and Mandatory Provisions

On 29 December 1993, the *Company Law of the People's Republic of China* was adopted at the 5th meeting of the Standing Committee of the 8th National People's Congress, which came into effect on 1 July 1994 and was amended for the first time on 25 December 1999, the second time on 28 August 2004, the third time on 27 October 2005 and the fourth time on 28 December 2013. The newly amended *Company Law of the People's Republic of China* (hereinafter referred to as "**Company Law**") came into effect on 1 March 2014.

The *Special Provisions of the State Council Concerning the Floatation and Listing Abroad of Shares by Joint Stock Limited Companies* (Order No. 160 of the State Council, hereinafter referred to as "**Special Provisions**") were adopted at the 22nd Standing Committee Meeting of the State Council on 4 July 1994. The *Special Provisions* was promulgated and came into effect on 4 August 1994. The *Special Provisions* are applicable to overseas [REDACTED] and [REDACTED] of shares by joint stock limited companies. The *Mandatory Provisions in Articles of Association of Joint Stock Limited Companies to be Listed Overseas* (Zheng Wei Fa [1994] No. 21, hereinafter referred to as "**Mandatory Provisions**") were jointly promulgated by the former Securities Commission of the State Council and the former State Economic System Restructuring Commission on 27 August 1994. The *Letter of Opinions on Supplementary Amendments to Articles of Association of Companies to be Listed in Hong Kong* (Zheng Jian Hai Han [1995] No. 1, hereinafter referred to as "**Letter of Opinions on Amendments**") were promulgated by Overseas Listing Department of China Securities Regulatory Commission and the Production System Department of the former State Economic System Restructuring Commission on 3 April 1995. The above provisions have specified mandatory provisions which shall be incorporated in the articles of association of joint stock limited companies, whose shares are [REDACTED] on an overseas stock exchange. Such provisions have been set out in the Articles of Association. A "company" herein refers to a joint stock limited company that is incorporated under the *Company Law* and issues [REDACTED].

Major provisions of the *Company Law*, *Special Provisions* and *Mandatory Provisions* are summarised as below:

i. General

A "company" is a corporate legal person incorporated under the *Company Law* and has independent corporate property right. The registered capital of the company is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they subscribe, and the liability of the company is limited to the full amount of all the assets it owns.

A company must conduct its business in accordance with law and business ethics. A company may invest in other limited liability companies and joint stock limited companies. The liabilities of the company to such invested companies are only limited to the capital contributions paid or shares subscribed. Unless otherwise provided by laws, a company shall not be the capital contributor bearing joint and several liabilities associated with the debts of the invested enterprises.

ii. Incorporation

A company may be incorporated by means of promotion or [REDACTED]. A company may be incorporated by promotion by no less than two but no more than 200 promoters, with at least half of them residing within the territory of China.

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SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

For a company incorporated by means of promotion, all the registered capital thereof shall be subscribed by the promoters. Before the registered capital subscribed by the promoters is paid, no stock can be offered to others for subscription. Where a company is incorporated by [REDACTED], its registered capital shall be the total paid-in capital registered with the registration authority.

When incorporating a company by promotion, the promoters shall subscribe, in writing, to the full amount of shares provided in the articles of association and make capital contributions as per the articles of association. In the case of making capital contributions in non-monetary properties, the promoters shall go through the procedures for the transfer of property rights according to laws. If any of the promoters fails to make capital contributions by following the aforesaid provisions, it shall bear the liabilities for breach of contract under the stipulations in the promoter's agreement. After the promoters fully subscribe to the capital contributions provided for in the articles of association, the promoters shall elect the board of directors and board of supervisors. The board of directors shall file an application for registration with the company registration authority and submit therewith the articles of association and any other documents required by laws or administrative regulations.

For a company incorporated by [REDACTED], the shares subscribed by the promoters shall not be less than 35% of the total shares, and the remaining shares may be offered to the general public or to a group of specified people for subscription, unless otherwise specified by any law or administrative regulation. For the [REDACTED], the promoters shall publish a document and prepare share subscription forms. After full payments have been made for the [REDACTED] shares, they shall be verified by a lawfully established capital verification institution and a certification shall be issued thereby. The promoters shall hold a company establishment meeting within 30 days after full payment is made. The promoters shall notify each subscriber of the date of the establishment meeting or make a public announcement about the meeting 15 days in advance. The establishment meeting shall be composed of the promoters and subscribers. The establishment meeting shall be held only if shareholders representing over half of the total shares issued by the company are present. The establishment meeting shall be responsible for reviewing the draft articles of association drafted by the promoters and electing the board of directors and the board of supervisors. Any resolution adopted at the establishment meeting requires a simple majority of votes by the subscribers attending the meeting. The board of directors shall, within 30 days after the establishment meeting ends, file a registration application with the company registration authority and submit thereto relevant documents.

A company shall be deemed formally established as legal entity after the relevant administrative bureau for industry and commerce examined and approved the registration and issued a business license.

The promoters of the company shall severally and jointly bear the following liabilities:

- A. In the event of failure to incorporate the company, being liable for the expenses and debts incurred from the activities related to the company incorporation;
- B. In the event of failure to incorporate the company, being liable for refunding the subscribers with their paid capital plus the interests calculated according to the bank interest rate for the same period of time; and
- C. If the company's interest is injured in the course of its incorporation due to the negligence of the promoters, being liable for making compensations to the company.

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

iii. Share Capital

The promoter of the company may make capital contributions in cash, in kind, or intellectual property right, land use right, or other non-monetary properties that may be assessed on the basis of currency and may be transferred according to the law, excluding the properties that shall not be treated as capital contributions under any law or administrative regulation. The value of the non-monetary properties as capital contributions shall be assessed and verified, which shall not be over-valued or under-valued.

There is no limitation on the shareholders' shareholding percentage in the company under the *Company Law*.

The company may issue registered shares or bearer shares. However, shares issued to promoters or legal persons shall be in the form of registered shares and shall be registered under the name of such promoter or legal person and shall not be registered under a different name or the name of a representative.

According to the *Special Provisions and Mandatory Provisions*, the shares issued by the company to overseas investors and [REDACTED] overseas shall be in registered form, denominated in Renminbi and subscribed for in a foreign currency.

iv. Increase Share Capital

According to the *Company Law*, if the company plans to increase the capital by issuing new shares, such a plan shall be subject to the consideration and approval of the general meeting; and a resolution made at a general meeting on increasing the capital shall be adopted by shareholders representing 2/3 or more of the voting rights of the shareholders in presence.

In addition to the *Company Law* which specifies that the company's issuance of new shares shall be subject to the approval of the general meeting as above mentioned, the *Securities Law of the People's Republic of China* (hereinafter referred to as "**Securities Law**") also specifies that the company shall satisfy the following requirements in issuing new shares within China:

- A. Having a complete and well-operated organisation;
- B. Having the capability of making profits successively and a sound financial status;
- C. Having no false record in its financial statements over the latest three years and having no other major irregularity; and
- D. Meeting any other requirements as prescribed by the securities regulatory authority under the State Council, which has been approved by the State Council.

v. Reduce Share Capital

According to the *Company Law*, if the company plans to reduce the capital, such a plan shall be subject to the consideration and approval of the general meeting; and a resolution made at a general meeting on reducing the capital shall be adopted by shareholders representing 2/3 or more of the voting rights of the shareholders in presence.

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

The company may reduce its registered capital according to the following procedures specified in the *Company Law*:

- A. The company must prepare balance sheets and checklists of assets;
- B. Reducing registered capital shall be subject to the approval of the general meeting of the company;
- C. The company shall, within 10 days after the resolution of reduction of registered capital is made, inform the creditors and make a public announcement on a newspaper within 30 days;
- D. The company's creditors shall have the right to require the company to repay debts or provide corresponding guarantees within the statutory period; and
- E. The company must apply for changing registration of reducing registered capital with the company registration authority.

vi. Share Repurchase

A company shall not buy back its own shares except under any of the following circumstances:

- A. To decrease the registered capital of the company;
- B. To merge another company holding shares of the company;
- C. To award the employees of the company with shares;
- D. It is requested by any shareholder to purchase his shares because this shareholder objects to the company's resolution on merger or split-up made by the general meeting; and
- E. Other purposes permitted by laws and administrative regulations.

Where a company needs to purchase its own shares for any of the reasons as mentioned in Items (A) through (C) above, it shall be subject to a resolution of the general meeting. After the company purchases its own shares pursuant to the aforesaid provisions, it shall, under the circumstance as mentioned in Item (A), write them off within 10 days after the purchase; while under either circumstance as mentioned in Item (B) or (D), transfer them or write them off within six months.

The shares purchased by the company according to Item (C) above shall not exceed 5% of the total shares already issued by the company. The fund used for the share acquisition shall be paid from the after-tax profits of the company. The shares purchased by the company shall be transferred to the company's employees within one year.

The *Mandatory Provisions* specifies that the company may, according to procedures specified in the articles of association and upon approval of relevant competent authorities, buy back its issued shares for the aforesaid purposes by way of general offer to the shareholders or transaction in the stock exchange or through agreement outside the stock exchange.

In addition, no company may accept any subject matter taking the stocks of this company as a pledge.

vii. Share Transfer

The shares held by the shareholders may be transferred according to relevant laws and regulations.

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

Where a shareholder of the company intends to transfer its shares, it shall transfer its shares in a lawfully established stock exchange or by any other means as prescribed by the State Council. Registered shares may be transferred by their shareholders' endorsement or by any other means prescribed by the relevant laws or administrative regulations. Bearer shares shall be transferred as their shareholders deliver the shares to the transferee. Within 20 days before a general meeting is held, or within five days prior to the benchmark date decided by the company for the distribution of dividends, no share transfer registration may be made to the register of shareholders. However, if any law provides otherwise for registration of change of the register of shareholders of [REDACTED] companies, the latter shall prevail.

According to the *Special Provisions*, no changes of share transfer registration may be made to the register of shareholders within 30 days prior to a general meeting of the company is held, or within five days prior to the benchmark date decided by the company for the distribution of dividends.

viii. Shareholder

The articles of association of the company specify the rights and obligations of shareholders, and shall be binding on all shareholders of the company. A shareholder shall be entitled to:

- A. Attend general meetings in person or entrust an agent to attend general meetings on its behalf and exercise voting rights according to the number of shares it held;
- B. Transfer its shares in the company according to laws, regulations and articles of association;
- C. Where the resolutions adopted at general meetings and board meetings run counter to laws and administrative regulations or infringe upon the legitimate rights of the shareholders, institute legal proceedings to the people's court for revoking such resolutions;
- D. Review the articles of association, the register of the shareholders, the counterfoil of company debentures, the minutes of general meetings, resolutions of the board of directors, resolutions of the board of supervisors, and financial reports, and put forward proposals or raise questions about the business operations of the company;
- E. Collect dividends according to shares it held;
- F. Distribute remaining assets of the company in proportion to the number of shares it held during the termination or liquidation of the company; and
- G. Other rights of shareholders as specified in the articles of association.

A shareholder's obligations and responsibilities include: Abide by the articles of association, pay subscription funds as per the shares it subscribed, bear liability for the company to the extent of the shares subscribed, not injure any of the interests of the company or of other shareholders of the company by abusing the shareholder's rights, or injure the interests of any creditor of the company by abusing the independent status of legal person or the shareholder's limited liabilities, and any other obligations of shareholders as specified in the articles of association.

ix. General Meeting

The general meeting is the company's organ of power, which shall exercise its powers according to the Company Law. It shall exercise the following powers:

- A. Determining the company's operational guidelines and investment plans;

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

- B. Electing or dismissing the directors and supervisors assumed by non-representatives of the employees and deciding the matters relating to their salaries and compensations;
- C. Deliberating and approving reports of the board of directors;
- D. Deliberating and approving reports of the board of supervisors;
- E. Deliberating and approving annual financial budget plans and final account plans of the company;
- F. Deliberating and approving company profit distribution plans and loss recovery plans;
- G. Making resolutions about the increase or reduction of the company's registered capital;
- H. Making resolutions about the issuance of corporate bonds;
- I. Adopting resolutions about the merger, split-up, dissolution and liquidation and other matters of the company;
- J. Revising the articles of association of the company; and
- K. Other functions as specified in the articles of association.

The general meeting shall be convened once a year. Under any of the following circumstances, an extraordinary general meeting shall be held within two months:

- A. The number of directors is less than two-thirds of the number of directors as required by the Company Law or the number of directors as specified in the articles of association;
- B. The un-recovered losses of the company reach one-third of the total paid-in capital;
- C. At the request of the shareholders separately or aggregately holding 10% or more of the company's shares;
- D. The board of directors deems it necessary;
- E. At the request of the board of supervisors; and
- F. Other circumstances as specified in the articles of association.

A general meeting shall be convened by the board of directors and shall be presided over by the chairman. If the chairman is unable or fails to perform his duties, the meetings thereof shall be presided over by the vice chairman. If the vice chairman is unable or fails to perform his duties, the meetings shall be presided over by a director jointly recommended by half or more of the directors. If the board of directors is unable or fails to fulfil the obligation of convening general meetings, the board of supervisors shall convene and preside over such meetings. If the board of supervisors does not convene or preside over such meetings, the shareholders separately or aggregately holding more than 10% of the shares of the company for consecutively 90 days may convene and preside over such meetings on their own initiative.

According to the *Company Law*, for a general meeting to be held, a notice shall be given to each shareholder 20 days in advance, which shall state the time and place of the meeting, and the matters to be deliberated at the meeting. For an extraordinary general meeting, a notice shall be given to each

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shareholder 15 days in advance, which shall state the time and place of the meeting, and the matters to be deliberated at the meeting. For issuance of bearer shares, a notice shall be given to each shareholder 30 days in advance, which shall state the time and place of the meeting, and the matters to be deliberated at the meeting.

According to the *Special Provisions* and *Mandatory Provisions*, a notice of a general meeting shall be given to each shareholder 45 days in advance, which shall state the matters to be deliberated at the meeting. According to the *Special Provisions* and *Mandatory Provisions*, any shareholder intending to attend the meeting shall deliver to the company a confirmation letter showing his intention to attend 20 days before the meeting. In addition, according to the *Special Provisions*, shareholders holding more than 5% shares of the company shall have the right to submit new proposals in writing to the company for deliberation at general meetings. If the contents of such proposals fall within the scope to be decided by the general meeting, such proposals shall be placed on the agenda for the said general meeting.

When a shareholder attends a general meeting, he shall have one voting right for each share he holds. However, the company has no voting right for its own shares it holds. When any resolution is to be made at the general meeting, it shall be adopted by shareholders representing more than half of the voting rights of the shareholders in presence. However, when the general meeting makes a decision to modify the articles of association, or to increase or reduce the registered capital, or a resolution about the merger, split-up, dissolution or change of the company form, such a decision shall be adopted by shareholders representing 2/3 or more of the voting rights of the shareholders in presence.

A shareholder may entrust a representative to attend a general meeting on his behalf. The representative shall present a power of attorney issued by the shareholder to the company and shall exercise his voting rights within the authorised scope. The *Company Law* does not specify the required number of shareholders attending the general meeting. However, the *Special Provisions* and *Mandatory Provisions* specify that a company may hold a general meeting if it receives replies from shareholders concerning the said general meeting 20 days prior to the date of the meeting, and the number of voting shares represented by such shareholders amounts to 50% or more of the company's total voting shares. Where the number of voting shares represented by such attending shareholders does not reach 50% of the company's total voting shares, the company shall, within five days from the deadline for reply, notify the shareholders again of the issues to be considered, the time and place of the meeting in the form of public announcements. The company may then convene a general meeting after such announcements have been made. The *Mandatory Provisions* specifies that a class general meeting shall be held if the rights of that class of shareholders are changed or abolished. Holders of domestic shares and overseas [REDACTED] foreign shares are deemed to be different classes of shareholders.

A general meeting shall take the minutes for the decisions about the matters discussed at the meeting. The presider of the meeting and the directors in presence shall affix their signatures to the minutes, which shall be preserved together with the book of signatures of the shareholders in presence as well as the power of attorney thereof.

x. **Directors**

A company shall set up a board of directors, which shall be composed of 5-19 persons. The board of directors may include representatives of the company's employees. The representatives of the employees who are to serve as members of the board of directors shall be democratically elected by the employees of the company through employee representatives' meetings, employees' meetings or by any other means. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. The directors may, after the expiry

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of their term of office, hold a consecutive term upon re-election. If no re-election is timely carried out after the expiry of the term of office of the directors, or if the number of the members of the board of directors is less than the quorum due to the resignation of some directors from the board of directors prior to the expiry of their term of office, the original directors shall, before the newly elected directors assume their posts, perform the powers of the directors according to the laws, administrative regulations, as well as the articles of association.

The board of directors shall convene at least two meetings every year and shall give a notice to all directors and supervisors 10 days before it holds a meeting. The board of directors may decide the different method and time limit for the notification about convening extraordinary meetings of the board of directors. Pursuant to the *Company Law*, the board of directors shall exercise the following powers:

- A. Convening general meetings and presenting reports thereto;
- B. Implementing the resolutions made at the general meetings;
- C. Determining the company's business and investment plans;
- D. Working out the company's annual financial budget plans and final account plans;
- E. Working out the company's profit distribution plans and loss recovery plans;
- F. Working out the company's plans on the increase or reduction of registered capital, as well as on the issuance of corporate bonds;
- G. Working out the company's plans on merger, split-up, dissolution, or change of the company form, etc.;
- H. Making decisions on the establishment of the company's internal management departments;
- I. Making decisions on hiring or dismissing the company's manager and his salary and compensation, and, according to the nomination of the manager, deciding on the hiring or dismissal of vice manager(s) and the persons in charge of finance as well as their salaries and compensations;
- J. Working out the company's basic management system; and
- K. Other functions as specified in the articles of association.

The Mandatory Provisions specifies that the board of directors shall also be responsible for working out and amending the proposal of articles of association of the company.

No meeting of the board of directors may be held unless more than half of the directors are present. When the board of directors makes a resolution, it shall be approved by more than half of all the directors. For the voting on a resolution of the board of directors, each director shall have one vote only. The meetings of the board of directors shall be attended by the directors in person. Where any director is unable to attend the meeting for a certain reason, he may, by issuing a written power of attorney, entrust another director to attend the meeting on his behalf, and the power of attorney shall state the scope of authorisation.

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The directors shall be responsible for the resolutions of the board of directors. Where a resolution of the board of directors is in violation of any law, administrative regulation, articles of association, or resolution of the general meeting and causes any serious loss to the company, the directors who participate in approving the resolution shall make compensation. However, if a director is proven to have expressed his objection to the vote on such resolution and his objection was recorded in the minutes, then the director may be exempted from liability.

According to the *Company Law*, anyone who is under any of the following circumstances shall not assume the post of a director of a company:

- A. Being without civil capacity or with only limited civil capacity;
- B. Having been sentenced to any criminal penalty due to an offence of corruption, bribery, encroachment of property, misappropriation of property or disrupting the economic order of the socialist market and 5 years have not elapsed since the completion date of the execution of the penalty; or he has ever been deprived of his political rights due to any crime and 5 years have not elapsed since the completion date of the execution of the penalty;
- C. Having been a former director, factory director or manager of a company or enterprise which was bankrupt and liquidated, whereby he was personally liable for the bankruptcy of such company or enterprise, and three years have not elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;
- D. Having been the legal representative of a company or enterprise, but the business license of this company or enterprise was revoked and this company or enterprise was ordered to close due to a violation of the law, whereby he is personally liable for the revocation, and three years have not elapsed since the date of the revocation of the business license thereof; and
- E. Having incurred a relatively large amount of debt which is due but has not been paid.

The board of directors shall have one chairman and may have a vice chairman. The chairman and vice chairmen shall be elected by more than half of all the directors. The chairman shall exercise the following powers:

- A. Preside over general meetings and call and preside over the meetings of the board of directors;
- B. Check the implementation of the resolutions of the board of directors; and
- C. Exercise other powers conferred by the board of directors.

The Special Provisions specifies that the directors, supervisors, managers and other senior management of the company shall fulfil obligation of integrity and diligence to the company. Such persons shall fulfil their duties honestly, safeguard the interests of the company, and shall not take advantage of their positions and powers in the company to seek personal gains.

xi. Supervisors

A company shall set up a board of supervisors, which shall be composed of at least three persons. The board of supervisors shall include shareholders' representatives and representatives of the employees' of the company at an appropriate ratio (which shall not be less than 1/3 and shall be

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specifically prescribed in the articles of association). The employees' representatives who are to serve as members of the board of supervisors shall be democratically elected by the employees of the company through employee representatives' meetings, employees' meetings or by any other means. No director or senior manager may concurrently serve as a supervisor.

Each term of office of the supervisors shall be three years. The supervisors may, after the expiry of their term of office, hold a consecutive term upon re-election. If no re-election is timely carried out after the expiry of the term of office of the supervisors, or if the number of the members of the board of supervisors is less than the quorum due to the resignation of some supervisors from the board of supervisors prior to the expiry of their term of office, the original supervisors shall, before the newly elected supervisors assume their posts, exercise the powers of the supervisors according to laws, administrative regulations, as well as the articles of association.

The board of supervisors shall exercise the following powers:

- A. To check the financial affairs of the company;
- B. To supervise the duty-related acts of the directors and senior executives, to put forward proposals on the removal of any director or senior executive who violates any law, administrative regulation, the articles of association or any resolution of the general meeting;
- C. To demand any director or senior executive to make corrections if his act has injured the interests of the company;
- D. To propose to call extraordinary general meetings, to call and preside over general meetings when the board of directors does not exercise the function of calling and presiding over general meetings as prescribed in the Company Law;
- E. To put forward proposals at general meetings;
- F. To initiate actions against directors or senior executives; and
- G. Other functions as specified in the articles of association.

The supervisors may attend the meetings of the board of directors as non-voting attendees, and may raise questions or suggestions about the meeting agenda discussed by the board of directors.

