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

If you have sold or transferred all your shares in SUNDART HOLDINGS LIMITED 承達集團有限公司, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or the transferee(s) or to the bank, stockbroker, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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SUNDART HOLDINGS LIMITED

承達集團有限公司

(incorporated under the laws of British Virgin Islands with limited liability)

(Stock code: 1568)

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
100% EQUITY INTEREST IN SUNDART BEIJING;
(2) AMENDMENT TO THE DEED OF NON-COMPETITION;
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



A letter from the Board is set out on pages 8 to 39 of this circular. A letter from the Independent Board Committee is set out on pages 40 to 41 of this circular. A letter from Lego is set out on pages 42 to 70 of this circular.

A notice convening the EGM of SUNDART HOLDINGS LIMITED 承達集團有限公司 to be held at Room 03-05, 11/F, Millennium City 3, 370 Kwun Tong Road, Kowloon, Hong Kong on 25 July 2017 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the respective websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.sundart.com). Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

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DEFINITIONS

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

“Acquisition”	the proposed acquisition of 100% equity interest in the Target Company by the Transferee pursuant to the Equity Transfer Agreement
“Advance Payment Bonds”	has the meaning ascribed to it under the sub-paragraph headed “Advance payment bonds issued through Jangho Co.” in this circular
“Amended Deed”	the amended and restated deed of non-competition to be executed by the controlling shareholders of the Company in favour of the Company to amend and restate the Deed of Non-Competition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bank of Beijing”	Bank of Beijing Co., Ltd.
“Beijing Gangyuan”	北京港源建築裝飾工程有限公司 (Beijing Gangyuan Architectural Decoration Engineering Co., Ltd.*), a limited liability company established in the PRC on 7 December 1992, which is held as to 26.25% by Jangho Co., 68.75% by Jangho Chuangzhan and 5% by Mr. Gao Yun, a director of Jangho Co., respectively
“Beijing Jiangheyuan”	北京江河源控股有限公司 (Beijing Jiangheyuan Holdings Co., Ltd.*), a limited liability company established in the PRC on 27 November 1998, which is 85% and 15% beneficially owned by Mr. Liu and Ms. Fu (both being the controlling shareholders of the Company), and a controlling shareholder of the Company
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for business
“China Guangfa Bank”	China Guangfa Bank Co., Ltd.
“China Minsheng Bank”	China Minsheng Banking Corp., Ltd.
“Circular 67”	Circular on Issues Concerning Regulating Overseas Listing of Subsidiaries of Domestic Listed Companies (Zheng Jian Fa [2004] No.67) (《關於規範境內上市公司所屬企業到境外上市有關問題的通知》) (證監發[2004]67號) promulgated by the CSRC on 21 July 2004

DEFINITIONS

“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Company”	SUNDART HOLDINGS LIMITED 承達集團有限公司, a company incorporated in the British Virgin Islands with limited liability, the securities of which are listed on the Stock Exchange (stock code: 1568)
“Completion”	completion of the Acquisition pursuant to the terms of the Equity Transfer Agreement
“Completion Date”	the date on which Completion takes place
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the total consideration for the Acquisition, being HK\$520 million
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Convenantors”	has the meaning ascribed to it under the sub-paragraph headed “Proposed amendment to the Deed of Non-Competition” in this circular
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission)
“Deed of Non-Competition”	a deed of non-competition dated 8 December 2015 given by the then controlling shareholders of the Company in favour of the Company (for itself and as trustee for each of its subsidiaries)
“Developer”	a well-known developer in the PRC which is an independent third party
“Director(