The aforesaid circumstances causing people unqualified for serving as directors of a company shall also apply to the supervisors of a company.

xii. Managers and Senior Executives

A company shall have a manager, who shall be appointed or dismissed by the board of directors. The manager shall be responsible to the board of directors and shall exercise the following powers:

- A. Taking charge of the management of the production and business operations of the company, organising the implementation of the resolutions of the board of directors;
- B. Organising the execution of the company's annual business plans and investment plans;
- C. Drafting plans on the establishment of the company's internal management departments;
- D. Drafting the company's basic management system;

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- E. Formulating the company's specific rules and policies;
- F. Proposing to hire or dismiss the company's vice manager(s) and the person in charge of finance;
- G. Deciding on the hiring or dismissal of the persons-in-charge other than those who shall be decided by the board of directors; and
- H. Other powers conferred by the board of directors.

The *Special Provisions* and *Mandatory Provisions* specify that senior executives of the company include chief financial officer (person in charge of finance), secretary of the board of directors, and other persons specified in the articles of association.

The aforesaid circumstances causing people unqualified for serving as directors of a company shall also apply to the managers and other senior executives of a company.

The articles of association shall be binding upon the shareholders, directors, supervisors, managers, and other senior executives of the company, who shall have the right to exercise rights, apply for arbitration and initiate legal proceedings in accordance with the articles of association.

xiii. Duties of directors, supervisors, general manager and other senior executives

According to the Company Law, the directors, supervisors and senior executives of the company shall comply with relevant laws, regulations, and articles of association. They shall bear the obligations of fidelity and diligence to the company. No director, supervisor or senior executive of the company may accept any bribe or other illegal gains by taking the advantage of his powers, or encroach on the property of the company. The directors, supervisors and senior executives of the company shall also bear confidential obligations to the company, and shall not disclose any confidential information of the company unless otherwise permitted by relevant laws, regulations or shareholders.

Where any director, supervisor or senior executive violates any law, administrative regulation, or the articles of association during the course of performing his duties, if any loss is caused to the company, he shall be liable for compensation.

The *Special Provisions* and *Mandatory Provisions* specify that the directors, supervisors and senior executives of the company shall observe the articles of association, fulfil obligation of integrity and diligence to the company, fulfil duties honestly and protect the interests of the company, and shall not take advantage of their positions in the company to seek personal gains.

xiv. Financial Affairs and Accounting

A company shall establish its own financial and accounting systems according to the laws, administrative regulations, and provisions of the treasury department of the State Council. A company shall, after the end of each fiscal year, formulate a financial report and shall have it audited by an accounting firm.

The financial report of a company shall be available at the company for reference by the shareholders at least 20 days before the annual general meeting is held. A company of [REDACTED] stocks shall make a public announcement about its financial report.

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Where a company distributes its after-tax profits of the current year, it shall draw 10% of the profits as the company's statutory common reserve. The company may stop drawing the profits if the aggregate balance of the statutory common reserve has already accounted for over 50% of the company's registered capital. If the aggregate balance of the company's statutory common reserve is not enough to make up for the losses of the company of the previous year, the current year's profits shall first be used for making up the losses before the statutory common reserve is drawn according to the above regulation. After the company has drawn statutory common reserve from the after-tax profits, it may, upon a resolution made by the general meeting, draw a discretionary common reserve from the after-tax profits. After the losses have been made up and common reserves have been drawn, the remaining after-tax profits shall be distributed to shareholders in the proportion of their shareholding percentages, unless otherwise specified in the articles of association.

The premium of a company from the issuance of stocks at a price above the par value of the stocks, and other incomes [REDACTED] in the capital reserve under provisions of the treasury department of the State Council shall be [REDACTED] as the company's capital reserve. The company's common reserves shall be used for making up losses, expanding the production and business scale or increasing the registered capital of the company, but the capital reserve shall not be used for making up the company's losses. When the statutory common reserve is changed to capital, the remainder of the common reserve shall not be less than 25% of the registered capital prior to the increase.

xv. Engagement and Dismissal of Accountants

The *Special Provisions* specifies that the company shall appoint a qualified independent accounting firm to audit the annual reports of the company and examine and check other financial reports of the company. The term of appointment of the accountant engaged by the company shall be from conclusion of the current annual general meeting to conclusion of the next annual general meeting.

Where the company dismisses or discontinues the engagement of the accounting firm providing auditing services for it, according to the *Special Provisions*, the company shall give a notice to the said accounting firm in advance, and the accounting firm shall have the right to state its opinions at the general meeting. The company's appointment, dismissal or disengagement of the accounting firm shall be decided at the general meeting and shall be filed with CSRC.

xvi. Profit Distribution

According to the *Company Law*, the company shall not distribute profits before making up accumulated losses and drawing statutory common reserve. The *Special Provisions* specifies that the dividends and other allocations paid by the company to holders of overseas [REDACTED] foreign shares shall be declared and stated in Renminbi and paid in foreign currency.

According to the *Mandatory Provisions*, the company shall appoint receiving agents on behalf of holders of the overseas-[REDACTED] foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable in respect of their overseas [REDACTED] foreign invested shares.

xvii. Amendment to the Articles of Association

Amendment to the articles of association shall follow procedures specified in laws, regulations and the articles of association. According to the *Mandatory Provisions*, if the amendment to the articles of association involves any content of *Mandatory Provisions*, the said amendment shall be subject to approval by CSRC and the company approval authority authorised by the State Council. If the amendment to the articles of association relates to company registration matters, the company shall have such amendment registered according to laws and regulations.

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xviii. Dissolution and Liquidation

According to the Company Law, a company may be dissolved under one of the following circumstances:

- A. The term of business operation as prescribed by the articles of association expires or any of the situations for dissolution prescribed in the company's articles of association occurs;
- B. The general meeting decides to dissolve the company;
- C. It is necessary to be dissolved due to merger or split-up of the company;
- D. The business license is cancelled, or it is ordered to close down or to be dissolved according to laws; or
- E. Where any company meets any serious difficulty in its operations or management so that the interests of the shareholders will face heavy loss if the company continues to exist and the difficulty cannot be solved by any other means, the shareholders who hold 10% or more of the voting rights of all the shareholders of the company may plead the people's court to dissolve the company.

Where any company is dissolved according to the provisions of items (A), (B), (D), or (E) above, a liquidation group shall be formed within 15 days after the occurrence of the cause of dissolution. The liquidation group shall be composed of people determined by the board meeting or general meeting. Where no liquidation group is formed within the time limit, the creditors may plead the people's court to designate relevant persons to form a liquidation group. The people's court shall accept such request and form a liquidation group so as to carry out the liquidation in a timely manner.

The liquidation group shall, notify the creditors within 10 days after its formation and make a public announcement on newspapers within 60 days after its formation. The creditors shall, within 30 days after receiving the notice or within 45 days after the issuance of the public announcement in the case of failing to receiving a notice, declare their credits before the liquidation group. To declare credits, a creditor shall describe the relevant matters and provide relevant evidential materials. The liquidation group shall record the declared credits and may not pay off any debts to any creditors during the period of credit declaration.

The liquidation group may exercise the following functions during the process of liquidation:

- A. Liquidating the properties of the company, producing balance sheets and checklists of properties;
- B. Notifying creditors by mail or public announcement;
- C. Handling and liquidating the unfinished business of the company;
- D. Paying off the outstanding taxes and the taxes incurred in the process of liquidation;
- E. Claiming credits and paying off debts;
- F. Disposing the remaining properties after all the debates being paid off; and
- G. Participating in the civil proceedings of the company.

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The liquidation group shall, after liquidating the properties of the company and producing balance sheets and checklists of properties, make a plan of liquidation and present the report to the general meeting or the people's court for confirmation. After paying off the liquidation expenses, wages of employees, social insurance premiums and legal indemnities, the outstanding taxes and the debts of the company, the remaining properties may be distributed according to the proportion of shares held by the shareholders of the company. During the liquidation, the company continues to exist but may not carry out any business operation that has nothing to do with liquidation. None of the properties of the company may be distributed to any shareholder before payments are made as specified above.

If the liquidation group finds that the properties of the company are not sufficient for paying off the debts after liquidating the properties of the company and producing balance sheets and checklists of properties, it shall file an application to the people's court for bankruptcy. Once the people's court makes a ruling declaring the company bankrupt, the liquidation group shall hand over the liquidation matters to the people's court.

After the liquidation of the company is completed, the liquidation group shall produce a liquidation report and submit the report to the general meeting or the people's court for confirmation, and the company registration authority to deregister the company. The liquidation group shall also make a public announcement regarding the cessation of the company.

The members of the liquidation group shall devote themselves to their duties and perform their obligations of liquidation according to the law. None of the members of the liquidation group may take advantage of his position to take any bribe or any other illegal proceeds, nor may he misappropriate any of the properties of the company. Where any of the members of the liquidation group causes any loss to the company or any creditor intentionally or due to gross negligence, he shall make respective compensations.

xix. Overseas [REDACTED]

According to the *Special Provisions*, the overseas [REDACTED] of the company's shares shall be subject to the approval of CSRC and follow procedures specified by the State Council.

According to the *Special Provisions*, the company scheme for issue of overseas [REDACTED] foreign shares and domestic shares approved by CSRC may be carried out independently and separately within 15 months from the date of approval of CSRC.

xx. Share Loss

Where any share certificates of registered shareholders are stolen, lost or destroyed, the registered shareholder may request the people's court to declare these invalid according to the *Civil Procedural Law of the People's Republic of China*. After the people's court has invalidated these, the registered shareholder may file an application to the company for the issuance of new share certificates.

xxi. Merger and Split-up

The merger or split-up of the company shall be approved by votes representing more than two-thirds of voting rights held by the shareholders present at the meeting.

To carry out a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company. If an absorption merger is adopted, the company being absorbed shall be dissolved. If two companies merge to establish a new company, the two companies being merged shall be dissolved.

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To split a company, the properties thereof shall be divided accordingly. The post-split companies shall bear several and joint liabilities for the debts of the company before its split unless it is otherwise prescribed in a written agreement reached by the company and the creditors before the split regarding the debt pay-off.

Where, in the process of company merger or split, any of the registered items is changed, the companies shall go through modification registration with the company registration authority. Where a company is dissolved, it shall be deregistered according to law. If a new company is established, it shall go through the procedures for company establishment according to law.

xxii. Suspension and Termination of [REDACTED]

The *Company Law* has deleted regulations on suspension and termination of [REDACTED]. But the *Securities Law* specifies that:

Where a [REDACTED] company is under any of the following circumstances, the stock exchange shall decide to suspend the [REDACTED] of its shares:

- A. the total amount of capital stock or share distribution of the company changes and thus fails to meet the requirements for [REDACTED];
- B. the company fails to publish its financial status according to the relevant provisions or has any false record in its financial report, which may mislead the investors;
- C. the company has any major irregularity;
- D. the company has been operating at a loss for the latest three consecutive years; or
- E. under any other circumstance as prescribed in the listing rules of the stock exchange.

Where a company is under any of the following circumstances, the stock exchange shall decide to terminate the [REDACTED] of its shares:

- A. the total amount of capital stock or share distribution of the company changes and thus fails to meet the requirements of [REDACTED], and the company fails again to meet the requirements of [REDACTED] within the period as prescribed by the stock exchange;
- B. the company fails to publish its financial status according to the relevant provisions or has any false record in its financial report, and refuses to make any correction;
- C. the company has been operating at a loss for the latest three consecutive years and fails to gain profits in the last year;
- D. the company is dissolved or is declared bankrupt; or
- E. under any other circumstance as prescribed in the listing rules of the stock exchange.

Laws, Regulations and Regulatory System on Securities

Since 1992, China has promulgated multiple regulations related to stock issuance, transaction and information disclosure. In October 1992, the State Council set up the Securities Commission of the State Council and CSRC. In 1998, the State Council decided to cancel the Securities Commission of the State Council and have its functions borne by CSRC. As the securities regulator of China,

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CSRC is responsible for formulating securities-related policies, drawing up laws and regulations on securities, supervising stock market, [REDACTED] companies and intermediary organs and other participants, supervising and regulating public securities [REDACTED] at home and abroad by Chinese companies and securities trading.

On 22 April 1993, the State Council promulgated *Interim Provisions on the Management of the Issuing and Trading of Stocks* (Order No. 112 of the State Council). It specifies procedures for application and approval of public stocks and securities [REDACTED], the trading of stocks and securities, acquisition of [REDACTED] companies, the custody, settlement and transfer of [REDACTED] stocks and securities, and data disclosure, law enforcement, punishment and dispute resolution of [REDACTED] companies.

On 12 June 1993, CSRC promulgated *Rules for the Implementation of Information Disclosure of the Listed Company* (for trial implementation) (Zheng Jian Shang Zi [1993] No. 43) based on *Interim Provisions on the Management of the Issuing and Trading of Stocks*. However, *Administrative Measures for the Disclosure of Information of Listed Companies* (Order No. 40 of CSRC) promulgated by CSRC on 30 January 2007 revoked the said implementation rules, and specifies that CSRC shall be responsible for supervising information disclosure of companies publicly [REDACTED] shares at home and abroad, and making regulations on publishing of interim and annual reports and announcement of major transactions and matters by companies which publish [REDACTED] documents and reports and publicly offer stocks in China.

On 25 December 1995, the State Council promulgated *Regulations of the State Council on Domestic Listing of Foreign-oriented Stocks by Share-holding Companies*, which mainly specifies distributions including issuance, subscription, trading, dividend declaration of domestically [REDACTED] foreign-oriented stocks, and information disclosure of share-holding companies with domestically [REDACTED] foreign-oriented stocks. The issuance and [REDACTED] of overseas [REDACTED] foreign shares are mainly subject to a series of rules and regulations promulgated by the State Council and CSRC, and shall comply with *Special Provisions*.

On 29 December 1998, the Standing Committee of the National People's Congress promulgated *Securities Law of the People's Republic of China*, which became effective on 1 July 1999. It is the first national securities law of China, and a fundamental law comprehensively regulating the activities on China's stock market. The *Securities Law of the People's Republic of China* underwent two major revisions on 28 August 2004 and 27 October 2005 respectively. On 29 June 2013, *Decision of the Standing Committee of the National People's Congress on Amending the Cultural Relics Protection Law of the People's Republic of China and Other Eleven Laws* revised Article 129 of *Securities Law of the People's Republic of China*. On 31 August 2014, *Decision of the Standing Committee of the National People's Congress on Amending Five Laws Including the Insurance Law of the People's Republic of China* further revised *Securities Law of the People's Republic of China*. The *Securities Law of the People's Republic of China* shall apply to the issuance and trading of stocks, corporate bonds as well as any other securities as lawfully recognised by the State Council within China, and it shall regulate the issuance and trading of stocks, acquisition of [REDACTED] companies, duties and responsibilities of stock exchanges, securities companies and securities regulatory authorities of the State Council. Where there is no such provision in the *Securities Law of the People's Republic of China*, the provisions of the *Company Law* and other relevant laws and administrative regulations shall apply.

On 26 March 1999, the former State Economic and Trade Commission and CSRC jointly promulgated the *Proposals on Accelerating Standardised Operation of Companies Listed Overseas and Deepening Their Reforms* (Guo Jing Mao Qi Gai [1999] No. 230), aiming to regulate internal operation and management of Chinese companies [REDACTED] overseas. The proposals specifies the appointment and duties of outside directors and independent directors of the board of directors, and appointment and duties of outside supervisors of board of supervisors.

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On 14 July 1999, CSRC promulgated the *Notice on Relevant Issues relating to Enterprises Applying for Overseas Listing* (Zheng Jian Fa Xing Zi [1999] No. 83). However, the *Regulatory Guidelines in Relation to the Document Submission and Review Procedure for Stocks Issuance and Overseas Listing by Joint Stock Companies* (CSRC Announcement [2012] No. 45) promulgated by CSRC on 20 December 2012, which specifies issues such as documents to be submitted and approval procedures for companies to apply for overseas [REDACTED], revoked the *Notice on Relevant Issues relating to Enterprises Applying for Overseas Listing*.

Joint Ventures

Domestic organisations and overseas investors may participate in China's joint ventures in two forms: Sino-foreign equity joint ventures and sino-foreign contractual joint ventures. Sino-foreign equity joint ventures are mainly subject to the *Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures* promulgated on 1 July 1979 and revised and becoming effective on 4 April 1990 and 15 March 2001, and *Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment* promulgated on 20 September 1983 and revised on 15 January 1986, 21 December 1987, 22 July 2001, 8 January 2011 and 19 February 2014 respectively; while the sino-foreign contractual joint ventures are mainly subject to *Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures* promulgated on 13 April 1988 and revised and becoming effective on 31 October 2000 and *Detailed Rules on the Implementation of the Law of People's Republic of China on Sino-Foreign Joint Cooperative Ventures* which was promulgated and became effective on 4 September 1995 and revised on 19 February 2014.

xxiii. Procedures for Establishing Joint Ventures

Approval from Ministry of Commerce (or its authorised representative offices) is required for establishing joint ventures. Before a joint venture is established, documents including feasibility study report, contract and articles of association of the joint venture must be submitted to the Ministry of Commerce or its authorised representative offices for approval. The applicant must apply for business license at the State Administration for Industry & Commerce or local administrative bureau for industry and commerce within 30 days after the Ministry of Commerce issues approval. A joint venture shall be formally established on the day its business license is issued.

xxiv. Chinese-Foreign Equity Joint Ventures

According to the *Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures* and *Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment*, a sino-foreign equity joint venture shall take the form of a limited liability company, enjoy civil rights and bear civil liability independently as an independent legal entity. All parties to a joint venture shall bear the obligations of the joint venture according to their respective capital contributions. They shall contribute to the registered capital in cash, in kind, in land use right, industrial property right or other properties according to the terms and conditions as agreed in the contract of the joint venture. Where one party to the joint venture transfers all or part of its equity to a third party, it shall obtain consent of the other parties to the joint venture, report the transfer to the examination and approval authority for approval, and change registration with the registration administration authorities. When a party to a joint venture transfers all or part of its equity interests to a third party, the other party has pre-emptive right. When a party to a joint venture transfers its equity interests to a third party, the terms of transfer shall not be more favourable than those to the other party to the joint venture.

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The total amount of investment (including loans) of an equity joint venture refers to the sum of capital construction funds and the circulating funds needed for the equity joint venture's production scale as stipulated in the contract and the articles of association of the joint venture. A foreign investor shall contribute no less than 25% of the registered capital of the equity joint venture.

In general, the parties to the equity joint venture shall share the profits, risks and losses in proportion to their respective contributions to the registered capital.

According to the *Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures and Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment*, a joint venture shall not have shareholders meeting. The board of directors of a joint venture shall have the supreme power and be responsible for daily management of the company. A joint venture shall have a board of directors, which shall have its size and composition stipulated in the contract and the articles of association after consultation between the parties to the venture, and the directors shall be appointed and replaced by the parties to the venture. The chairman and the vice chairman are determined by the parties to the venture or elected by the board of directors. Either party of the Chinese-foreign joint venture may be the chairman and the other shall assume the office of vice chairman. In handling major problems, the board of directors shall reach a decision through consultation by the parties to the venture, in accordance with the principle of equality and mutual benefit. According to *Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment*, decisions on the following matters shall be made only after being unanimously agreed upon by the directors present at the board meeting:

- A. amendment of the articles of association of the joint venture;
- B. termination and dissolution of the joint venture;
- C. increase or reduction of the registered capital of the joint venture;
- D. merger or division of the joint venture.

xxv. Chinese-Foreign Contractual Joint Ventures

A contractual joint venture may be registered as independent legal entity or unincorporated entity. If it is registered as an independent legal entity, the joint venture will be established as a limited company; if it is not established as a legal entity, it shall bear corresponding civil liability according to applicable PRC civil law.

According to *Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures and Detailed Rules on the Implementation of the Law of People's Republic of China on Sino-Foreign Joint Cooperative Ventures*, parties to a joint venture may share profits and losses of the contractual joint venture in a manner agreed upon among the parties to the joint venture. Furthermore, if, upon the expiration of the period of a venture's operation, all the fixed assets of the contractual joint venture, as agreed upon by the Chinese and foreign parties in the contractual joint venture contract, are to belong to the Chinese party, the Chinese and foreign parties may prescribe in the contractual joint venture contract the ways for the foreign party to recover its investment ahead of time during the period of the venture's operation. The contractual joint venture contract stipulates that, where the foreign party recovers the investment before the payment of income tax, such foreign party shall make an application to the tax authorities for examination and approval in accordance with the tax provisions stipulated by the State. Under the above provision, where the foreign party recovers the investment in advance during the contractual period, the Chinese and foreign parties shall take responsibilities for the liabilities of the joint venture in accordance with the relevant laws and the requirements of the contractual joint venture contract.

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xxvi. Management

According to the *Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures* and *Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures*, supreme power of a joint venture resides in the board of directors. A joint venture does not need to hold shareholders meeting.

Generally, rights and functions of the board of directors are specified in the contract and the articles of association of the joint venture. A joint venture shall hold board meetings at least once a year. The board of directors shall make major decisions of the joint venture in relation to expansion plans, plans for production and operating activities, the budget, distribution of profits, the termination of business, the appointment of key personnel, etc. The management department, including a general manager and several deputy general managers appointed by the board of directors, shall be responsible for the daily operation and management of a joint venture. The general manager shall act as instructed by the board of directors.

xxvii. Equity Transfer

According to *Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures* and *Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment*, where a party to the sino-foreign equity joint venture transfers its equity interests in whole or in part to any third party, such party shall obtain the consent from the other party of the equity joint venture and submit to the examination and approval authorities for approval and file the changes in registration with the registration administration authorities. When a party to a joint venture transfers all or part of its investment to a third party, the other party has pre-emptive right. When a party to a joint venture transfers its equity interests to a third party, the terms of transfer shall not be more favourable than those to the other party to the joint venture.

According to *Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures* and *Detailed Rules on the Implementation of the Law of People's Republic of China on Sino-Foreign Joint Cooperative Ventures*, for transfer of all or part of its interests in the contractual joint venture contract between the parties to the sino-foreign contractual joint venture or by one party to a party other than the other party to the contractual joint venture contract, a written consent must be obtained from the other party to the contractual joint venture contract and be filed with the examination and approval authorities for approval.

Termination

According to the *Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures* and *Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment*, a sino-foreign equity joint venture may be dissolved in the following situations:

- A. expiration of the term of the joint venture;
- B. inability to continue operations due to heavy losses;
- C. inability to continue operations due to the failure of one of the parties to the joint venture to fulfil the obligations prescribed by the agreement, contract or articles of association;
- D. inability to continue operations due to heavy losses caused by force majeure such as natural disasters and wars;

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- E. failure of the joint venture to achieve its business objective, coupled with no possibility for future development; or
- F. occurrence of other reasons for dissolution described in contract and articles of association of the joint venture.

In cases described in Items (B), (D), (E) and (F) above, the board of directors shall make an application for dissolution to the examination and approval authority for approval. In situation described in Item (C) above, the party that performs the contract shall make an application for examination and approval by the examination and approval authorities.

In the situation described in Item (C) above, the party which has failed to fulfil its obligations prescribed in the agreement, contract and articles of association shall be liable for the losses arising therefrom.

According to the *Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures* and *Detailed Rules on the Implementation of the Law of People's Republic of China on Sino-Foreign Joint Cooperative Ventures*, a sino-foreign contractual joint venture may be dissolved in the following situations:

- A. expiration of the term of the joint venture;
- B. inability to continue operations due to heavy losses or heavy losses as a result of force majeure events;
- C. inability to continue operations due to the failure of one or more of the parties to the sino-foreign joint venture to fulfil the obligations prescribed by the contract or articles of association;
- D. occurrence of other reasons for dissolution described in contract and articles of association of the joint venture;
- E. order of closure due to its violation of laws or administrative regulations.

In cases described in Items (B) and (D), the board of directors or joint management committee of the joint venture shall make a decision and file with the examination and approval authority for approval; In situation described in Item (C) above, the party or parties to the sino-foreign joint venture which has failed to fulfil its obligations prescribed in the contract and articles of association shall be liable for the losses arising therefrom to the other party. The non-defaulting party or parties shall have the right to make an application to the examination and approval authorities to dissolve the joint venture.

Arbitration and Enforcement of Arbitral Award

The Standing Committee of the National People's Congress passed *Arbitration Law of the People's Republic of China* (hereinafter referred to as "**Arbitration Law**") on 31 August 1994, which was effective as from 1 September 1995. On 27 August 2009, *Decision of the Standing Committee of the National People's Congress on Amending Some Laws* revised Articles 63, 70 and 71 of the Arbitration Law. The Arbitration Law applies to circumstances where all parties have entered into written agreement, agreeing to refer disputes concerning contract or properties to arbitration commissions formed in accordance with Arbitration Law for arbitration. According to the *Arbitration Law*, before the China Arbitration Association has promulgated arbitration rules, arbitration commissions may formulate interim rules for arbitration according to the *Arbitration Law and Civil*

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Procedure Law of the People's Republic of China. Whereas the parties concerned have reached an agreement for settling disputes by arbitration, the people's court shall not accept the suit brought to the court by any one single party involved, except in case where the agreement for arbitration is invalid.

According to *Arbitration Law* and *Civil Procedure Law of the People's Republic of China*, the arbitral award is final and binding upon all parties concerned. If one party fails to abide by the arbitral award, the other party of the arbitration may apply to the people's court for enforcement of the arbitral award. If the procedure for arbitration is not in conformity with the rules of arbitration (e.g. the composition of the arbitration commission violates the legal proceedings, the matters ruled are out of the scope of the agreement for arbitration or the limits of authority of an arbitration commission), the people's court may refuse to enforce the arbitration decision made by the arbitration commission.

The *Hong Kong Listing Rules* and the *Special Provisions* require an arbitration clause to be included in the articles of association of a company [REDACTED] in Hong Kong, and the *Hong Kong Listing Rules* also stipulate that the written contract entered into between the company and each of the directors, supervisors and senior management shall contain the following arbitration clauses:

- A. Whenever a dispute or claim arises from any right or obligation provided in contract, the articles of association, the PRC Company Law and other relevant laws and administrative regulations concerning the affairs of the company between (i) the company and its directors, supervisors and senior management officers; and (ii) a holder of overseas-[REDACTED] foreign invested shares and the directors, supervisors or senior management officers, such parties shall be required to refer such dispute or claim to arbitration.
- B. Where a dispute or claim referred above involves the above parties, the entire claim or dispute must be referred to arbitration and all persons (being the company or shareholders, directors, supervisors, general managers or other senior management officers of the company), who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall submit to arbitration.
- C. Disputes regarding definition of shareholders and register of members may be resolved other than by way of arbitration.
- D. The claimant may refer the arbitration to either the China International Economic Centre in accordance with its arbitration rules, and may also refer the arbitration to the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral tribunal elected by the claimant.
- E. If the claimant refers the arbitration to the Hong Kong International Arbitration Centre, either party may request the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.
- F. Unless otherwise provided in the laws and administrative regulations, any disputes or claims arising out of item (a) above shall be resolved in accordance with the laws of the People's Republic of China.
- G. The award made by the arbitral tribunal shall be final and conclusive, and shall be binding on the parties.
- H. This arbitration agreement is made by the directors, supervisors or senior management officers with the company on its own behalf and on behalf of each shareholder.

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- I. Any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

China International Economic and Trade Arbitration Commission ("**CIETAC**") is a Chinese arbitration agency targeting at economic and trade affairs. According to *Arbitration Rules of the China International Economic and Trade Arbitration Commission* which was revised on 3 February 2012 and became effective on 1 May 2012, CIETAC shall deal with economic and trading disputes over contractual or non-contractual transactions, including disputes involving Hong Kong based on the agreement of the parties. CIETAC is based in Beijing and its branches or centres have been set up in Shenzhen, Shanghai, Tianjin and Chongqing respectively.

If one party to the arbitration requires enforcement of the award made by the foreign affairs arbitration agency of China against the other party not located or with properties not located in China, it may apply to an overseas court having jurisdiction on the matter to be enforced for enforcement of the award. Similarly, Chinese courts may, pursuant to the principle of reciprocity or any international conventions that China has signed or is committed to, confirm and enforce the arbitral award made by overseas arbitration agency. On 2 December 1986, the Standing Committee of the National People's Congress passed a resolution: China is committed to the *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (hereinafter referred to as the "**New York Convention**") promulgated on 10 June 1958. The *New York Convention* specifies that each contracting state shall recognise and enforce all arbitral awards made by another contracting state. However, any contracting state reserves the right to refuse to enforce under certain circumstances (e.g. the award runs counter to the public policy of that country). The Standing Committee of the National People's Congress announced at the time of China's signing of the Convention: (1) China will recognise and enforce foreign arbitral awards only on the basis of reciprocity principle; (2) the New York Convention only applies to the disputes arising from contractual or non-contractual commercial legal relations as recognised by PRC laws. On 18 June 1999, Hong Kong and Mainland China made arrangement on the mutual enforcement of arbitral awards. The new arrangement, which was based on New York Convention, was approved by the Supreme People's Court of China and the Legislative Council of Hong Kong and became effective as from 1 February 2000. According to this arrangement, arbitral awards made by arbitration agencies of mainland China can be enforced in Hong Kong, and vice versa.

Foreign Exchange Control

China exercises control on foreign exchange. Legal tender of PRC is RMB, which cannot be converted to foreign currencies freely as limited by foreign exchange control for now. State Administration of Foreign Exchange ("**SAFE**") under the People's Bank of China is responsible for administrating all affairs related to foreign exchange, including executing foreign exchange control regulations.

The *Regulation of the People's Republic of China on Foreign Exchange Administration* (Order No. 193 of the State Council, hereinafter referred to as "**Regulation on Foreign Exchange Administration**") promulgated by the State Council on 29 January 1996, effective as from 1 April 1996 and revised on 14 January 1997 and 1 August 2008, specifies the principles and penalties on management of matters like foreign exchange revenues and expenditures. The People's Bank of China formulates basic rules for foreign exchange control; SAFE and its subordinates are responsible for implementation of specific rules and foreign exchange control.

Under the *Regulation on Foreign Exchange Administration*, there are two categories of foreign exchange transactions: those under the current account and those under the capital account. Current account refers to the transactions concerning goods, services and current transfers in balance of payments ("**BoP**"), such as trade income and expenditure, labour service income and expenditure

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and one-off transfer of funds; capital account refers to the transactions that will result in the increase/decrease of assets and liabilities in BoP, such as capital transfer, direct investment, securities investments, derivative products and loans. China does not restrict the international payment and account transfer under current accounts. Convertibility of foreign exchange under the capital accounts, including direct investments and capital contributions, is still subject to restrictions, and approval from the SAFE and its subordinates must be obtained.

The *Provisions on the Settlement, Sale of and Payment in Foreign Exchange* promulgated by the People's Bank of China on 20 June 1996 and effective as from 1 July 1996 specifies the rules for foreign exchange control, aiming to regulate the settlement and sale of and payment of foreign exchange inside the PRC conducted by any enterprise, individual, economic organisation and social organisation inside the PRC. *Clarification and Explanation of Issues relating to Regulations for the Settlement, Sale and Payment of Foreign Exchange* promulgated by SAFE on 4 July 1996 specifies that the outbound remittance of profits and bonus by foreign-invested enterprises is considered as a current account.

On 21 July 2005, the People's Bank of China promulgated *Announcement of the People's Bank of China on Reforming the RMB Exchange Rate Regime*, providing that starting from 21 July 2005, PRC will reform the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The People's Bank of China will announce the closing price of a foreign currency such as the US dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each working day, and will make it the central parity for the trading against the RMB on the following working day. Furthermore, the People's Bank of China will, with reference to exchange rate on international foreign exchange market, publish exchange rates of RMB traded against other major currencies. In foreign exchange transactions, designated foreign exchange banks may by themselves draw up applicable foreign exchange rate within specific scope in accordance with the exchange rate published by the People's Bank of China.

Regulations on Overseas Investment

According to *Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects* (Order No. 21 of the NDRC) promulgated and implemented by the NDRC on 9 October 2004, any types of legal persons in China shall be examined and approved by an agency under the State Council or NDRC or local development and reform authorities before it makes direct or indirect overseas investment. Where investors or equity holding of approved projects are changed, the investors shall apply for amendment to the agency under the State Council or relevant development and reform authorities. According to *Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects* and *Circular of the National Development and Reform Commission on Properly Handling the Delegation of Approval Authority over Overseas Investment Projects to Lower-level Authorities* (Fa Gai Wai Zi [2011] No. 235), with respect to an overseas investment project to be carried out by a local enterprise, where the investment of Chinese party (parties) for resource development project is less than US\$300 million or where the investment of Chinese party (parties) for non-resource development project is less than US\$100 million (excluding special projects), such project shall be verified and approved by the provincial development and reform authorities; decisions on the foregoing overseas investment projects to be carried out by centrally governed enterprises shall be made by such enterprises at their discretion and filed with the NDRC for record. With respect to an overseas investment project where the investment of Chinese party (parties) for resource development project is no less than US\$300 million or where the investment of Chinese party (parties) for non-resource development project is no less than US\$100 million, such project shall be verified and approved by the NDRC.

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The *Interim Measures for the Administration of Examination and Approval of Overseas Investment Projects* (境外投資項目核准暫行管理辦法) (Order No. 21 of the NDRC) was abolished on 8 May 2014 and replaced by the *Measures for the Administration of Examination and Approval and Filing of Overseas Investment Project* (境外投資項目核准和備案管理辦法) (Order No. 9 [2014] of the NDRC).

According to the *Measures for the Administration of Examination and Approval and Filing of Overseas Investment Project* (境外投資項目核准和備案管理辦法) (Order No. 9 [2014] of the NDRC) promulgated on 8 April 2014 and implemented on 8 May 2014 by the NDRC, and then revised by *Decision of the National Development and Reform Commission on the Amendment of Relevant Provisions of the Measures for the Administration of Examination and Approval and Filing of Overseas Investment Project and the Measures for the Administration of Examination and Approval and Filing of Foreign-Invested Project* (Order No. 20 of the NDRC) on 27 December 2014, overseas investment projects must be approved by the NDRC or the State Council or filed with the development and reform authorities. The overseas investment projects involving sensitive countries and regions and sensitive industries shall be approved by the NDRC. In particular, for overseas investment projects with US\$2 billion or above invested by the Chinese party shall be reviewed by the NDRC and the opinion formed shall be filed with the State Council for approval. Other overseas investment projects shall be reported to the NDRC or its provincial counterparts for the record depending on the amount invested and the type of investors.

According to the *Measures for Overseas Investment Management* (Order No. 3 [2014] of the Ministry of Commerce, effective from 6 October 2014), the filing and approval management will be applied by the Ministry of Commerce and the provincial commerce administrative department according to different situations of enterprise overseas investments. The approval management will be applied where the enterprise overseas investments involving in sensitive countries and regions as well as sensitive sectors. The filing management will be applied in other cases of enterprise overseas investments.

According to *Notice of the State Council on Release of the List of Government Approved Investment Projects (2014)* (Guo Fa [2014] No.53), investment projects involving sensitive countries and regions or sensitive industries shall be approved by competent department for investment under the State Council. Other outbound investments of US\$300 million or above by centrally governed enterprises and local enterprises are required to be filed with the competent department for investment under the State Council.

According to *Provisions on the Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions* (Hui Fa [2009] No. 30) which was promulgated by SAFE on 13 July 2009 and became effective as from 1 August 2009, Chinese enterprises approved to directly invest overseas shall register the foreign exchange for their direct overseas investment with the foreign exchange authority.

2. SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the *Companies Ordinance* and the *Companies (Winding Up and Miscellaneous Provisions) Ordinance* and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a [REDACTED] of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the *PRC Company Law*.

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Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the *PRC Company Law* applicable to a joint stock limited company incorporated under the *PRC Company Law*. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the *Companies Ordinance*, the articles of association of a private company incorporated in Hong Kong shall contain provisions that restrict a member's right to transfer shares. A public company's articles of association do not contain such provision.

Under the *PRC Company Law*, a joint stock limited company may be incorporated by promotion or public subscription. The amended *PRC Company Law* which came into effect on 1 March 2014 has no provision on the minimum registered capital of joint stock company, except that laws, administrative regulations and the State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The *PRC Company Law* provides that any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the *Securities Law*, a company which is authorised by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the *PRC Company Law*, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no over-valuation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, the domestic shares of a joint stock limited company, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors. Overseas [REDACTED] shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and trade by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors.

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Under the *PRC Company Law*, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our [REDACTED] cannot be transferred within one year from the [REDACTED] date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the [REDACTED] date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares.

Financial Assistance for Acquisition of Shares

The *PRC Company Law* does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the *Mandatory Provisions* contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

Variation of Class Rights

The *PRC Company Law* has no special provision relating to variation of class rights. However, the *PRC Company Law* states that the State Council can promulgate regulations relating to other kinds of shares. The *Mandatory Provisions* contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in Appendix V to this document.

Under the *Companies Ordinance*, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing at least 75% of the total voting rights of holders of shares in the class in question or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Directors, Senior Management and Supervisors

The *PRC Company Law*, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The *Mandatory Provisions*, however, contain certain restrictions on major disposals and specify the circumstances under which a director or a supervisor may receive compensation for loss of office.

Board of Supervisors

Under the *PRC Company Law*, a joint stock limited company's directors and senior management are subject to the supervision of a Board of Supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The *Mandatory Provisions* provide that each supervisor owes a duty, in the exercise of his rights or performance of his obligations, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The *PRC Company Law* provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate the laws, administrative regulations or the provisions of the articles of association in performing the duties of the company and result in losses of the company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates the laws, administrative regulations or the provisions of the articles of association in performing the duties of the company and result in losses of the company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under contingent circumstances, failure of initiating immediate proceeding may cause irreparable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the people's court in their own name.

The *Mandatory Provisions* provide further remedies against the directors, supervisors and senior management who breach their duties to the company.

In addition, as a condition to the [REDACTED] of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favour of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either appoint a receiver or manager over the property or business of the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The *Mandatory Provisions*, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets (including but not limited to any opportunities favourable to the company) or the individual rights of other shareholders (including but not limited to any distribution rights and voting rights, but excluding company reorganisation proposed at the general meeting for approval pursuant to the articles of association).

Notice of Shareholders' General Meetings

Under the *PRC Company Law*, notice of a shareholder's annual general meeting of the joint stock limited company must be given not less than 20 days before the meeting, whereas notice of a shareholder's special general meeting must be given not less than 15 days before the meeting. Under the *Special Provisions* and the *Mandatory Provisions*, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the general meeting of the joint stock limited

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company must return the written reply slip for attending the meeting to the company at least 20 days before the date of the meeting. Under the Hong Kong company law, for a company incorporated in Hong Kong, the minimum period of notice is 21 days in case of an annual general meeting and 14 days in other cases.

Quorum for Shareholders' General Meetings

Under Hong Kong company law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The *PRC Company Law* does not specify any quorum requirement for a shareholders' general meeting, but the *Special Provisions* and the *Mandatory Provisions* provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent more than 50% of the voting rights at least 20 days before the proposed date of the meeting, or if the number of shares represented by the shareholders who intend to attend the meeting is less than 50% of the total number of voting shares of the company, the company shall within five days notify its shareholders by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong company law, an ordinary resolution is passed by a simple majority and a special resolution is passed by a majority of at least 75%. Under the *PRC Company Law*, the passing of any resolution at a general meeting requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or reduction of registered capital, merger, division or dissolution, or change of company form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

Under the *PRC Company Law*, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The *Companies Ordinance* requires a company incorporated in Hong Kong to send every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before the annual general meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The *Mandatory Provisions* require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The *Special Provisions* require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

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Information on Directors and Shareholders

The *PRC Company Law* gives shareholders the right to inspect the company's articles of association, register of members, counterfoils of corporate bonds, minutes of the shareholders' general meetings, resolutions of board meetings, resolutions of supervisory board meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the *PRC Company Law* and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The *Mandatory Provisions* require the relevant company to appoint a trust company registered under the *Hong Kong Trustee Ordinance* (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the *Companies (Winding Up and Miscellaneous Provisions) Ordinance* or a compromise or arrangement between the company and its creditors or between the company and its members under Division 2 of Part 13 of the *Companies Ordinance*, which requires the sanction of the court. Under PRC Company Law, merger, division, dissolution or change of company form of a joint stock limited liability company has to be approved by shareholders in general meeting, and shall obtain approval from the government regulatory authorities in accordance with relevant laws, administrative regulations and provisions of the statutes (if applicable).

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The *Mandatory Provisions* provide that such disputes should be submitted to arbitration at either the Hong Kong International Arbitration Centre ("HKIAC") or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the *PRC Company Law*, a joint stock limited company, in distributing profits after tax to the shareholders, is required to make transfers equivalent to certain prescribed percentages by law of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the Company

Under the *PRC Company Law*, if a director, supervisor or senior management officer in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management officer should be liable to the company for such damages. In addition, the *Listing Rules* require [REDACTED] companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management officer).

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the *PRC Company Law*, directors, supervisors and senior management of a company should be loyal and diligent. Under the *Special Provisions*, directors, supervisors and senior management shall fulfil their duties honestly and safeguard the interests of the company in accordance with the articles of association, and shall not take advantage of their positions and powers in the company to seek personal gains.

3. HONG KONG LISTING RULES

The *Listing Rules* provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited company and seeking a primary [REDACTED] or whose primary [REDACTED] is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to the Company.

Compliance Adviser

A company seeking [REDACTED] on the Hong Kong Stock Exchange is required to appoint a compliance adviser acceptable to the Hong Kong Stock Exchange for the period from its [REDACTED] up to the date of the publication of its financial results for the first full financial year commencing after the [REDACTED]. The compliance adviser should provide professional advice on continuous compliance with the Listing Rules and all other applicable laws and regulations, and to act at all times, in addition to its two authorised representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser in fulfilling its responsibilities adequately, it may require the company to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

Accountant's Report

The accountant's report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

Process Agent

A [REDACTED] company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are [REDACTED] on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination or his, her or its appointment and his, her or its contact particulars.

Public Shareholding

If at any time there are issued securities of a PRC issuer other than foreign invested shares which are [REDACTED] on the Hong Kong Stock Exchange, the *Hong Kong Listing Rules* require that the aggregate amount of [REDACTED] and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which [REDACTED] is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalisation at the time of [REDACTED] of not less than HK\$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the issuer is expected to have a market capitalisation at the time of [REDACTED] of more than HK\$10 billion.

Independent Non-Executive Directors and Supervisors

Independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the [REDACTED] company's general body of shareholders will be adequately represented. Supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate the standard of competence commensurate with their position as supervisors.

Restrictions on Repurchase of Securities

Subject to governmental approvals and the articles of association of the company, a [REDACTED] company may repurchase its own shares on the Hong Kong Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of a special resolution of the holders of class shares at separate class meetings conducted in accordance with the articles of association is required for share repurchases. In seeking approvals, a [REDACTED] company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not [REDACTED] or traded on the Hong Kong Stock Exchange. The director must also state the consequences (if any) of any purchases which will arise under either or both of the *Hong Kong Takeovers Code* and any similar PRC law of which directors are aware. Any general mandate given to directors to repurchase shares must not exceed 10% of the total number of its issued shares.

Redeemable Shares

A [REDACTED] company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of its shareholders are adequately protected.

Pre-emptive Rights

Except in the circumstances mentioned below, directors are required to obtain approval by way of a special resolution of shareholders at general meeting, and the approvals by way of special resolutions of the holders of class shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by the articles of association, prior to authorising, allotting, issuing or granting shares or securities convertible into shares, options, warrants or similar rights to subscribe for any shares or such convertible securities.

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

No such approval will be required under the Listing Rules to the extent that (i) the existing shareholders have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued domestic shares and [REDACTED] as at the date of the passing of the relevant special resolution, or (ii) such shares are issued as part of the Company's plan at the time of its establishment to issue domestic shares and [REDACTED] and which plan is implemented within 15 months from the date of approval by the securities regulatory authority of the State Council.

Supervisors

A company [REDACTED] or seeking a [REDACTED] on the Hong Kong Stock Exchange is required to adopt rules governing dealings by the Supervisors in securities of the Company on terms no less exacting than those of the *Model Code* (as set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

A PRC issuer is required to obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates must abstain from voting on the matter) prior to the company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the [REDACTED] company or any of its subsidiaries: (1) the term of the contract exceeds three years; or (2) the contract expressly requires the company (or its subsidiaries) to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The nomination and remuneration committee of the [REDACTED] company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the [REDACTED] company and its shareholders as a whole and advise shareholders on how to vote.

Amendment to Articles of Association

A PRC issuer may not permit or cause any amendment to be made to its articles of association which would contravene the *PRC Company Law*, the *Mandatory Provisions* or the *Hong Kong Listing Rules*.

Documents for Inspection

A PRC issuer is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by its shareholders at reasonable charges of the following:

- a) a complete duplicate register of shareholders;
- b) a report showing the status of its issued share capital;
- c) its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;
- d) special resolutions;

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

- e) reports showing the number and nominal value of securities repurchased by it since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between class shares);
- f) copy of the latest annual return filed with the SAIC or other competent PRC authorities; and
- g) for shareholders only, copies of minutes of shareholders' general meetings.

Receiving Agents

Under Hong Kong law, a PRC issuer is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the [REDACTED] to be held, pending payment, in trust for the holders of such [REDACTED].

Statements in Share Certificates

A PRC issuer is required to ensure that all of its [REDACTED] documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- a) agrees with the company and each shareholder, and it agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Provisions and its articles of association;
- b) agrees with the company, each shareholder, director, supervisor, manager and other senior management officer and it (acting both for the company and for each director, supervisor, manager and other senior management officer), agree with each shareholder to refer all differences and claims arising from the articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the articles of association. Any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- c) agrees with the company and each shareholder that shares are freely transferable by the holder thereof; and
- d) authorises the company to enter into a contract on his behalf with each director and senior management officer whereby such directors and senior management undertake to observe and comply with their obligations to shareholder as stipulated in the articles of association.

Legal Compliance

A PRC issuer is required to observe and comply with the *PRC Company Law*, the *Special Provisions* and its articles of association.

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

Contract between the PRC Issuer and Directors, Senior Management and Supervisors

A PRC issuer is required to enter into a contract in writing with every director and senior management containing at least the following provisions:

- a) an undertaking by the director or senior management to itself to observe and comply with the PRC Company Law, the Special Provisions, its articles of association, the Hong Kong Takeovers Code and an agreement that it must have the remedies provided in its articles of association and that neither the contract nor his office is capable of assignment;
- b) an undertaking by the director or senior management to it acting as agent for each shareholder to observe and comply with his obligations to our shareholders as stipulated in the articles of association; and
- c) an arbitration clause which provides that whenever any disputes or claims arise from the contract, its articles of association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between us and its directors or senior management and between a holder of [REDACTED] and a director or senior management, such disputes or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral tribunal elected by the claimant. Such arbitration will be final and conclusive. If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of the HKIAC. PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral tribunal is final and shall be binding on the parties thereto. Disputes over who is a shareholder and over the share registrar do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

Subsequent [REDACTED]

A PRC issuer must not apply for the [REDACTED] of its [REDACTED] on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of its [REDACTED] are adequately protected.

English Translation

All notices or other documents required under the Hong Kong Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange or to holders of the [REDACTED] are required to be in English, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make [REDACTED] of [REDACTED] by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of any company's [REDACTED].

APPENDIX IV SUMMARY OF PRINCIPAL LAWS AND REGULATIONS

4. OTHER LEGAL AND REGULATORY PROVISIONS

Upon the [REDACTED] on the Hong Kong Stock Exchange, the provisions of the SFO, the *Hong Kong Takeovers Code* and such other relevant ordinances and regulations will apply to a PRC issuer.

5. SECURITIES ARBITRATION RULES

The *Securities Arbitration Rules* of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and [REDACTED] on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party, or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the *Securities Arbitration Rules*, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

APPENDIX V

SUMMARY OF THE ARTICLES OF ASSOCIATION

Set out below is a summary of certain provisions of the Articles of Association of the Company.

Summary of the Articles of Association

The Company was incorporated as a joint stock company with limited liability on 3 December 2007 under the Company Law.

The Articles of Association comprises its constitution.

This appendix contains a summary of the principal provisions of the applicable Articles of Association upon the [REDACTED] and [REDACTED] of the [REDACTED], which was adopted by the Company on 21 August 2015 and will become effective on the date that [REDACTED] are [REDACTED] on the Stock Exchange. This appendix aims to provide potential investors with an overview of the Articles of Association. The information contained below is only a summary which may not contain all the information that is important to potential investors. A copy of full Chinese text of the Articles of Association is available for inspection as mentioned in "Documents Delivered to the Registrar of Companies and Documents Available of Inspection" in Appendix VII to this document.

1. DIRECTORS AND BOARD OF DIRECTORS

(a) Power to Allot and Issue Shares

There is no provision in the Articles of Association empowering the Board to allot or issue Shares. In order to allot or issue Shares, the Board shall prepare a proposal for approval by Shareholders at a general meeting by way of special resolution. Any such allotment or issue shall be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

(b) Power to Dispose of the Assets of the Company or any of its Subsidiaries

The Board shall not, without the approval of the Shareholders at a general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the estimated value of the fixed assets to be disposed of and the proceeds from the disposal of fixed assets of the Company in the period of four months immediately preceding the proposed disposition exceeds 33% of the value of the Company's fixed assets as shown in the last balance sheet considered by the Shareholders at a general meeting. For the purposes of the above, disposition shall mean an act involving a transfer of an interest in assets other than by way of security over fixed assets. The validity of a transaction for the disposition of fixed assets by the Company shall not be affected by a breach of the above-mentioned restriction contained in the Articles of Association.

(c) Compensation or Payments for Loss of Office

Contract concerning remuneration between the Company and a Director or Supervisor, shall provide that in the event of a takeover of the Company, the Director or Supervisor shall, subject to the prior consent of the Shareholders at a general meeting, have the right to receive compensation for loss of office or payment for his retirement from office.

A takeover of the Company means either:

- (i) an offer made to all Shareholders of the Company; or
- (ii) an offer made by such person with a goal of becoming the Controlling Shareholder of the Company within the meaning of the Articles of Association.

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If the relevant Director or Supervisor does not comply with the above provisions, any sum so received by the Director or Supervisor shall belong to those persons who have sold their Shares as a result of the offer. The expenses incurred by the Director and Supervisor in distributing such sum on a pro rata basis among those persons shall be borne by the relevant Director or Supervisor and shall not be paid out of the sum to be received by him/her.

(d) Loans to Directors, Supervisors and Other Officers

The Company may not provide any loan or loan guarantee directly or indirectly to a Director, Supervisor or other senior management of the Company or its parent company or any related associate of them.

A loan made by the Company in breach of the above provisions shall be repayable forthwith by the recipient of the loan regardless of the terms of the loan. A guarantee for a loan provided by the Company in breach of the above provisions shall not be enforceable by the Company unless:

- (i) the lender was not aware that the loan was granted to a person related to a Director, Supervisor or senior management of the Company or its parent company; or
- (ii) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

The following transactions shall not be subject to the above provisions:

- (i) the Company provides loans or loan guarantees to its subsidiary;
- (ii) the Company provides loans, loan guarantees or other payment to a Director, Supervisor or senior management to settle expenditure incurred by him/her for the purposes of the Company or enabling him/her to perform his/her duties, in accordance with the terms of a contract of service approved by the General Meeting; and
- (iii) the Company may provide a loan to, or provide a loan guarantee in connection with, any of its Directors, Supervisors, the senior management and related persons if the ordinary course of its business includes the provision of loans or guarantees, provided that the provision of such loans or the giving of such loan guarantees is on normal commercial terms.

For these purposes, "guarantee" includes an undertaking as a guarantor or the provision of property to secure the performance of obligations by the obligor.

(e) Financial Assistance for the Acquisition of Shares in the Company or any of its Subsidiaries

Subject to the Articles of Association:

- (i) neither the Company nor any of its subsidiaries shall at any time or by any means provide financial assistance to a person who acquires or is proposing to acquire Shares in the Company. The said person includes any person who has directly or indirectly incurred a liability as a result of the acquisition of Shares in the Company; and
- (ii) neither the Company nor any of its subsidiaries shall at any time or by any means provide financial assistance to the person mentioned in the above paragraph for the purposes of reducing or discharging his liabilities.

APPENDIX V

SUMMARY OF THE ARTICLES OF ASSOCIATION

The following transactions shall not be deemed to be prohibited:

- (i) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interest of the Company, and the principal purpose in giving financial assistance is not for the acquisition of Shares, or the giving of financial assistance is an incidental part of a major plan of the Company;
- (ii) the distribution of the assets of the Company through dividends;
- (iii) the allotment of shares as dividends;
- (iv) a reduction of registered capital, a repurchase of Shares or a reorganisation of the share holdings structure of the Company effected in compliance with the Articles of Association;
- (v) the provision of loans by the Company within its scope of business for its ordinary course of business, provided that the net assets of the Company are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profit; and
- (vi) the contribution of the Company to employee's shareholding plan, provided that the net assets of the Company are not thereby reduced or that, to the extent that the net assets are thereby reduced, the financial assistance is provided out of distributable profit.

For these purposes,

- (i) "financial assistance" includes, but without limitation, the following:
 - (aa) a gift;
 - (bb) a guarantee (including the undertakings as a guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligator) or compensation, (other than compensation due to the default of the Company), release or waiver of any rights;
 - (cc) provision of a loan, or entering into an agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, or entering into an agreement for a change in the parties to, or the assignment of rights arising under, such a loan or agreement; or
 - (dd) any other form of financial assistance given by the Company when the Company is insolvent or has no net asset, or when its net assets would thereby be reduced by a material extent; and
- (ii) "incurring an obligation" includes the incurring of obligations by entering into an agreement, the making of arrangement (whether enforceable or not, and whether made on its own account or with any other persons) or any other means that result in the change of the financial position of the obligor.

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SUMMARY OF THE ARTICLES OF ASSOCIATION

(f) Disclosure of Interests in Contracts with the Company and Voting on such Contracts

Where a Director, Supervisor, or senior management is, directly or indirectly, materially interested in a contract or a proposed contract, transaction, arrangement with the Company (other than contracts of service between the Company and the Directors, Supervisors, general manager and other senior management), he/she shall declare the nature and extent of his/her interests to the Board at the earliest opportunity, regardless of whether such contract, proposed contract, transaction or arrangement is subject to the approval of the Board.

Unless the interested Director, Supervisor or senior management has disclosed his/her interests to the Board in accordance with the preceding paragraph of this Article and the contract, transaction or arrangement has been approved by the Board at the meeting in which the interested Director, Supervisor or senior management is not counted in the quorum and refrains from voting, the contract, transaction or arrangement is voidable at the request of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor or senior management. A Director, Supervisor, and senior management of the Company is deemed to be interested in a contract, transaction or arrangement in which one of his/her related persons or associates is interested.

If a Director, Supervisor or senior management of the Company gives the Board a general notice in writing stating that, by reason of the facts stated in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be entered into by the Company, then he shall be deemed to have made a disclosure for the purposes of the preceding provisions of the Articles so far as the content stated in such notice is concerned, if such notice shall have been given to the Board before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

(g) Remuneration

The Company shall, with the prior approval of the Shareholders at a general meeting, enter into a contract in writing with each Director or Supervisor for remuneration in respect of their services. The remuneration shall include:

- (i) remuneration in respect of their services as Directors, Supervisors or senior management of the Company;
- (ii) remuneration in respect of their services as directors, supervisors or senior management of any subsidiary of the Company;
- (iii) remuneration otherwise in connection with services provided for the management of the Company and any of its subsidiaries;
- (iv) compensation for loss of office, or in connection with their retirement from office.

Except under a contract entered into in relation to the above, no proceedings shall be brought by a Director or Supervisor against the Company in respect of his/her receivable benefits due to the matters specified above.

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(h) Retirement, Appointment and Removal

The following persons may not serve as a Director, Supervisor, general manager, or other senior management of the Company:

- (i) an individual who has no civil capacity or has restricted civil capacity;
- (ii) persons who have committed the offences of corruption, bribery, expropriation of property, misappropriation of property or damaging the social economic order, and have been penalized due to the above offences, where less than five years have elapsed since the date of the completion of implementation of the penalty or persons who have committed crimes and have been deprived of their political rights due to such crimes, where less than five years have elapsed since the date of the completion of the implementation of such deprivation;
- (iii) persons who were former directors, factory chiefs or managers of a company or enterprise which has become insolvent and has been liquidated due to mismanagement and were personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked due to a violation of the law and were ordered to close down and were personally liable for such matters of such company or enterprise, where less than three years have elapsed since the date of the completion of the revoking of business license of such company or enterprise;
- (v) persons who have failed to pay a relatively large debt when due and outstanding;
- (vi) persons who have committed criminal offences and are still under investigation by the judiciary;
- (vii) persons who were not allowed to be heads of enterprises as stipulated by laws or administrative regulations;
- (viii) persons who are not natural persons;
- (ix) persons who have been convicted of offences of violating provisions of the relevant securities laws and regulations or offences of fraud or acting in bad faith by the relevant authority, where less than five years have lapsed since the date of conviction;
- (x) other persons stipulated by the laws and regulations of the places where the Shares of the Company are [REDACTED].

The validity of the conduct of the Directors, general manager or other senior management who have acted on behalf of the Company with respect to third parties who have acted in good faith shall not be affected due to any irregularity in the employment, election or qualification of such Directors, general manager or other senior management.

The Company has a board of directors which shall consist of nine Directors. The non-employee Directors shall be elected at general meetings.

A Director is not required to hold any Shares in the Company.

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The chairman of the Board shall be elected or removed by not less than half of all of the Directors. A Director with unfinished term may be removed by way of ordinary resolution at a general meeting.

The term of office of the chairman and other Directors shall be three years and is renewable upon re-election.

The list of candidates of Directors and Supervisors shall be proposed in writing in form of a motion to the General Meeting for approval.

(i) Borrowing Powers

Subject to the law and administrative regulations of China, the Company shall be entitled to raise capital and borrow money through various means, including (without limitation) the issue of bonds, mortgage or pledge of whole or part of its property and other rights as permitted by the law and administrative regulations of China, provided that such action does not damage or abrogate rights of any Shareholder.

The Articles of Association do not contain any special provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any special provision in respect of the manner in which such power may be raised, other than; (a) provisions which give the Directors the power to formulate proposals for the issuance of debentures by the Company; and (b) provisions which stipulate that the issuance of debentures must be approved by the Shareholders of the Company at a general meeting by way of a special resolution.

(j) Liabilities

The Directors, Supervisors and senior management of the Company owe fiduciary duties and duties of diligence to the Company. In addition to any rights and remedies provided for in relevant laws and administrative regulations, the Company shall be entitled to adopt the following measures where a Director, Supervisor, general manager and senior management is in breach of his/her duties owed to the Company:

- (i) to claim against such a Director, Supervisor or senior management for losses incurred by the Company as a result of his/her misconduct;
- (ii) to rescind any contracts or transactions entered into between the Company and the Director, Supervisor or senior management, and a contractor where such contractor has knowledge or should have knowledge of the breach of duty;
- (iii) to recover profits made by the Director, Supervisor or senior management as a result of his/her breach;
- (iv) to recover any monies received by the Director, Supervisor or senior management which should have been received by the Company, including, without limitation, commissions;
- (v) to demand the return by the Director, Supervisor or other senior management of the interest earned or which may have been earned on monies which would have been paid to the Company; and

APPENDIX V

SUMMARY OF THE ARTICLES OF ASSOCIATION

- (vi) to initiate legal proceedings to determine whether the assets of a Director, Supervisor, general manager and other senior management earned through his/her breach of duty should belong to the Company. The Board shall carry out its duties in compliance with the law and administrative regulations, the Articles of Association and resolutions passed at general meetings. Each Director, Supervisor and senior management of the Company shall abide by the fiduciary principles in the discharge of his/ her duties, and shall not place himself/herself in a position where his/her own interests and duty may conflict. Such principles include (without limitation) the performance of the following:
- (i) to act honestly in what he/she considers to be in the best interest of the Company;
 - (ii) to exercise his/her powers within the scope specified and not to act ultra vires;
 - (iii) to exercise the discretion vested in him/her personally and not allow himself/herself to act under the influence of others; unless and to the extent permitted by law and administrative regulations or by the General Meeting which has been informed of the relevant facts, not to delegate the exercise of his/her discretion;
 - (iv) to treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;
 - (v) except in accordance with the Articles of Association or with the informed consent of the General Meeting, not to enter into any contract, transaction or arrangement with the Company;
 - (vi) not to use the assets of the Company for his/her personal benefit in any manner without the informed consent of the General Meeting;
 - (vii) not to use his/her position to accept bribes or other illegal income and not to misappropriate the fund of the Company or expropriate the assets of the Company in any manner, including (without limitation) opportunities beneficial to the Company;
 - (viii) not to accept commissions in connection with the transactions of the Company without the informed consent of the General Meeting;
 - (ix) to abide by the Articles of Association, faithfully perform his/her duties and protect the interests of the Company, and not to use his/her position and powers in the Company to seek personal gain;
 - (x) not to compete with the Company in any way except with the informed consent of the General Meeting;
 - (xi) not to misappropriate the funds of the Company or lend the funds of the Company to others, not to open any bank account in his/her own name or other's name for the deposit of the assets of the Company, and not to lend the funds of the Company to any others or provide security for debt of any Shareholder of the Company or any other individuals in breach of the Articles of Association without the consent of the General Meeting; and

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- (xii) not to disclose confidential information of the Company obtained during his/her term of office and not to use such information other than in the interest of the Company, without the informed consent of the Shareholders at a general meeting, except where the disclosure of information to a court or other relevant governmental authority is made (aa) as stipulated by the law; (bb) under the request of public; or (cc) as required for the personal interests of the Director, Supervisor, general manager or other senior management.

A Director, Supervisor, general manager or other senior management of the Company shall not direct the following persons or entities (the "**connected person(s)**") connected to him to do what he is not permitted to do:

- (i) the spouse or minor child of such a Director, Supervisor, general manager and other senior management of the Company;
- (ii) a trustee of such a Director, Supervisor, general manager and other senior management of the Company, or any person referred to in (i) above;
- (iii) a partner of such a Director, Supervisor, general manager and other senior management of the Company, or of any person referred to in (i) and (ii);
- (iv) a company effectively controlled solely by a Director, Supervisor, general manager or other senior management, or with one or more persons referred to in above (i), (ii) and (iii), or with other Directors, Supervisors and senior management of the Company; or
- (v) a Director, Supervisor, general manager, or other senior management of the controlled company referred to in (iv) above.

The fiduciary duties of a Director, Supervisor, general manager and other senior management of the Company do not necessarily cease with the termination of his/her tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of his/her term of office. Other duties may continue for such period as fairness may require depending on the occurrence of the matter in question and the time lapse between the termination of his/her term of office, and the circumstances and the conditions under which the relationships between him/her and the Company are terminated.

Except in circumstances referred to in the Articles of Association, liabilities of a Director, Supervisor, general manager and other senior management of the Company arising from the violation of a specified duty may be released by informed Shareholders at a general meeting.

In addition to obligations imposed by relevant laws, administrative regulations or the listing rules of the securities exchange on which the Shares of the Company are [REDACTED], Directors, Supervisors, general manager and other senior management of the Company in the exercise of their powers conferred by the Company shall owe the following obligations to every Shareholder:

- (i) not to cause the Company to go beyond the business scope specified by its business license;
- (ii) to act honestly in what they consider to be the best interest of the Company;
- (iii) not to deprive in any way the Company of its assets, including (without limitation) opportunities beneficial to the Company;

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- (iv) not to deprive Shareholders of their personal rights and interests, including (without limitation) rights to distribute and to vote, except in reorganisation of the Company submitted in accordance with the provisions of the Articles of Association and adopted at general meetings.

Each of the Directors, Supervisors and senior management of the Company owes a duty, in the exercise of his/her rights and perform his/her obligations, to exercise the caution, diligence and skill that a reasonably prudent person would exercise under similar circumstances.

2. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company may, in accordance with provisions contained in relevant laws, administrative regulations and the Articles of Association, amend its Articles of Association. The amendments to the Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the company approval authorities of the State Council and the securities regulatory authority of the State Council. Regarding the registered particulars of the Company, registration of the changes shall be made in accordance with law.

3. VARIATION OF RIGHTS OF EXISTING SHARES OR CLASSES OF SHARES

The Company may not vary or abrogate rights attached to any class of Shares ("**Class Rights**") unless approved by a special resolution of the Shareholders at a general meeting and by the affected holders of the Shares of that class at a meeting convened in accordance with the provisions of the Articles of Association. The following circumstances shall be deemed to be a variation or abrogation of the Class Rights of a class:

- (i) an increase or decrease in the number of Shares of such class, or an increase or decrease in the number of Shares of a class having voting or distribution rights or other privileges equal or superior to the Shares of such class;
- (ii) an exchange of all or part of the Shares of such class into those of another class or a grant of a right to exchange all or part of the Shares of another class into the Shares of such class;
- (iii) the removal or reduction of rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;
- (iv) the reduction or removal of a dividend preference or a liquidation preference attached to Shares of such class;
- (v) the addition, removal or reduction of conversion privileges, options, voting rights or transfer or pre-emptive rights attached to Shares of such class, or rights to obtain securities of the Company;
- (vi) the removal or reduction of rights attached to Shares of such class to receive payments payable by the Company in particular currencies;
- (vii) the creation of a new class of Shares having voting or distribution rights or privileges equal or superior to those of the Shares of such class;
- (viii) the restriction of the transfer of the Shares of such class or any addition to such restriction;

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- (ix) the issuance of rights to subscribe for, or convert into, Shares of such class or another class;
- (x) the increase of the rights and privileges of Shares of another class;
- (xi) the restructuring of the Company where the proposed restructuring will result in different classes of Shareholders bearing different degrees of responsibility in respect of liability; and
- (xii) the variation or abrogation of the provisions in the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but Interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class meeting shall require the approval of Shareholders present representing more than two thirds of the voting rights of that class voting in favor of such resolutions.

Written notice of a class meeting shall be given by the Company 45 days prior to the date of the meeting to notify all the registered Shareholders holding Shares of that class of the matters to be considered at the meeting and the date and place of the meeting. A Shareholder who intends to attend the meeting shall deliver a written reply to the Company 20 days prior to the date of the meeting confirming his/her attendance at the class meeting.

The Company can convene the class meeting if the number of Shares carrying voting rights represented by Shareholders intending to attend accounts for more than half of total number of Shares of that class carrying voting rights at such meeting. If not, the Company shall make an announcement, within 5 days before the date of the class meeting, once again notifying the Shareholders of the matters proposed to be considered and the date and place of the meeting. Once such announcement has been made, the Company may convene the class meeting. Notices convening class meetings need only be served on Shareholders entitled to vote thereat.

Meetings of any class of Shareholders shall be conducted in a way as similar as possible to the general meetings. The provisions of the Articles of Association relating to the holding of general meetings shall apply to class meetings.

In addition to the Shareholders of other classes of Shares, Shareholders of Domestic Shares and overseas [REDACTED] foreign shares are deemed to be Shareholders of different classes.

Special procedures for voting by holders of different classes of Shares are not required in the following situations:

- (i) where the Company issues, upon the approval by a special resolution of the General Meeting, Domestic Shares and overseas [REDACTED] foreign shares either separately or concurrently once every twelve months of a proposed amount of not more than 20% of the issued Shares of each class;
- (ii) where the Company completes, within 15 months from the date on which approval is given by the securities regulatory authorities of the State Council, its plan (made at the time of its establishment) to issue Domestic Shares and overseas [REDACTED] foreign shares.

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For the purposes of the class rights provisions of the Articles of Association, an "Interested Shareholder" is:

- (i) in the case of an offer to repurchase Shares from all Shareholders or a repurchase of Shares through public dealing on the Hong Kong Stock Exchange, a Controlling Shareholder within the meaning of the Articles of Association;
- (ii) in the case of a repurchase of Shares by an off-market contract outside the Hong Kong Stock Exchange, a Shareholder to whom the contract is related;
- (iii) in the case of a restructuring proposal of the Company, a Shareholder within a class who bears less liability as compared with the other Shareholders within such class on a pro rata basis or who has an interest different from that of the other Shareholders within such class.

4. SPECIAL RESOLUTIONS—MAJORITY REQUIRED

Resolutions of general meetings are divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution at a general meeting, more than half of the votes represented by the Shareholders (including proxies) present at the meeting must be exercised in favor of the resolution.

To adopt a special resolution at a general meeting, more than two-thirds of votes represented by the Shareholders (including proxies) present at the general meeting must be exercised in favor of the resolution.

5. VOTING RIGHTS (GENERALLY ON A POLL AND RIGHT TO DEMAND A POLL)

The Shareholders of the ordinary shares of the Company have the right to attend or appoint a proxy to attend general meetings and to vote thereat. When voting at a general meeting, the Shareholders (including proxies) may exercise the voting rights they represent according to the number of Shares carrying voting rights and each share shall have one vote.

At any general meeting, voting shall be taken by poll. On a poll taken at a meeting, a Shareholder (including his/her proxy) entitled to two or more votes need not cast all his/her votes in the same way.

6. REQUIREMENTS FOR ANNUAL GENERAL MEETINGS

A general meeting shall either be an annual general meeting or an extraordinary general meeting. General meetings shall be convened by the Board. Annual general meetings are held once every year within 6 months after the end of the last financial year.

7. ACCOUNTS AND AUDIT

(a) Financial and accounting system

The Company shall establish its financial and accounting systems in accordance with the law and administrative regulations and the regulations formulated by the relevant authority of the PRC.

The Board of the Company shall place before the Shareholders at every annual general meeting such financial reports of the Company as required by and prepared in accordance with the law and administrative regulations or regulations promulgated by competent local governments and regulatory authorities.

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The financial statements of the Company shall, in addition to being prepared in accordance with the PRC Accounting Standards and regulations, be prepared in accordance with either the International Accounting Standards or that of the place outside the PRC where the Shares of the Company are [REDACTED]. If there is any material difference between the financial statements prepared respectively in accordance with the aforesaid accounting standards, such difference shall be stated and explained in the financial statements. For the purposes of distribution of the after-tax profits of the Company in the relevant financial year, the lower of the after-tax profits as shown in the different set of financial statements shall be adopted.

The financial reports of the Company shall be made available at the Company for inspection by the Shareholders 20 days before the date of an annual general meeting. Every Shareholder of the Company is entitled to a copy of the financial reports.

A copy of the above financial report shall, at least 21 days before the date of the annual general meeting, be delivered by pre-paid post to every holder of overseas [REDACTED] foreign shares at his/her registered address as shown in the register of Shareholders.

The interim results or financial information that the Company announces or discloses shall be prepared in accordance with the PRC Accounting Standards and regulations, and the International Accounting Standards or accounting standards of the place outside the PRC at which Shares of the Company are [REDACTED].

The Company shall publish its financial reports two times in each accounting year, that is, its interim financial reports within 60 days of the end of the first six months of an accounting year and its annual financial reports within 120 days of the end of the accounting year.

The Company shall not keep any other books of accounts other than those provided by the law. The Company shall not deposit any asset into any account maintained under the name of any individual.

(b) Appointment and removal of accountants

The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the PRC to audit the annual reports and review other financial reports of the Company.

The first accounting firm of the Company may be appointed by the inaugural meeting prior to the first annual general meeting and the accounting firm so appointed shall hold office until the conclusion of the first annual general meeting.

The accounting firm appointed by the Company shall hold office from the conclusion of the annual general meeting until the conclusion of the next annual general meeting.

The General Meeting may by ordinary resolution remove the accounting firm before the expiry of its term of office notwithstanding the provisions in the contract between the Company and the firm, but without prejudice to the firm's right to claim, if any, for damages from the Company in respect of such removal.

The remuneration of the accounting firm or the manner in which such remuneration is determined shall be decided by the Shareholders at a general meeting.

The appointment, removal and non-reappointment of the accounting firm of the Company shall be determined by the Shareholders at a general meeting, and filed to the competent securities authority of the State Council.

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Prior to the removal or the non-reappointment of the accounting firm, an advance notice of such removal or non-reappointment shall be given to the accounting firm and such firm shall have the right to make representation to the general meeting.

Where the accounting firm resigns its post, it shall make clear to the general meeting whether there is any impropriety on the part of the Company.

The accounting firm may resign its office by depositing at the legal address of the Company a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

- (i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the Shareholders or creditors of the Company; or
- (ii) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, the Company shall within fourteen (14) days send a copy of the notice to the relevant governing authority. If the notice contains a statement under circumstance (ii) of the preceding paragraph, a copy of such statement shall be placed at the Company for Shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every holder of overseas [REDACTED] foreign shares.

Where the notice of resignation of the accounting firm contains a statement of any circumstance which should be brought to the notice of the Shareholders or creditors of the Company, it may require the Board to convene an extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

8. NOTICE OF GENERAL MEETING AND BUSINESS TO BE CONDUCTED THEREAT

The general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with the law.

The Company shall not enter into any contract with any person other than a Director, Supervisor or other senior management of the Company whereby such person is entrusted with the management of the whole or a material part of any business of the Company without the prior approval of the Shareholders by a special resolution at a general meeting unless the Company is under an extraordinary circumstances such as a crisis.

General meetings are divided into annual general meetings and extraordinary general meetings. The Board shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- (i) when the number of Directors is less than the number of Directors required by the PRC Company Law or two-thirds of the number of Directors specified in the Articles of Association;
- (ii) when the accrued losses of the Company amount to one-third of its share capital;
- (iii) when Shareholders individually or collectively holding 10% or more of the issued Shares of the Company requests in writing the convening of an extraordinary general meeting; or
- (iv) when the Board considers necessary or upon the request of the Board of Supervisors.

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To convene a general meeting, the Company shall give written notices 45 days before the date of the meeting, informing all registered Shareholders of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders who will attend the meeting shall return the written replies of attendance to the Company to be received by the Company 20 days before the date of the meeting.

When the Company is to convene a general meeting, Shareholders individually or collectively holding 3% or more of Shares of the Company carrying voting rights shall have the right to put forward proposals in writing to the Company.

The Company shall calculate, according to the written replies received 20 days before the date of the general meeting, the number of Shares carrying voting rights that the Shareholders attending the meeting represent. The Company can convene the general meeting if the number of Shares carrying voting rights represented by Shareholders intending to attend accounts for more than half of total number of Shares carrying voting rights. If not, the Company shall make an announcement, within 5 days before the date of the general meeting, once again notifying the Shareholders of the matters proposed to be considered and the date and place of the meeting. An extraordinary general meeting may not decide on matters not specified in the aforementioned notice.

A notice of general meeting shall be in writing and include the following:

- (i) specify the time, place and the date of the meeting;
- (ii) state the matters to be discussed at the meeting;
- (iii) provide such information and explanation as are necessary for the Shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made by the Company to conduct a merger, to repurchase its own Shares, to reorganise the share capital or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the reasons for and consequences of such proposal must be properly explained;
- (iv) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor or other senior management in the transaction proposed and the effect of the proposed transaction on them in their capacity as Shareholders in so far as it is different from the effect on the interests of other Shareholders of the same class;
- (v) contain the text of any special resolution proposed to be passed at the meeting;
- (vi) contain an express statement that a Shareholder entitled to attend and vote at the general meeting is entitled to appoint one or more proxies to attend and vote instead of him/her and that the proxies need not be Shareholders of the Company; and
- (vii) specify the time and place for lodging proxy forms for the relevant meeting.

Notices of general meetings shall be served on the Shareholders (whether or not they are entitled to vote at the meeting) by personal delivery or prepaid mail to their addresses registered in the register of Shareholders. Notice of general meetings for holders of Domestic Shares may be made by way of public announcement.

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Public announcements of notices of general meetings shall be published in one or more newspapers designated by the securities regulatory authority of the State Council during 45 days to 50 days prior to the date of the meeting. Upon the publication of such announcements, all holders of Domestic Shares shall be deemed to have received the notices of the relevant general meetings. The notices of general meetings issued to the Shareholders of overseas [REDACTED] foreign shares may be published on the website of the Hong Kong Stock Exchange or one or more newspapers designated by it. Upon the publication of such announcements, all Shareholders of all overseas [REDACTED] foreign shares shall be deemed to have received the notices of the relevant general meetings.

Shareholders requisitioning to convene an extraordinary general meeting or class meeting shall follow the following procedures:

- (i) Two or more Shareholders individually or collectively holding more than 10% (including the 10%) of the Shares carrying voting rights at the meeting to be convened may, by signing one or more counterpart written requisitions stating the object of the meeting, require the Board to convene an extraordinary general meeting or a class meeting. The Board shall convene the extraordinary general meeting or class meeting after receipt of such written requisition(s) as soon as possible. The shareholdings referred to above shall be calculated as at the date of the delivery of the written requisition(s).
- (ii) Where the Board fails to issue notice of the relevant meeting within thirty days upon receipt of the above request, the Shareholders making the requisition may convene meeting on their own accord within four months upon the receipt of the request by the Board. The convening procedures shall be as similar as possible to those of general meetings convened by the Board.

Where the Shareholders convenes the meeting on their own accord as a result of the failure of the Board to hold the meeting in accordance with the requirements above, the reasonable cost so incurred shall be borne by the Company and deducted from the amount due to the incompetent Directors.

The matters which require the approval of an ordinary resolution at a general meeting shall include:

- (i) work reports of the Board and the Board of Supervisors;
- (ii) plans for the distribution of profits and for making up losses proposed by the Board;
- (iii) the election and removal of the members of the Board and the Board of Supervisors (other than the Supervisor(s) representing the employees), their remuneration and method of payment;
- (iv) annual budget and final account report, balance sheet, statement of profit and loss and other financial statements of the Company; and
- (v) all other matters except those required by the law and administrative regulations or by the Articles of Association to be adopted by special resolutions.

The matters which require the approval of a special resolution at a general meeting include:

- (i) the increase in or reduction of share capital, and the issue of any class of Shares, warrants and other similar securities of the Company;
- (ii) the issue of debentures of the Company;

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- (iii) the division, merger, dissolution, liquidation or change of the form of the Company;
- (iv) amendments to the Articles of Association; and
- (v) other important matters which have been determined by the general meeting by way of ordinary resolutions to have material effect on the Company and required to be adopted by special resolutions.

9. TRANSFER OF SHARES

All the fully paid-up overseas [REDACTED] foreign shares [REDACTED] in Hong Kong can be freely transferred in accordance with the Articles of Association. However, the Board may refuse to recognise any instrument of transfer without giving any reasons, unless:

- (i) any instrument of transfer or any other document which is related to or will affect the ownership of the Shares has been registered, and a fee (for each instrument of transfer) of HK\$2.5 or any maximum fee as determined by the Board and not exceeding the maximum amount stipulated from time to time by the Hong Kong Stock Exchange in the Listing Rules has been paid to the Company;
- (ii) the instrument of transfer only involves overseas [REDACTED] foreign shares [REDACTED] in Hong Kong;
- (iii) any stamp duty chargeable on the instrument of transfer has been paid in full;
- (iv) the relevant share certificate and any other evidence in relation to the right of the transferor to transfer the Shares reasonably requested by the Board has been submitted;
- (v) if it is intended to transfer the Shares to joint owners, then the maximum number of joint owners does not exceed four; and
- (vi) the Company does not have any lien on the relevant Shares.

The alteration and rectification of each part of the register of Shareholders shall be carried out in accordance with the laws and regulations of the place where the related part of the register is maintained.

No changes in the register of Shareholders due to the transfer of Shares may be made within 30 days before the date of a general meeting or within 5 days before the record date for the distribution of dividends of the Company.

10. POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES

The Company may, with the approval of the relevant governing authorities of the PRC and in accordance with the provisions of the relevant laws and administrative regulations, the Listing Rules, and the Articles of Association, repurchase its issued Shares in the following circumstances:

- (i) cancellation of its Shares for the purpose of reducing its share capital;
- (ii) merging with another company which holds the Shares of the Company;
- (iii) granting Shares as incentive compensation to the staff of the Company;

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- (iv) acquiring the Shares of the Shareholders who vote against any resolution adopted at the general meeting on the merger or division of the Company; or
- (v) other circumstances as permitted by the law and administrative regulations.

After repurchasing its own Shares as stipulated in item (i), (ii) and (iv) above, the Company shall cancel or transfer such Shares within the period prescribed by the law and administrative regulations. In respect of the cancellation of any Shares, the Company shall make an application to its original registration authority to modify the registration on its registered capital and have a relevant announcement published. If the Company repurchases its own Shares in accordance with item (iii) above, the Shares so repurchased shall not exceed 5 percent of its total issued Shares, payment shall be made out of the after-tax profits, and the Shares so repurchased shall be transferred to the employees within the one year.

The Company may, upon the approval of the relevant governing authorities of the PRC, repurchase its Shares in one of the following ways:

- (i) making a pro rata [REDACTED] to all its Shareholders;
- (ii) repurchasing Shares through public dealing on a stock exchange; and
- (iii) repurchasing by an off-market agreement outside a stock exchange.

The Company may, with the prior approval of the Shareholders at a general meeting, repurchase its own Shares by an off-market agreement outside a stock exchange, and the Company may rescind or vary such contract or waive any of its rights under a contract so entered into by the Company with the prior approval of the Shareholders at a general meeting in the same manner. A contract to repurchase Shares as mentioned above includes but is not limited to an agreement to become obliged to repurchase Shares or an agreement to acquire rights to repurchase Shares.

The Company shall not assign a contract to repurchase its own Shares or any of its rights thereunder. Unless the Company is in the course of liquidation, it shall comply with the following provisions in relation to the repurchase of its own issued Shares:

- (i) where the Company repurchases its own Shares at par value, payment shall be made out of the book surplus of the distributable profits of the Company or out of the proceeds from any issue of new Shares made for the purpose of the repurchase;
- (ii) where the Company repurchases its own Shares at a premium to their par value, payment equivalent their par value may be made out of the book surplus of the distributable profits of the Company or the proceeds from any issue of new Shares made for the purpose of the repurchase. Payment of the portion in excess of the par value shall be effected as follows:
 - (a) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus of the distributable profits of the Company;
 - (b) if the Shares being repurchased were issued at a premium to the par value, payment shall be made out of the book surplus of the distributable profits of the Company or the proceeds from any issue of new Shares made for the purpose of the repurchase, provided that the amount paid out of the proceeds from such issue of new Shares shall neither exceed the aggregate of the premiums received by the Company on the issue of the Shares repurchased nor the current book amount of the share premium account

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or the capital common reserve fund account of the Company (including the premiums on the new issues) at the time of the repurchase;

- (iii) payment by the Company for the following purposes shall be made out of the distributable profits of the Company:
 - (a) acquisition of rights to repurchase its own Shares;
 - (b) variation of any contract to repurchase its own Shares; and
 - (c) release of any of the obligations under a contract to repurchase its own Shares;
- (iv) after the registered capital of the Company has been reduced by the aggregate par value of the cancelled Shares in accordance with the relevant regulations, the amount deducted from the distributable profits for paying up the par value portion of the repurchased Shares shall be transferred to the share premium account or capital common reserve fund account of the Company.

For redeemable share for which the Company has the power to repurchase, repurchases not made through the market or by tender shall be limited to a certain maximum price; and repurchases by tender shall be available to all Shareholders alike. The Company shall not assign a contract to repurchase its own Shares or any of its rights thereunder.

11. THE ARTICLES OF ASSOCIATION CONTAINS NO RESTRICTIONS PREVENTING ANY SUBSIDIARY OF THE COMPANY FROM HOLDING SHARES.

12. DIVIDENDS AND OTHER METHODS OF DISTRIBUTION

The Company may distribute dividends by way of cash or shares.

Any amount paid up in advance of calls on any Share may carry interest but shall not entitle the Shareholder to participate in respect thereof in a dividend subsequently declared.

The Company shall appoint on behalf of the Shareholders of overseas [REDACTED] foreign shares receiving agents to receive on behalf of such Shareholders dividends and other monies payable by the Company in respect of their overseas [REDACTED] foreign shares and to hold such payments pending their on payment to the Shareholders.

The receiving agent appointed on behalf of the Shareholders of foreign shares [REDACTED] on the Hong Kong Stock Exchange shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Cash dividends and other payments payable by the Company to the Shareholders of Domestic Shares shall be distributed in Renminbi. Cash dividends and other payments payable to the Shareholders of overseas [REDACTED] foreign shares shall be denominated and declared in Renminbi and payable in Hong Kong Dollars. The Company shall arrange the foreign currency for the payment of cash dividends and other payments to the Shareholders of overseas [REDACTED] foreign shares in accordance with the foreign exchange management regulations of the PRC.

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13. PROXIES ENTRUSTED BY THE SHAREHOLDERS

Any Shareholder entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one or more persons (who need not be Shareholder(s)) as his/her proxy to attend and vote on his/her behalf. A proxy so appointed shall be entitled to exercise the following rights in accordance with the authorisation from that Shareholder:

- (i) the right of the Shareholder to speak at the general meeting;
- (ii) the right to demand, whether on his/her own or together with others, a poll;
- (iii) the right to vote by the show of hands or on a poll; however, if more than one proxy are appointed, the proxies may only exercise their rights to vote on a poll.

The instrument appointing a proxy shall be in writing by the Shareholder under the hand of the appointor or his/her attorney duly authorised in writing, or if the appointor is a legal person either under seal or under the hand of a Director or attorney duly authorised. The instrument appointing a voting proxy shall be deposited at the domicile of the Company or at such other place as is specified in the notice convening the meeting not less than 24 hours prior to the time for holding the meeting at which the proxy proposes to vote or the time specified for the passing of the resolution. If such instrument appointing a voting proxy is signed by another person under a power of attorney or other authorisation documents given by the appointor, such power of attorney or other authorisation documents shall be notarised. The notarised power of attorney or other authorisation documents shall, together with the instrument appointing the voting proxy, be deposited at the domicile of the Company or at such other place as is specified in the notice convening the meeting.

If the appointor is a legal person, its legal representative or any person authorised by resolutions of its Board or other governing body shall attend the general meeting of the Company on behalf of the appointor.

Any form issued to a Shareholder by the Board for the purpose of appointing a proxy to attend and vote at a general meeting of the Company shall be such as to enable the Shareholder, according to his/her free will, to instruct his/her proxy to vote in favor of or against the resolutions and to make separate instruction in respect of each individual resolution to be voted on at the meeting. Such a form shall contain a statement that in the absence of instructions from the Shareholder, the proxy may vote as he/she thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the meeting at which the proxy is used.

14. CALLS ON SHARES AND FORFEITURE OF SHARES

Any amount paid up in advance of calls on any Share may carry interest but shall not entitle the relevant Shareholder to participate in respect thereof in a dividend subsequently declared.

Subject to the compliance with the relevant laws and regulations of the PRC, the Company may exercise its right to confiscate the dividends which are not claimed by anyone, but such right can only be exercised at or after the expiry of 6 years after the declaration of such dividends.

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15. INSPECTION OF REGISTER OF SHAREHOLDERS AND OTHER RIGHTS OF SHAREHOLDERS

The Company shall keep a register of Shareholders.

The Company may, in accordance with the memorandum of understanding or agreements between the securities regulatory authority of the State Council and the overseas securities regulatory organisations, maintain the register of Shareholders of overseas [REDACTED] foreign shares at an overseas location and appoint overseas agent(s) to manage such share register.

The original copy of the register of Shareholders of overseas [REDACTED] foreign shares which are [REDACTED] in Hong Kong shall be maintained at Hong Kong. Duplicates of the share register of the Shareholders of overseas [REDACTED] foreign shares shall be maintained at the domicile of the Company. The appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the share register of the Shareholders of overseas [REDACTED] foreign shares at all time.

If there is any inconsistency between the original and the duplicate of share register of Shareholders of overseas [REDACTED] foreign shares, the original shall prevail.

The Company shall keep a complete register of Shareholders.

The register of Shareholders shall comprise of the following parts:

- (i) the register of Shareholders kept at the domicile of the Company unless otherwise specified in items (ii) and (iii) below;
- (ii) the register of Shareholders of overseas [REDACTED] foreign shares kept in the place in which the stock exchange where those foreign shares are [REDACTED] locates; and
- (iii) the register of Shareholders kept at other places as the Board thinks necessary for the purpose of [REDACTED].

Different parts of the register of Shareholders shall not overlap. No transfer of Shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register. The alteration or rectification of any part of the register of Shareholders shall be carried out in accordance with the law of the place where such part of the register is maintained.

No changes which are required by reason of a transfer of Shares may be made to the register of Shareholders within 30 days prior to the date of a general meeting or 5 days prior to the record date for the distribution of dividends determined by the Company.

When the Company decides to convene a general meeting, distribute dividends, liquidate or carry out other activities which require the determination of shareholdings, the Board shall fix a record date for the purpose of determining the shareholding. A person whose name appears in the register of Shareholders of the Company at the end of the record date shall be a Shareholder of the Company.

Any person who objects to what is contained in the register of Shareholders and wishes to add his/her name on, or delete his/her name from, the register may apply to the court of the competent jurisdiction to amend the register of Shareholders.

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The right of the Shareholders to information includes, but without limitation, the following:

- (i) the right to a copy of the Articles of Association after payment of costs;
- (ii) the right to inspect and copy, subject to payment of a reasonable fee:
 - (a) all parts of the register of Shareholders;
 - (b) personal particulars of each of the Directors, Supervisors, the chief executive, and other senior management of the Company;
- (iii) status of the share capital of the Company;
- (iv) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of Shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;
- (v) minutes of general meetings, board meetings and meetings of the Board of Supervisors.

The Company shall keep the aforementioned documents at its domicile and place of business in Hong Kong for inspection by the Shareholders.

16. QUORUM FOR GENERAL MEETINGS

The Company can convene a general meeting if the number of Shares carrying voting rights represented by the Shareholders intending to attend accounts for over half of the total number of Shares carrying voting rights.

The Company can convene a class meeting if the number of Shares of the class carrying voting rights on such a meeting represented by the Shareholders intending to attend accounts for over half of the total number of Shares of the class carrying voting rights on such a meeting.

17. RIGHTS OF MINORITY SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION

In addition to the obligations imposed by the law and administrative regulations or the [REDACTED] rules of the stock exchange on which Shares are [REDACTED], a Controlling Shareholder, when exercising his power as a Shareholder, shall not exercise his voting rights to make a decision which is prejudicial to the interests of all Shareholders or some of the Shareholders of the Company in respect of the following matters:

- (i) to relieve a Director or Supervisor of his/her duty to act honestly in the best interests of the Company;
- (ii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any guise, of the assets of the Company, including (without limitation) any opportunity beneficial to the Company; or
- (iii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other Shareholders, including (without limitation) rights to distributions and voting rights, but not including a restructuring plan of the Company submitted to the general meeting for approval in accordance with the Articles of Association.

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18. PROCEDURE ON DISSOLUTION AND LIQUIDATION

The Company shall be dissolved and liquidated upon occurrence of any of the following events:

- (i) the term of operation has expired;
- (ii) a resolution for dissolution is passed by a general meeting;
- (iii) dissolution is necessary due to a merger or division of the Company;
- (iv) the Company has breached the law and administrative regulations, or the business license of the Company is suspended or rescinded or the Company is ordered to close down in accordance with law;
- (v) where the operation and management of the Company encounters serious difficulty, continuing operation will cause substantial loss to Shareholders and such difficulty cannot be solved through other way, Shareholders holding more than ten percent of the Shares of all Shareholders carrying voting rights may request the People's Court to liquidate the Company.

Where the Company is dissolved by virtue of the reasons set out in items (i), (ii) or (v) in the preceding Article, the Company shall establish a liquidation committee and commence dissolution within 15 days of the occurrence of the reason of dissolution. The members of the liquidation committee shall be selected by the Directors or the general meeting. Where the Company failed to establish a liquidation committee for the purpose of dissolution within such period, the creditors may apply to the People's Court to elect a liquidation committee for the purpose of dissolution of the Company.

Where the Board proposes to liquidate the Company due to reasons other than where the Company has declared that it is insolvent, the Board shall include a statement in its notice of convening a general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay all its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the Shareholders at a general meeting for the liquidation of the Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the general meeting to make a report at least once every year to the general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation, and to present a final report to the general meeting on completion of the liquidation.

The liquidation committee shall send a notice to all creditors within 10 days, and make a public announcement in a newspaper within 60 days, of its establishment.

The creditors shall describe the matters in relation to their creditor's rights and provide proof of debt when they report their creditor's rights. The liquidation committee shall carry out registration of creditors' rights so reported.

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During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (i) to sort out the assets of the Company and prepare a balance sheet and an inventory of assets respectively;
- (ii) to notify all creditors by notice or public announcements;
- (iii) to dispose of and liquidate any relevant outstanding business issues of the Company;
- (iv) to pay all outstanding taxes and taxes arising from the liquidation;
- (v) to settle claims and debts;
- (vi) to deal with assets remaining after the debts of the Company having been paid in full; and
- (vii) to represent the Company in civil proceedings.

The liquidation committee shall thoroughly examine the assets of the Company, and prepare a balance sheet and an inventory of assets. Upon completion, the liquidation committee shall draw up a proposal for liquidation and submit the same to the general meeting or the relevant competent authority for confirmation.

If the liquidation committee, having thoroughly examined the assets of the Company and having prepared a balance sheet and an inventory of assets, discovers that the assets of the Company are insufficient to pay its debts in full, it shall immediately apply to the People's Court for a declaration of insolvency. After the People's Court has declared the Company insolvent, the liquidation committee of the Company shall turn over any matters regarding the liquidation to the People's Court.

Following the completion of liquidation of the Company, the liquidation committee shall prepare a report on liquidation and a statement of the receipts and payments and financial books and records during the period of liquidation, which shall be audited by the PRC certified public accountants and submitted to the General Meeting or the governing authority for confirmation. The liquidation committee shall also within 30 days after such confirmation, submit the documents referred to in the preceding paragraph to the company registration authority and apply for cancellation of registration of the Company, and publish an announcement relating to the termination of the Company.

19. OTHER PROVISIONS MATERIAL TO THE COMPANY OR ITS SHAREHOLDERS

(a) General provisions

The Company may invest in other limited companies and joint stock limited companies and become liable to the investee to the extent of such contribution. However, the Company shall not be liable for any obligations of such companies as an investor unless otherwise specified by laws.

The Articles of Association constitute a legally binding document in respect of the rights and obligations of and the relationship between the Company and each of its Shareholders and among the Shareholders. Actions may be brought by a Shareholder against the Company and vice versa and by Shareholders against each other in respect of rights and obligations concerning the affairs of the Company pursuant to the Articles of Association. The Shareholders may also bring actions against the Directors, Supervisors, general manager and other senior management of the Company pursuant to the Articles of Association. For the purposes of the Articles of Association, actions include court proceedings and arbitration proceedings.

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(b) Shares and transfers

Foreign investors referred to in the Articles of Association mean those investors of foreign countries and regions of Hong Kong, Macau and Taiwan who subscribe for the Shares issued by the Company; domestic investors referred to in the preceding paragraphs mean those investors within the territory of the PRC (excluding investors of the regions referred to in the preceding sentence) who subscribe for the Shares issued by the Company.

The Company may increase its capital in the following ways:

- (i) [REDACTED] new shares to non-specially-designated investors for subscription;
- (ii) placing new shares to the existing Shareholders;
- (iii) allotting bonus shares to the existing Shareholders;
- (iv) any other ways permitted by the law and administrative regulations or approved by the competent regulatory authority.

The increase of capital by the Company through issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations of the PRC.

The Company may reduce its registered capital in accordance with the Company Law and other relevant requirements as well as the provisions of the Articles of Association.

When the Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets.

Subject to the approval of the securities authority of the State Council, holders of our Domestic Shares may transfer to overseas investors their Domestic Shares which may be [REDACTED] or traded on an overseas stock exchange. Any [REDACTED] or trading of the transferred Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

(c) Shareholders

A Shareholder of the Company is a person who lawfully holds Shares and has his name recorded on the register of Shareholders.

A Shareholder enjoys rights, and is subject to obligations, according to the class and number of Shares he/she holds. Holders of the same class of Shares enjoy the same rights and subject to the same obligations.

The ordinary Shareholders of the Company shall enjoy the following rights:

- (i) the right to dividends and other distributions in proportion to the number of Shares held by him/her;
- (ii) the right to request, convene, preside over, attend or appoint a proxy to attend general meetings and to vote thereat in proportion to his/her shareholding in accordance with the law;

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- (iii) the right to supervise and inspect the business operations of the Company, and the right to present proposals and inquiries;
- (iv) the right to transfer his/her Shares in accordance with the law, administrative regulations and the Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of the Articles of Association;
- (vi) in the event of the dissolution or liquidation of the Company, to participate in the distribution of surplus assets of the Company according to the number of Shares held by him/her;
- (vii) other rights conferred by the law, administrative regulations, departmental regulations or the Articles of Association.

The Company shall not freeze or otherwise impair any of the rights attaching to any Share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

Share certificates of the Company shall be in registered form.

Share certificates of the Company shall be signed by the Chairman of the Company. Where the stock exchanges on which Shares are [REDACTED] require the share certificates to be signed by other senior management of the Company, the share certificates shall also be signed by such senior management. The share certificates shall take effect after being affixed with the seal or a machine-imprinted seal of the Company. Such seal or machine-imprinted seal on the share certificates shall only be affixed with the authority of the Board. The signatures of the Chairman or other relevant senior management of the Company on the share certificates may be printed in mechanical form.

Any person who is registered Shareholder or who requests to have his/her name (title) entered into the register of Shareholders may, if his/her share certificate (the "**original certificate**") in respect of the Shares is lost, apply to the Company for a replacement new share certificate in respect of such Shares (the "**Relevant Shares**").

If a holder of Domestic Shares loses his share certificate and applies for a replacement new share certificate, it shall be dealt with in accordance with the relevant provisions of the Company Law. If a Shareholder of foreign shares [REDACTED] in Hong Kong loses his/her share certificate and applies for a replacement new share certificate, the issue of such certificate shall comply with the following requirements:

- (i) the applicant shall submit an application to the Company in the form prescribed by the Company accompanied by a notarial certificate or a statutory declaration. Such notarial certificate or statutory declaration shall include a statement of the grounds upon which the application is made and the circumstances and evidence of the loss of the original certificate and a declaration that no other person is entitled to be registered as the Shareholder in respect of the Relevant Shares;
- (ii) before the Company decides to issue the replacement new share certificate, no statement made by any person other than the applicant declaring that he/she shall be registered as the Shareholder in respect of the Relevant Shares has been received;

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- (iii) the Company shall, if it decides to issue a replacement new share certificate to the applicant, make an announcement of its decision to issue the replacement share certificate at least once every 30 days for a period of 90 days in such newspapers as may be designated by the Board. The newspapers designated by the Board shall include at least one Chinese newspaper and one English newspaper approved by the Hong Kong Stock Exchange;
- (iv) the Company shall have, prior to publication of its decision to issue the replacement new share certificate, delivered a copy of the announcement to be published to the Hong Kong Stock Exchange. The Company may publish the announcement upon receiving a confirmation from the Stock Exchange that the announcement has been published by the Hong Kong Stock Exchange. The announcement shall be published by the Hong Kong Stock Exchange for a period of 90 days. In the case of an application to issue a replacement new certificate being made without the consent of the registered Shareholder of the Relevant Shares, the Company shall deliver a copy of the announcement to be published to such Shareholder by mail;
- (v) if, by the expiration of the 90-day publication period referred to in (iii) and (iv) above, the Company has not received any notice of disagreement to such application from any person, the Company may issue a replacement new share certificate to the applicant accordingly;
- (vi) where the Company issues a replacement new share certificate pursuant to the provisions under the Articles of Association, it shall forthwith cancel the original certificate and enter the cancellation and replacement issue in the register of Shareholders accordingly;
- (vii) all expenses relating to the cancellation of an original certificate and the issue of a replacement new share certificate incurred by the Company shall be borne by the applicant. The Company may refuse to take any action until reasonable security is provided by the applicant for such expenses.

(d) Untraceable members

The Company may cease sending dividend warrants by post to a holder of overseas [REDACTED] foreign shares provided that such warrants have not been cashed twice in a row. However, such power may be exercised after the first occasion on which such a warrant is returned undelivered.

The Company may sell any Shares of a Shareholder of overseas [REDACTED] foreign shares who is untraceable in the manner deemed appropriate by the Board provided that:

- (i) during a period of 12 years, at least three dividends have been distributed and no such dividend during that period has been claimed in respect of the Shares in question; and
- (ii) upon expiry of the 12 year-period, the Company has published an announcement in a newspaper specifying its intention to sell the Shares and notifies the Hong Kong Stock Exchange of such intention.

(e) Board of Directors

The Board shall exercise the following functions and powers:

- (i) to convene general meetings and report its work to the Shareholders;
- (ii) to implement the resolutions of the general meeting;

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- (iii) to decide on the business plans and investment plans of the Company;
- (iv) to formulate the plans for annual financial budgets and final accounts of the Company;
- (v) to formulate the plans for profit distribution and making up losses of the Company;
- (vi) to formulate the debt and fiscal policies, the proposals for the increase or reduction of registered capital and the issue of corporate debentures or other securities and the [REDACTED] of the Company;
- (vii) to formulate plans for major acquisition and disposal of assets, repurchase of the Shares or mergers, divisions, dissolutions or changes of the nature of incorporation of the Company;
- (viii) to decide on the establishment of the internal management organisation of the Company;
- (ix) to appoint or remove the general manager and the secretary of the Board of the Company; to appoint or remove other senior management pursuant to the nominations of the general manager; and to decide on the remuneration as well as reward and punishment of such senior management;
- (x) to formulate the basic management system of the Company;
- (xi) to prepare plans for amending the Articles of Association;
- (xii) to propose to the general meeting as to the appointment, re-appointment or dismissal of the accounting firm for the auditing engagement of the Company;
- (xiii) to decide on any other material matters of the Company other than those reserved for the general meeting under the Company Law and the Articles of Association;
- (xiv) to exercise other functions and powers conferred by the Articles of Association or the general meeting.

Resolutions relating to the above, with the exception of items (vi), (vii) and (xi) above which shall be approved by two-thirds or more of the Directors, shall be approved by half or more of all Directors.

Meetings of the Board shall be held regularly at least twice in each year and shall be convened by the Chairman.

If a Director is unable to attend a board meeting, he/she may appoint another Director by a written power of attorney to attend the board meeting on his/her behalf. Such a power of attorney shall specify the scope of the authorisation.

Directors attending board meetings on behalf of another Director shall exercise their powers as Directors within their scope of authorisation. If a Director fails to attend a board meeting and does not appoint an attorney to attend, the Director is deemed to have relinquished his rights to vote at that meeting.

Each director shall have one vote. Unless otherwise provided in the law, administrative regulations and the Articles of Association, resolution of the Board shall be approved by more than half of all Directors.

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(f) Independent Directors

The Board of the Company shall be comprised of nine Directors, including three independent Directors. The independent Directors may report directly to the general meeting, the securities supervisory and administrative authority of the State Council or any other competent authorities.

(g) Secretary of the Board

The Company shall have a secretary of the Board who shall be one of the senior management of the Company. The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be nominated by the Chairman and shall be appointed or dismissed by the Board.

(h) Board of Supervisors

The Company shall have a Board of Supervisors.

The Board of Supervisors shall be comprised of three members, including one representative appointed by the Shareholders, one representative elected by the employees and one independent Supervisor, one of whom shall be the chairman of the Board of Supervisors.

The election or removal of the chairman of the Board of Supervisors shall be decided by two-thirds or more of the members of the Board of Supervisors. Decisions of the Board of Supervisors shall be made by the affirmative vote of two-thirds or more of the member of the Board of Supervisors.

The terms of office of Supervisors shall be three years, renewable upon re-election.

The Director and other senior management of the Company shall not act concurrently as Supervisors. The Board of Supervisors shall be accountable to the general meeting and exercise the following functions and powers in accordance with law:

- (i) to investigate any breach of the law, administrative regulations and the Articles of Association by the Directors and other senior management in their performance of duties and to propose the removal of Directors and senior management who have breached any law, administrative regulations, the Articles of Association of the Company or Shareholders' resolutions;
- (ii) to demand any Director and other senior management who acts in a manner which is harmful to the interests of the Company to rectify such behavior;
- (iii) to examine the Company' s financial affairs;
- (iv) to review the financial information, including financial reports, business reports and profit distribution plans, to be submitted by the Board to the general meeting and appoint any certified public accountant or practicing auditors in the name of the Company to assist in its review in case of doubt;
- (v) to propose to convene extraordinary general meetings and to convene and preside over general meetings when the Board fails to perform such duty in accordance with the Company Law;
- (vi) to propose to convene extraordinary meetings of the Board;

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(vii) to institute a lawsuit against the Directors and senior management in accordance with the section 151 of the PRC Company Law;

(viii) other functions and powers conferred by the Articles of Association.

Supervisors shall be present at the meetings of the Board.

(i) General Manager

The Company shall have one general manager, who shall be appointed or dismissed by the Board. The general manager shall be accountable to the Board and exercise the following functions and powers:

(i) to be in charge of the Company's production, operation and management, and to organise the implement the decisions of the Board;

(ii) to organise the implementation of the Company's annual business plans and investment plans;

(iii) to draft the plan for establishment of the internal management organisation of the Company;

(iv) to draft the organisation structure of the branches of the Company;

(v) to draft the general management system of the Company;

(vi) to formulate the general rules and regulations of the Company;

(vii) to propose to the Board the appointment or dismissal of the other senior management of the Company;

(viii) to employ or dismiss the management personnel other than those to be employed or dismissed by the Board;

(ix) other functions and powers granted by the Articles of Association and the Board.

(j) Common Reserve Fund

When distributing the after-tax profits of the current year, the Company shall allocate 10% of its profits to its statutory common reserve fund. When the cumulated amount of the statutory common reserve fund of the Company has reached 50% or more of its registered capital, no further allocation is required.

Where the statutory common reserve fund of the Company is insufficient to make up for the losses of the Company incurred during the previous years, before making allocation to the statutory common reserve fund in accordance with the preceding paragraph, the profits generated during the current year shall be used to make up for such losses.

After making allocation to the statutory common reserve fund of the Company from its after-tax profits, the Company may, subject to resolutions adopted at a general meeting, also allocate funds from the remaining after-tax profits to the discretionary common reserve fund.

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After making up for the losses and making contributions to the common reserve funds, any remaining after-tax profits may, subject to resolutions adopted at a general meeting, be distributed by the Company to the Shareholders in proportion to their respective shareholdings.

If the general meeting has, in violation of the provisions of the preceding paragraphs, distributed profits to the Shareholders before the Company has made up for its losses and made allocations to the statutory common reserve fund, the Shareholders must return the profits distributed in violation of the provision to the Company.

No profits shall be distributed in respect of the Shares held by the Company.

(k) Settlement of Disputes

The Company shall act according to the following principles to settle disputes:

- (i) Any disputes or claims related to matters of the Company between Shareholders of overseas [REDACTED] foreign shares and the Company, between Shareholders of overseas [REDACTED] foreign shares and the Directors, Supervisors or any other senior management of the Company, or between Shareholders of overseas [REDACTED] foreign shares and Shareholders of Domestic Shares that arise based on the rights and obligations stipulated in these Articles of Association, the Company Law and any other relevant laws and administrative regulations, any such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim involves the above parties, the entire claim or dispute must be referred to arbitration, and all persons (being the Company or Shareholders, Directors, Supervisors and any other senior management of the Company) who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration.

Disputes regarding definition of Shareholders and registration of members may be resolved without arbitration.

- (ii) The claimant may refer the arbitration to either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules, and may also refer the arbitration to the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If the claimant refers the arbitration to the Hong Kong International Arbitration Centre, either party may request the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

- (iii) Unless otherwise provided in the law and administrative regulations, any disputes or claims arising out of item (i) above shall be resolved in accordance with the law of the PRC (excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan).
- (iv) The decision made by the arbitral body shall be final and conclusive, and shall be binding on all parties.

APPENDIX VI

STATUTORY AND GENERAL INFORMATION

INFORMATION ABOUT OUR COMPANY

1. Incorporation

The predecessor of our Company, Guangdong Yahe Decoration Construction Company Limited* (廣東雅和裝飾工程有限公司), was established as a limited liability company in the PRC on 18 December 1996. Our Company was renamed as Guangdong Adway Decoration Construction Company Limited* (廣東愛得威裝飾工程有限公司) on 19 February 1997 and was further renamed as Guangdong Adway Construction Decoration Installation Engineering Company Limited* (廣東愛得威建築裝飾安裝工程有限公司) on 27 May 2003. Our Company was converted into a joint stock company with limited liability on 3 December 2007 under the laws of the PRC with a registered share capital of RMB158.287 million. After the conversion, our Company was renamed as Guangdong Adway Construction (Group) Holdings Company Limited* (廣東愛得威建設(集團)股份有限公司).

Our Company has established a principal place of business in Hong Kong at 27th Floor Alexandra House, 18 Charter Road, Central, Hong Kong, and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 25 September 2015. Ms. Kou Yue, one of the joint company secretaries of our Company, has been appointed as our agent for the acceptance of service of process in Hong Kong whose correspondence address is Flat A, Room 2201, Midland Centre, 328 Queen's Road, Central, Hong Kong.

As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV.

2. Changes in share capital of our Company

At the time of establishment as a limited liability company on 18 December 1996, our Company had a registered capital of RMB5,000,000. Our Company was jointly established by Mr. Ye Yujing and the late Mr. Ye Yuling, in which 80% equity interest was held by Mr. Ye Yujing and 20% was held by the late Mr. Ye Yuling.

On 27 May 2003, our Company increased its registered capital by RMB10,000,000 from RMB5,000,000 to RMB15,000,000, RMB5,750,000 made by Mr. Ye Yujing, RMB2,000,000 by the late Mr. Ye Yuling, and RMB2,250,000 by Ms. Ye Jinmei, all in form of cash. As a result of such capital contribution, Mr. Ye Yujing, the late Mr. Ye Yuling and Ms. Ye Jinmei held 65%, 20% and 15% of the equity interest of our Company respectively.

On 27 March 2006, our Company increased its registered capital by RMB15.8 million from RMB15,000,000 to RMB30,800,000 by way of capital contribution from its then existing shareholders pro rata to their respective holding in the registered capital in our Company, in the form of cash. As a result of such capital contribution, Mr. Ye Yujing, the late Mr. Ye Yuling and Ms. Ye Jinmei held 65%, 20% and 15% of the equity interest of our Company respectively.

On 3 December 2007, our Company was converted into a joint stock limited liability company with an issued share capital of RMB30,800,000, comprising 30,800,000 Shares with a nominal value of RMB1.00 each, which was [REDACTED] all the then existing shareholders.

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On 21 August 2009, our Company increased its registered capital by RMB30,000,000 from RMB30,800,000 to RMB60,800,000 by issuing and allotting Shares to each of the then existing shareholders in proportion to their respective shareholding percentage in our Company. After the share capital increase, Mr. Ye Yujing, Ms. Ye Jinmei, Mr. Ye Xian and Mr. Ye Bingquan held 65%, 15%, 10% and 10% of the issued share capital of the Company respectively.

On 30 May 2012, our Company increased its issued share capital by RMB32,310,000 from RMB60,800,000 to RMB93,110,000 by issuing and allotting Shares to a total number of 17 new investors. After the share capital increase, Mr. Ye Yujing, Ms. Ye Xiujin, Mr. Ye Xian, Mr. Ye Bingquan and the 17 new investors (in aggregate) held 42.44%, 9.79%, 6.53%, 6.53% and 34.71% of the issued share capital of the Company respectively. For details of the shareholdings of each of the 17 new investors in the Company, please refer to the section headed "History and Development".

On 26 August 2013, our Company further increased its issued share capital by approximately RMB65.18 million from RMB93.11 million to approximately RMB158.29 million through issuing and allotting Shares to the then existing Shareholders of the Company in proportion to their respective shareholding percentage in our Company, by way of transferring approximately RMB65,180,000 from our Company's share premium reserve.

As at the Latest Practicable Date, our Company had 158,287,000 Shares and an issued share capital of RMB158,287,000. Mr. Ye Yujing, one of our Controlling Shareholders, was interested in 67,694,000 Shares which represented approximately 42.77% of the issued share capital of our Company.

Immediately following completion of the [REDACTED]

- assuming the [REDACTED] is not exercised, the registered capital of our Company will be RMB[REDACTED], comprising [REDACTED] and 158,287,000 Domestic Shares, representing approximately [REDACTED]% and [REDACTED]%, respectively, of the issued share capital of our Company; or
- assuming the [REDACTED] is fully exercised, the registered capital of our Company will be RMB[REDACTED], comprising [REDACTED] and 158,287,000 Domestic Shares, representing approximately [REDACTED]% and [REDACTED]%, respectively, of the issued share capital of our Company.

Save as aforesaid, as at the Latest Practicable Date, there had been no alterations of our share capital since our establishment.

3. Resolutions passed at the Company's extraordinary general meeting on 21 August 2015

Pursuant to the extraordinary general meeting held on 21 August 2015, the following resolutions, among other things, were duly passed by our Shareholders:

- (a) the issuance by our Company of the [REDACTED] of nominal value of RMB1.00 each and such [REDACTED] be [REDACTED] on the Main Board;

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- (b) the number of [REDACTED] to be issued shall not be more than 30% of the total issued share capital of our Company as enlarged by the [REDACTED], and the grant to the [REDACTED] (or their representatives) of the [REDACTED] of not more than 15% of the number of [REDACTED] issued pursuant to the [REDACTED];
- (c) subject to the completion of the [REDACTED], the adoption of the Articles of Association which shall become effective on the [REDACTED], and authorisation to the Board to amend the Articles of Association in accordance with the requirements of the relevant laws and regulations and the Listing Rules; and
- (d) authorisation of the Board to handle all matters relating to, among other things, the [REDACTED], the issue and [REDACTED] of the [REDACTED].

4. Our subsidiaries

The particulars of our principal subsidiaries are provided in the Accountant's Report, the text of which is set out in Appendix I to this document. For details of the changes in the share capital of our subsidiaries, please refer to the section headed "History and Development".

Save as disclosed in this document, there has been no alternation in the share capital or registered capital of any of our principal subsidiaries of our Company within the two years immediately preceding the date of this document.

REORGANISATION

Please refer to the section headed "History and Development – Major Changes in our Shareholding Structure – Conversion into a joint stock limited liability company in 2007".

FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this document that are or may be material:

- (a) an agreement relating to the return of invested capital and loan repayment dated 23 November 2014 entered into among the Company, Shenzhen Poem Oxidation Industry Science Technology Company Limited* (深圳市鉑鍍氧化板業科技有限公司) ("**Shenzhen Poem**") and Shenzhen Tongmaoyuan Building Materials Company Limited* (深圳市通茂源建築材料有限公司) ("**Shenzhen Tongmaoyuan**"), pursuant to which Shenzhen Tongmaoyuan agreed to repay to our Company on Shenzhen Poem's behalf Shenzhen Poem's payment obligations of RMB5,367,735.15 and a separate additional RMB2,000,000 loan owed by Shenzhen Poem to our Company;

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- (b) an equity transfer agreement entered into between our Company and Mr. Ye Zhiwu (葉志武) dated 3 March 2015, pursuant to which our Company agreed to transfer all its equity interests in Shenzhen Poem, representing 51% of the shareholding in Shenzhen Poem to Mr. Ye Zhiwu (葉志武) at a consideration of RMB7,650,000;
- (c) the Deed of Non-competition;
- (d) the Hong Kong [REDACTED]; and
- (e) the Deed of Indemnity.

Deed of Indemnity

Pursuant to the Deed of Indemnity given by each of our Controlling Shareholders in favour of our Group and conditional on the fulfilment of the conditions stated in the section headed "Structure and Conditions of the [REDACTED] – Conditions of the [REDACTED]", our Controlling Shareholders have agreed and undertaken to each of the members of our Group on a joint and several basis that they would indemnify and at all times keep the same indemnified on demand from and against any taxation falling on any members of our Group resulting from or by reference to any revenue (including any form of government financial assistance, subsidy or rebate), income, profits or gains granted, earned, accrued, received or made (or deemed to be so granted, earned, accrued, received or made) on or before the [REDACTED] or any event, transaction, act or omission occurring or deemed to occur on or before the [REDACTED] whether alone or in conjunction with any other event, act or omission occurring or deemed to occur on or before the [REDACTED] and whether or not such taxation is chargeable against or attributable to any other person, firm or company. For the avoidance of doubt, the aforesaid provision shall require our Controlling Shareholders to indemnify and at all times keep each of the members of our Group indemnified, in each case, in respect of any additional taxation which may fall on our Company or any other member of our Group in respect of a taxation claim resulting from a reassessment or similar action by a taxation authority against any member of our Group of taxation due and whether or not such reassessment is effected in respect of taxation which our Company or any other members of our Group had previously reached agreement with a taxation authority.

Under the Deed of Indemnity, the Controlling Shareholders have also agreed and undertaken to each members of our Group on a joint and several basis that they would indemnify and at all times keep the same indemnified on demand from and against all sums, outgoings, fees, demands, claims, damages, losses, costs, charges, liabilities, fines, penalties and expenses incurred or suffered by our Company or any members of our Group resulting from the Reorganisation and any and all of the non-compliances of any of the members of our Group with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance or other applicable laws, rules or regulations in their respective place of incorporations or operation which has occurred at any time on or before the [REDACTED].

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However, the indemnities given by our Controlling Shareholders under the Deed of Indemnity do not cover, and our Controlling Shareholders shall be under no liability in respect of, any liability on taxation and taxation claim:

- (a) to the extent that provision has been made therefor in the consolidated audited accounts of our Group or the audited accounts of any of the members of our Group for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016;
- (b) falling on any members of our Group on or after 1 July 2016 unless such liability would not have arisen but for some act or omission of, or transaction entered into by, our Controlling Shareholders or any members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring), otherwise than:
 - (i) in the ordinary course of business, or in the ordinary course of acquiring or disposing of capital assets, on or before the [REDACTED]; or
 - (ii) pursuant to a legally binding commitment created on or before the date of the deed of indemnity or pursuant to any statement of intention made in this document;
- (c) to the extent that such liability arises or is incurred as a consequence of any change in the law, rules or regulations, or the interpretation or practice thereof by any statutory or governmental authority (in Hong Kong, the PRC or elsewhere), including without limitation the Inland Revenue Department and the tax bureau of the PRC, having retrospective effect coming into force after the [REDACTED] or to the extent that such liability arises or is increased by an increase in rates of taxation or other penalties after the [REDACTED] with retrospective effect;
- (d) to the extent that such liability is discharged by another person who is not a member of our Group and that none of the member of our Group is required to reimburse such person in respect of the discharge of such liability; or
- (e) to the extent of any provision or reserve made for such liability in the audited accounts referred to in Clause (a) above which is finally established to be an overprovision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce our Controlling Shareholders' liability in respect of such liability shall not be available in respect of any such liability arising thereafter.

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2. Our intellectual property rights

As at the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights which are material in relation to our business.

A. Trademarks

As at the Latest Practicable Date, we had registered the following trademarks which are material to our business:

No.	Trademark	Class	Registration Number	Period of Validity	Owner	Place of Registration
1.		20	12726866	2014.10.28 till 2024.10.27	Company	PRC
2.		21	12727091	2015.2.7 till 2025.2.6	Company	PRC
3.		2	13110072	2014.12.28 till 2024.12.27	Company	PRC
4.		11	13110491	2015.4.21 till 2025.4.20	Company	PRC
5.		38	13114688	2014.12.28 till 2024.12.27	Company	PRC
6.		19	13277641	2015.1.14 till 2025.1.13	Company	PRC
7.		42	13114722	2015.1.7 till 2025.1.6	Company	PRC
8.		26	12726974	2014.11.28 till 2024.11.27	Company	PRC
9.		16	13110930	2014.12.21 till 2024.12.20	Company	PRC
10.		6	13110261	2015.1.7 till 2025.1.6	Company	PRC

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No.	Trademark	Class	Registration Number	Period of Validity	Owner	Place of Registration
11.	愛得威	6	13110231	2015.3.28 till 2025.3.27	Company	PRC
12.	 ADWAY	38	13114648	2015.2.14 till 2025.2.13	Company	PRC
13.	 ADWAY	17	13114585	2015.1.7 till 2025.1.6	Company	PRC
14.	士寬 SEAQUEEN	20	12726882	2014.10.28 till 2024.10.27	Company	PRC
15.	 ADWAY	16	13110905	2015.7.14 till 2025.7.13	Company	PRC
16.	 ADWAY	42	13114738	2015.8.21 till 2025.8.20	Company	PRC
17.	愛得威	19	13111009	2015.12.14 till 2025.12.13	Company	PRC
18.	 愛得威	20	12726846	2015.8.28 till 2025.8.27	Company	PRC
19.	愛得威	19	13111025	2015.7.28 till 2025.7.27	Company	PRC
20.	艺术世家 EASTMOON	20	12726820	2015.8.28 till 2025.8.27	Company	PRC
21.	 ADWAY	2, 6, 9, 16, 17, 19, 20, 35, 37, 42	303513023	2015.8.21 till 2025.8.20	Company	Hong Kong
22.	愛得威	2, 6, 9, 16, 17, 19, 20, 35, 37, 42	303513032	2015.8.21 till 2025.8.20	Company	Hong Kong
23.		35	17223235	2016.8.28 till 2026.8.27	Company	PRC

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As at the Latest Practicable Date, we have applied for the registration of the following trademark which is material to our business:

No.	Trademark	Class	Application Number	Application Date	Applicant	Intended Place of Registration
1.		35	17223314	2015.6.16	Company	PRC

B. Domain Names

As at the Latest Practicable Date, our Group has registered the following domain names which are material to our business:

No.	Domain Name	Date of Registration	Expiry Date	Owner
1.	aidewei.cn	2006.2.21	2017.2.20	Company
2.	aidewei.com.cn	2006.7.27	2026.7.27	Company
3.	gdadway.com	2011.9.15	2021.9.14	Company

Information contained in the above websites does not form part of this document.

C. Patent

As at the Latest Practicable Date, we had the following patents which are material to our business:

No.	Owner	Patent Number	Name of the Patent	Application Date	Type	Place of Registration
1.	Company	ZL 2012 2 0045180.1	Large screen image display detection device (大屏幕圖像顯示檢測裝置)	2012.2.13	Utility model	PRC
2.	Company	ZL 2012 2 0045176.5	Curtain wall display control system (屏幕牆顯示控制系統)	2012.2.13	Utility model	PRC
3.	Company	ZL 2012 2 0127818.6	Integrated network intelligence service system based on community and home (社區、家居相結合的整體網絡智能服務系統)	2012.3.30	Utility model	PRC
4.	Company	ZL 2012 2 0127830.7	Campus and plant intelligence management and service system (校園及工廠智能管理與服務系統)	2012.3.30	Utility model	PRC
5.	Company	ZL 2012 2 0071672.8	Novel building cooling and heat source refrigeration system (新型樓宇冷熱源製冷系統)	2012.2.29	Utility model	PRC

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No.	Owner	Patent Number	Name of the Patent	Application		Place of Registration
				Date	Type	
6.	Company	ZL 2012 2 0120963.1	A remote monitoring system for substation installation (一種變配電站安裝使用的遠程監控系統)	2012.3.28	Utility model	PRC
7.	Company	ZL 2012 2 0067035.3	A multifunctional intelligent garage monitoring management system (一種多功能智能車庫監控管理系統)	2012.2.28	Utility model	PRC
8.	Company	ZL 2012 2 0120939.8	A multi assembly central air-conditioning control system (一種集中式多聯冷熱源中央空調控制系統)	2012.3.28	Utility model	PRC
9.	Company	ZL 2012 2 0054110.2	A kind of indoor firefighting intelligence monitoring system (一種室內消防智能監控噴淋系統)	2012.2.20	Utility model	PRC
10.	Company	ZL 2012 2 0120891.0	Intelligent monitoring system for pump pipe (一種水泵管道的智能安裝監控系統)	2012.3.28	Utility model	PRC
11.	Company	ZL 2012 2 0054116.X	Redundancy control system of a solar energy central heating water (一種太陽能集中供熱水冗餘控制系統)	2012.2.20	Utility model	PRC
12.	Company	ZL 2012 2 0067880.0	Solar energy and building integrated glass curtain wall (一種太陽能與建築一體化玻璃幕牆)	2012.2.28	Utility model	PRC
13.	Company	ZL 2012 2 0067879.8	An LED display screen glass curtain wall with a wireless network control (一種無線聯網控制的LED顯示屏玻璃幕牆)	2012.2.28	Utility model	PRC
14.	Company	ZL 2012 2 0120962.7	A positive pressure air supply system of a fire control system (一種消防的防排煙正壓送風系統)	2012.3.28	Utility model	PRC
15.	Company	ZL 2012 2 0193709.4	An external solar power glass curtain wall system (一種外置式太陽能發電玻璃幕牆系統)	2012.5.2	Utility model	PRC
16.	Company	ZL 2012 2 0193640.5	An LED display screen glass curtain wall with a wireless network control (一種無線聯網控制的LED顯示屏玻璃幕牆)	2012.5.2	Utility model	PRC
17.	Company	ZL 2012 2 0054106.6	An intelligent installation system for central air conditioning system (一種中央空調的智能安裝系統)	2012.2.20	Utility model	PRC
18.	Company	ZL 2012 2 0067018.X	An Automatic fire extinguishing system for Indoor Stadium (一種用於室內體育館的自動報警滅火系統)	2012.2.28	Utility model	PRC
19.	Company	ZL 2012 2 0067022.6	Intelligent lighting control system for underground garage lighting (一種用於地下車庫照明的智能燈控系統)	2012.2.28	Utility model	PRC

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No.	Owner	Patent Number	Name of the Patent	Application		Place of Registration
				Date	Type	
20.	Company	ZL 2012 2 0067017.5	Intelligent monitoring system for remote control system of garage (一種車庫遠程智能監控系統)	2012.2.28	Utility model	PRC
21.	Company	ZL 2012 2 0068114.6	An induction control double layer energy saving glass curtain wall system (一種感應控制雙層節能玻璃裝飾幕牆系統)	2012.2.28	Utility model	PRC
22.	Company	ZL 2012 2 0067037.2	An intelligent domestic windproof and rainproof safety alarm system (一種家用智能防風、防雨、防盜報警系統)	2012.2.28	Utility model	PRC
23.	Company	ZL 2012 2 0067020.7	A domestic multifunctional intelligent monitoring alarm system (一種居室多功能智能監控報警系統)	2012.2.28	Utility model	PRC
24.	Company	ZL 2012 2 0054105.1	A stadium LED fire emergency light system (一種體育場館消防應急LED指示燈系統)	2012.2.20	Utility model	PRC
25.	Company	ZL 2012 2 0054109.X	An intelligent fire alarm system (一種消防智能自動報警系統)	2012.2.20	Utility model	PRC
26.	Company	ZL 2012 2 0067021.1	An intelligent visual fire alarm system for large-scale shopping centres (一種用於大型商場的可視化智能火災報警系統)	2012.2.28	Utility model	PRC
27.	Company	ZL 2012 2 0070127.7	An intelligent lighting system for large-scale concerts, evening stage (一種用於大型演唱會、晚會舞台的智能聲控燈光系統)	2012.2.29	Utility model	PRC
28.	Company	ZL 2012 2 0193647.7	A solar and building integrated glass curtain wall (一種太陽能與建築一體化玻璃幕牆)	2012.5.2	Utility model	PRC
29.	Company	ZL 2012 2 0193639.2	A photoelectric conversion integrated display wall system (一種光電轉化顯示一體的幕牆系統)	2012.5.2	Utility model	PRC
30.	Company	ZL 2012 2 0156133.4	An automated production line of Installation of control systems for power distribution (一種自動生產線智能配電的安裝控制系統)	2012.4.13	Utility model	PRC
31.	Company	ZL 2012 2 0136284.3	An energy saver and collector device (一種節能集熱裝置)	2012.3.31	Utility model	PRC
32.	Company	ZL 2012 2 0193708.X	An induction control system of double energy-saving glass curtain wall decoration (一種感應控制雙層節能玻璃裝飾幕牆系統)	2012.5.2	Utility model	PRC
33.	Company	ZL 2012 2 0067878.3	An outboard solar power glass curtain wall system (一種外置式太陽能發電玻璃幕牆系統)	2012.2.28	Utility model	PRC

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No.	Owner	Patent Number	Name of the Patent	Application		Place of Registration
				Date	Type	
34.	Company	ZL 2012 2 0127817.1	An intelligent digital broadcasting system for public security monitoring (用於安全監控的全數字智能化公共廣播系統)	2012.3.30	Utility model	PRC
35.	Company	ZL 2012 2 0127812.9	An intelligent community property management platform and Ethernet system (智能化小區物業管理平台及以太網系統)	2012.3.30	Utility model	PRC
36.	Company	ZL 2012 2 0045177.X	Computer room high temperature device (機房高溫裝置)	2012.2.13	Utility model	PRC
37.	Company	ZL 2012 2 0071718.6	Building heating and cooling control system (樓宇冷熱源控制系統)	2012.2.29	Utility model	PRC
38.	Company	ZL 2012 2 0072615.1	Disinfection equipment for operating room (用於手術室消毒設備)	2012.3.1	Utility model	PRC
39.	Company	ZL 2012 20072651.8	Visual communication system of video conferencing combining the monitoring equipment (視頻會議系統與監控設備相結合的可視通信系統)	2012.3.1	Utility model	PRC
40.	Company	ZL 2012 2 0071674.7	Dust purification system for operating room (手術室除塵淨化系統)	2012.2.29	Utility model	PRC
41.	Company	ZL 2012 2 0136283.9	Intelligent solar water pumping device (太陽能智能上水裝置)	2012.3.31	Utility model	PRC
42.	Company	ZL 2012 2 0136299.X	Intelligent solar collectors control device (太陽能集熱器智能控制裝置)	2012.3.31	Utility model	PRC
43.	Company	ZL 2015 2 0237694.0	Parking space monitoring system (車庫車位監控系統)	2015.4.20	Utility model	PRC
44.	Company	ZL 2015 2 0257399.1	Multifunctional street light (多功能路燈)	2015.4.24	Utility model	PRC
45.	Company	ZL 2015 2 0237838.2	Intelligent home monitoring system (居室智能監控系統)	2015.4.20	Utility model	PRC
46.	Company	ZL 2015 2 0248666.9	Stretchable electronic fence (可伸縮的圍牆用電子柵欄)	2015.4.23	Utility model	PRC
47.	Company	ZL 2015 2 0314272.9	Water level alarm system for cabinet-shaped external electrical generators (室外櫃式變電裝置的積水報警系統)	2015.5.15	Utility model	PRC
48.	Company	ZL 2015 2 0250266.1	Intelligent pipe flow monitoring system (水管流量智能監控系統)	2015.4.23	Utility model	PRC
49.	Company	ZL 2015 2 0247497.7	Intelligent fire alarm system (消防智能報警系統)	2015.4.23	Utility model	PRC
50.	Company	ZL 2015 2 0218606.2	A kind of sound-proof ceiling (一種隔音吊頂)	2015.4.13	Utility model	PRC

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No.	Owner	Patent Number	Name of the Patent	Application		Place of Registration
				Date	Type	
51.	Company	ZL 2015 2 0259462.5	A kind of LAN-based online-monitored fire extinguisher (一種基於局域網的在線監控滅火器)	2015.4.27	Utility model	PRC
52.	Company	ZL 2015 2 0218658.X	A construction structure for curtain wall (一種建築幕牆結構)	2015.4.13	Utility model	PRC
53.	Company	ZL 2015 2 0248312.4	An intelligent wireless home security system for elderly people (一種老年人智能家居無線報警系統)	2015.4.23	Utility model	PRC
54.	Company	ZL 2015 2 0238025.5	A solar energy-saving glass curtain wall system (一種太陽能玻璃幕牆節能系統)	2015.4.20	Utility model	PRC
55.	Company	ZL 2015 2 0229845.8	A kind of easy-to-clean glass curtain wall (一種易清潔玻璃幕牆)	2015.4.16	Utility model	PRC
56.	Company	ZL 2015 2 0247409.3	An intelligent home ventilation control system (一種智能家居通風控制系統)	2015.4.23	Utility model	PRC
57.	Company	ZL 2015 2 0259518.7	An automatically monitored and tracked fire-fighting device (一種自動監測及跟蹤定位的滅火裝置)	2015.4.27	Utility model	PRC
58.	Company	ZL 2015 2 0329628.6	Fan capable of producing cool air by utilising refrigerator air vents (可利用冰箱風道製冷的風扇)	2015.5.20	Utility model	PRC
59.	Company	ZL 2015 2 0371664.9	A protective structure that kills mosquito and insect pests automatically and prevents people from falling down sewers (可自動消殺蚊蟲並防止行人掉落下水道的防護結構)	2015.6.2	Utility model	PRC
60.	Company	ZL 2015 2 0314210.8	A maintenance and repair system for underground electrical rooms (一種地下變配電室檢修系統)	2015.5.15	Utility model	PRC
61.	Company	ZL 2015 2 0644732.4	A kind of router-based magnetic door contact alarm system (一種基於路由器的門磁預警裝置)	2015.8.25	Utility model	PRC
62.	Company	ZL 2015 2 0286889.4	An intelligent home lighting system (一種家庭智能燈光系統)	2015.5.6	Utility model	PRC
63.	Company	ZL 2015 2 0644676.4	A vibration-sensor-based building safety monitoring system (一種震動感應式樓宇安全監控系統)	2015.8.25	Utility model	PRC

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D. Copyright in computer software

As at the Latest Practicable Date, we had the following copyrights in computer software registered as patents which are material to our business:

No.	Owner	Patent Number	Name of the Patent	Registration Date	Date of Creation	Place of Registration
1.	Company	2012SR083306	Intelligent warehouse management system 智能貨物倉儲管理系統	2012.9.4	2010.11.12	PRC
2.	Company	2012SR077486	Garage remote monitoring system 車庫遠程監控系統	2012.8.22	2012.1.5	PRC
3.	Company	2012SR076416	Multifunction intelligent garage monitoring and management software 多功能智能車庫監控管理軟件	2012.8.20	2012.4.5	PRC
4.	Company	2012SR076262	Emergency fire control software 消防應急控制軟件	2012.8.20	2011.5.10	PRC
5.	Company	2012SR076251	Intelligent central air-conditioning installation control software 中央空調的智能安裝系統控制軟件	2012.8.20	2012.1.1	PRC
6.	Company	2012SR076193	Intelligent community property management platform software 智能化小區物業管理平台軟件	2012.8.20	2011.11.23	PRC
7.	Company	2012SR076151	Video conference monitoring and management system software 視頻會議監控管理系統軟件	2012.8.20	2012.4.11	PRC
8.	Company	2012SR076133	Curtain wall display control system 屏幕牆顯示控制系統	2012.8.20	2011.8.12	PRC
9.	Company	2012SR076128	Intelligent lighting control system software 智能照明控制系統軟件	2012.8.20	2012.5.1	PRC
10.	Company	2012SR075993	Intelligent construction equipment management services software 智能建築設備管理服務軟件	2012.8.20	2011.12.15	PRC
11.	Company	2012SR075731	Wireless network control and management software 無線網控制管理軟件	2012.8.16	2011.12.10	PRC
12.	Company	2012SR075728	Intelligent multifunction home monitoring alarm system software 居室多功能智能監控報警系統軟件	2012.8.16	2011.1.5	PRC
13.	Company	2012SR075711	Intelligent server room monitoring and management software 智能機房監控管理軟件	2012.8.16	2012.1.1	PRC
14.	Company	2012SR075674	Intelligent automatic fire alarm system control software 消防智能自動報警系統控制軟件	2012.8.16	2011.11.5	PRC
15.	Company	2012SR075672	Intelligent digital broadcast management system software 智能數字廣播管理系統軟件	2012.8.16	2012.5.21	PRC

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No.	Owner	Patent Number	Name of the Patent	Registration Date	Date of Creation	Place of Registration
16.	Company	2015SR091320	Project construction information management and control system 工程建設信息化管控系統	2015.5.27	2014.6.19	PRC
17.	Company	2015SR091306	Project quality inspection system 工程施工質量驗收系統	2015.5.27	2014.6.17	PRC
18.	Company	2015SR091586	Project quality control software 工程質量控制軟件	2015.5.27	2014.7.16	PRC
19.	Company	2015SR091696	Temperature control cabinet controlling software 溫控機櫃控制軟件	2015.5.27	2014.6.19	PRC
20.	Company	2015SR091710	Temperature control and energy saving controlling software 溫控節能控制程序軟件	2015.5.27	2014.4.9	PRC
21.	Company	2015SR091777	Intelligent project integration management system 項目工程一體化智能管理系統	2015.5.27	2014.6.12	PRC

E. Copyright in fine art work

As at the Latest Practicable Date, we had the following registered copyright in fine art work which is material to our business:

No.	Owner	Registration Number	Name of the Fine Art Work	Registration Date	Type of Work	Place of Registration
1.	Company	Guozuodengzi-2016-F-00253423	Qian nian gu xiang (千年古象)	2016.1.13	Fine art	PRC

Save as disclosed above, there are no other copyrights, patents, trademarks or other intellectual property rights which are material in relation to the business of our Company.

3. Material properties

As at the Latest Practicable Date, we had acquired the land use right of the following land which is material to our business:

No.	Owner	Property Address	Use	Approximate Area (m ²)	Method of Acquisition of Land Use Right/ Expiry Date of Land Use Right of Owned Land
1.	Huidong Yip's Development Company Limited (惠東葉氏實業發展有限公司)	Baihua County, Taiyang Ao, Industrial City (白花鎮太陽坳工業城), Huidong, Guangdong, PRC	Industrial	39,406.27	Land Grant until 22 September 2052

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As at the Latest Practicable Date, we had acquired the housing use right of the following properties which are material to our business:

No.	Owner	Property Address	Use	Approximate Gross Floor Area (m ²)	Method of Acquisition of Housing Use Right/Expiry Date of Housing Use Right of Owned Houses	Encumbrance
1.	Company	3rd Floor, Pengyi Garden Building 1, Bagua No.1 Road, Futian District, Shenzhen, PRC* (深圳市福田區八卦一路鵬益花園1號裙樓三層)	Commercial	3,790.44	Land Grant until 27 June 2062	Pledged to China CITIC Bank
2.	Company	24H, Daqing Plaza, Southeast side of the intersection of Shennan Road and Guangshen Highway, Futian District, Shenzhen, PRC* (深圳市福田區深南路與廣深高速交匯處東南側大慶大廈24H)	Office	80.03	Land Grant until 29 September 2047	Pledged to China Minsheng Bank
3.	Company	24G, Daqing Plaza, Southeast side of the intersection of Shennan Road and Guangshen Highway, Futian District, Shenzhen, PRC* (深圳市福田區深南路與廣深高速交匯處東南側大慶大廈24G)	Office	80.02	Land Grant until 29 September 2047	Pledged to China Minsheng Bank

To the best of our knowledge and belief, except as otherwise disclose in this document, none of our material properties have:

- third-party rights such as encumbrances, liens, pledges or mortgages;
- restrictions on its use or conflicts with its actual use;
- environmental violation issues;

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- investigations, notices, pending litigations, breaches of law or title defects;
- plans for construction, building decoration, improvement or development;
- plans to dispose of or change the use; or
- any other information considered material for investors to enable them to make a properly informed assessment on the properties of our Company.

FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS, MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests of Directors and Supervisors

Save as disclosed below, immediately following completion of the [REDACTED] (assuming that the [REDACTED] is not exercised), so far as our Directors are aware, the interests or short positions of each of our Directors, Supervisors and chief executive of our Company in our Shares, underlying shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the [REDACTED]) which will have to be notified to our Company and the [REDACTED] pursuant to Divisions 7 and 8 of Part XV of the [REDACTED] (including interests and short positions which they are taken or deemed to have under such provisions of the [REDACTED]) or which will be required, pursuant to Section 352 of the [REDACTED], to be recorded in the register referred to therein or which will be required to be notified to our Company and the [REDACTED] pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the [REDACTED] will be as follows (for this purpose, the relevant provisions of the [REDACTED] will be interpreted as if they applied to the Supervisors):

Name of Director	Class of Shares held after the [REDACTED]	Nature of Interest/ capacity	Number of Shares held after the [REDACTED]	Approximate percentage of shareholding in the relevant class of Shares after the [REDACTED] ^(Note 1)	Approximate percentage of shareholding in the total share capital of our Company after the [REDACTED] ^(Note 2)
Mr. Ye Yujing (葉玉敬) ^(Note 3)	Domestic Shares	Beneficial Owner Interest of spouse	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]
Ms. Ye Xiujin (葉秀近) ^(Note 4)	Domestic Shares	Beneficial Owner Interest of spouse	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]	[REDACTED] [REDACTED]
Mr. Ye Xian (葉縣) ^(Note 5)	Domestic Shares	Beneficial Owner	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Ye Guofeng (葉國鋒) ^(Note 6)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]

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Notes:

1. The calculation is based on the total number of Domestic Shares held after the [REDACTED], assuming the [REDACTED] is not exercised.
2. The calculation is based on the total number of [REDACTED] in issue after the [REDACTED], assuming the [REDACTED] is not exercised.
3. Mr. Ye Yujing is the husband of Ms. Ye Xiujin. Under the [REDACTED], Mr. Ye Yujing will be deemed to be interested in the same number of Shares in which Ms. Ye Xiujin is interested.
4. Ms. Ye Xiujin is the wife of Mr. Ye Yujing. Under the [REDACTED], Ms. Ye Xiujin will be deemed to be interested in the same number of Shares in which Mr. Ye Yujing is interested.
5. Mr. Ye Xian is our Supervisor.
6. Shenzhen Gong Xiang Li, a limited partnership entity established under the PRC laws which is owned as to 66.32% by Mr. Ye Guofeng, is interested in 8,075,000 Shares. In light of this, Mr. Ye Guofeng is deemed to be interested in all the Shares held by Shenzhen Gong Xiang Li.

2. Disclosure of interests of Substantial Shareholders

So far as our Directors are aware, immediately following completion of the [REDACTED], assuming that the [REDACTED] is not exercised, the following Shareholders will have or deemed or taken to have an interest and/or short position in our Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the [REDACTED], or be 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 any other member of our Company.

Name of Shareholder	Class of Shares held after the [REDACTED]	Nature of interest/ capacity	Number of Shares or underlying shares held after the [REDACTED]	Approximate percentage of shareholding in the relevant class of Shares after the [REDACTED] ^(Note 1)	Approximate percentage of shareholding in the total share capital of our Company after the [REDACTED] ^(Note 2)
South China Sea LP ^(Note 3)	Domestic Shares	Beneficial Owner	[REDACTED]	[REDACTED]	[REDACTED]
Shenzhen Co-Win Asset ^(Note 3)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
Shenzhen Co-Win Venture Capital ^(Note 3)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
Shenzhen Co-Win Jinxiu Asset ^(Note 3)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Zheng Wei He (鄭偉鶴) ^(Note 3)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Huang Li (黃荔) ^(Note 3)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]

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Name of Shareholder	Class of Shares held after the [REDACTED]	Nature of interest/capacity	Number of Shares or underlying shares held after the [REDACTED]	Approximate percentage of shareholding in the relevant class of Shares after the [REDACTED] ^(Note 1)	Approximate percentage of shareholding in the total share capital of our Company after the [REDACTED] ^(Note 2)
Ms. Ding Bao Yu (丁寶玉) ^(Note 3)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Ye Bingquan (葉炳權)	Domestic Shares	Beneficial Owner	[REDACTED]	[REDACTED]	[REDACTED]
Shenzhen Gong Xiang Li ^(Note 4)	Domestic Shares	Beneficial Owners	[REDACTED]	[REDACTED]	[REDACTED]
Mr. Ye Weiqing (葉偉青) ^(Note 4)	Domestic Shares	Interest in a controlled corporation	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

1. The calculation is based on the total number of Domestic Shares held after the [REDACTED], assuming the [REDACTED] is not exercised.
2. The calculation is based on the total number of [REDACTED] in issue after the [REDACTED], assuming the [REDACTED] is not exercised.
3. South China Sea LP, a limited partnership entity established under PRC laws on 13 April 2011, is controlled by four general partners who were as at the Latest Practicable Date, (i) Shenzhen Co-Win Jinxiu Asset, (ii) Zheng Wei He; (iii) Huang Li; and (iv) Ding Bao Yu. Shenzhen Co-Win Jinxiu Asset, a limited liability company established under PRC laws on 24 December 2014, is a wholly-owned subsidiary of Shenzhen Co-Win Asset. Shenzhen Co-Win Asset, a limited liability company established under PRC laws on 27 December 2010 is owned as to 35.6% by Shenzhen Co-Win Venture Capital, 15.9% by Zheng Wei He, 15.9% by Huang Li, 10.5% by Shenzhen Co-Win Victory LP, 7.1% by Shenzhen Co-Win South China Asset Management Company Limited (深圳市同創偉業南海資產管理有限公司) which is a limited liability company established under PRC laws on 5 February 2013 and is wholly-owned by Shenzhen Co-Win Venture Capital, 4.5% by Ding Bao Yu, 2.6% by Ma Weiguo (馬衛國), 1.2% by Tang Zhongcheng (唐忠誠), with the remaining 6.7% owned by other shareholders. Shenzhen Co-Win Venture Capital, a limited liability company established under PRC laws on 26 June 2000, is owned as to 45% by Zheng Wei He and 55% by Huang Li. In light of the above, Shenzhen Co-Win Jinxiu Asset, Shenzhen Co-Win Asset, Shenzhen Co-Win Venture Capital, Zheng Wei He, Huang Li and Ding Bao Yu are deemed to be interested in all Shares held by South China Sea under the SFO.
4. Shenzhen Gong Xiang Li, a limited partnership entity established under the PRC laws of which Mr. Ye Weiqing is its executive partner and is owned as to 66.32% by Mr. Ye Guofeng, our Executive Director. In light of the above, Ye Weiqing and Ye Guofeng are deemed to be interested in all the Shares held by Shenzhen Gong Xiang Li.

As at the Latest Practicable Date, so far as is known to our Directors, other than our Company, no other persons were 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 our subsidiaries.

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3. Disclaimers

Save as disclosed in this document:

- (a) none of our Directors or Supervisors and any of the parties listed in "Other Information – 7. Qualification of experts" of this Appendix is:
 - (i) interested in the promotion of our Company, or in any assets which, within the two years immediately preceding the date of this document, have been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
 - (ii) materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group;
- (b) save in connection with the Hong Kong [REDACTED] and the International [REDACTED], none of the parties listed in "Other Information – 7. Qualification of experts" of this Appendix:
 - (i) is interested legally or beneficially in any shares in any member of our Group; or
 - (ii) has any right (whether legally enforceable or not) to [REDACTED] for or to nominate persons to [REDACTED] for any securities in any member of our Group;
- (c) none of our Directors or Supervisors or their respective close associates or any shareholders of our Company (which to the knowledge of our Directors owns more than 5% of our issued share capital) has any interest in the top five business customers or suppliers of our Group; and
- (d) none of the Directors, Supervisors or the chief executive of our Company has any interests or short positions in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the [REDACTED]) which will have to be notified to our Company and the [REDACTED] pursuant to Divisions 7 and 8 of Part XV of the [REDACTED] (including interests and short positions which they are taken or deemed to have under such provisions of the [REDACTED]) or which will be required, pursuant to section 352 of the [REDACTED], to be entered in the register referred to therein or which will be required to be notified to our Company and the [REDACTED] pursuant to the Model Code for Securities Transactions by Directors of [REDACTED] Companies contained in the [REDACTED];

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- (e) without taking into account any Shares which may be taken up under the [REDACTED], none of our Directors knows of any person (not being a Director, Supervisor or chief executive of our Company) who will, immediately following completion of the [REDACTED], have an interest or short position in Shares or underlying Shares of our Company which would fall to be disclosed to our Company pursuant to Divisions 2 and 3 of Part XV of the [REDACTED], or be interested, directly or indirectly, 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 any member of our Group; and
- (f) none of our Directors or Supervisors has or may have any interest in any business which, directly or indirectly, compete or might compete with our business.

4. Directors' and Supervisors' service contracts

Pursuant to Rules 19A.54 and 19A.55 of the [REDACTED], we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance with the relevant laws and regulations, the Articles of Association and applicable provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors or Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

5. Directors' remuneration

The aggregate remuneration (including fees, salaries, contributions to pensions schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses) paid to our Directors for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 were approximately RMB2.30 million, RMB2.30 million, RMB2.39 million and RMB1.20 million, respectively.

There was no arrangement under which a Director waived or agreed to waive any remuneration for any of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

Save as disclosed above, no other payments have been made or are payable in respect of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 by any member of our Group to any of our Directors.

Under the arrangements currently in force, our Company estimates the aggregate remuneration and benefits in kind (excluding any discretionary bonuses) payable to our Directors for the six months from 1 July 2016 to 31 December 2016 to be approximately RMB1.20 million.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

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6. Personal guarantees

Save as disclosed in the paragraph headed "Relationship with our Controlling Shareholders – Financial Independence", our Directors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

OTHER INFORMATION

1. Estate duty

Our Directors have been advised that no material liability for estate duty under the PRC laws is likely to fall on our Company or our subsidiaries.

2. Litigation

As at the Latest Practicable Date, no member of our Group was involved in any litigation, arbitration, administrative proceedings or claims of material importance, and, so far as we are aware, no litigation, arbitration, administrative proceedings or claims of material importance are pending or threatened against any member of our Group.

3. Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the [REDACTED] of, and permission to deal in, our [REDACTED]. All necessary arrangements have been made to enable the [REDACTED] to be admitted into CCASS for clearing and settlement.

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor will be paid by our Company a fee of US\$750,000 to act as the sponsor to our Company in connection with the [REDACTED].

4. No material adverse change

Save as disclosed in this document, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2016 (being the date to which the latest consolidated audited financial statements of our Group were prepared).

5. Compliance adviser

Our Company will, upon [REDACTED], appoint Guotai Junan Capital Limited as our compliance adviser in compliance with Rule 3A.19 of the Listing Rules.

The term of appointment shall commence on the [REDACTED] and terminate on the date on which we distribute our annual reports in respect of our financial results for the first full financial year after the [REDACTED] and such appointment may be extended by mutual agreement.

6. Preliminary expenses

Our Company incurred no expenses of converting from a limited liability company to a joint stock limited company on 3 December 2007.

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7. Qualification of experts

The following are the qualifications of experts who have opined or advised on information contained in this document:

<u>Name</u>	<u>Qualification</u>
Guotai Junan Capital Limited	A corporation licensed under the SFO to engage in type 6 (advising on corporate finance) regulated activities as defined under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent Industry Consultant
Jingtian & Gongcheng	PRC Legal Advisers

8. Consents of experts

Each of the experts referred to in "Other Information – 7. Qualification of experts" in this Appendix has given and has not withdrawn its respective written consents to the issue of this document with the inclusion of certificates, letters, opinions or reports and the references to its names included herein in the form and context in which it is respectively included.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to [REDACTED] for or to nominate persons to [REDACTED] for securities in our Company or any of our subsidiaries.

9. Taxation of holders of [REDACTED]

The sale, purchase and transfer of [REDACTED] are subject to Hong Kong stamp duty. The current rate of Hong Kong stamp duty of such sale, purchase and transfer is HK\$2.00 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the [REDACTED] being sold or transferred. For further information in relation to taxation, please refer to "Appendix III – Taxation and Foreign Exchanges".

10. Promoters

Our promoters are Mr. Ye Yujing, the late Mr. Ye Yuling and Ms. Ye Jinmei. Save as disclosed in this document, within the two years immediately preceding the date of this document, no cash, securities or benefit has been paid, allotted or given, or is proposed to be paid, allotted or given to the promoters named above in connection with the [REDACTED] or the related transactions described in this document.

11. Binding effect

This document shall have the effect, if an application is made in pursuance of this document, of binding all persons concerned by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

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STATUTORY AND GENERAL INFORMATION

12. Related party transactions

During the two years preceding the date of this document, we were engaged in related party transactions as described under note 32 to the Accountants' Report set out in Appendix I to this document.

13. Miscellaneous

Save as disclosed in this document:

- (a) within the two years immediately preceding the date of this document:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group; and
 - (iv) no commission has been paid or payable (except commissions to the [REDACTED]) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of any member of our Group;
- (b) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares, deferred shares or debenture;
- (c) none of the equity and debt securities of our Company is [REDACTED] or dealt with in any other stock exchange or trading system, nor is any [REDACTED] or permission to deal on any stock exchange other than the Hong Kong Stock Exchange is currently being or proposed to be sought;
- (d) our Company has no outstanding convertible debt securities or debentures;
- (e) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived;
- (g) our Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Law of the PRC on Sino-foreign Equity Joint Ventures; and
- (h) our Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms as required under the Model Code for Securities Transactions by Directors of [REDACTED] Issuers as set out in Appendix 10 to the [REDACTED].

14. Bilingual Document

The English language and Chinese language versions of this document are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong)).

APPENDIX VII

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the [REDACTED], (ii) the written consents referred to in the section headed "Statutory and General Information – Other Information – 8. Consents of experts" in Appendix VI to this document, and (iii) copies of each of the material contracts referred to in the section headed "Statutory and General Information – Further Information about our Business – 1. Summary of material contracts" in Appendix VI to this document.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of 27/F, Alexandra House, 18 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

1. the Articles of Association;
2. the accountant's report from PricewaterhouseCoopers in respect of the historical financial information of the Group for each of the three years ended 31 December 2015 and the six months ended 30 June 2016, the text of which is set forth in Appendix I to this document;
3. the report in respect of the unaudited pro forma financial information of our Company, the text of which is set forth in Appendix II to this document;
4. the audited consolidated financial statements of our Group for each of the three years ended 31 December 2015 and six months ended 30 June 2016;
5. the written consents referred to in the section headed "Statutory and General Information – Other Information – 8. Consents of experts" in Appendix VI to this document;
6. the service contracts referred to in the section headed "Statutory and General Information – Further Information about our Directors, Supervisors, Management and Substantial Shareholders – 4. Directors' and Supervisors' service contracts" in Appendix VI to this document;
7. copies of each of the material contracts referred to in the section headed "Statutory and General Information – Further Information about our Business – 1. Summary of Material Contracts" in Appendix VI to this document;
8. the legal opinions issued by Jingtian & Gongcheng, our PRC Legal Advisers, in respect of certain aspects of our Group and the property interests of our Group;
9. the industry report issued by Frost & Sullivan; and
10. copies of the following PRC laws, together with unofficial English translations thereof:
 - (i) the PRC Company Law;
 - (ii) the PRC Securities Law;
 - (iii) the Mandatory Provisions; and
 - (iv) the Special Regulations.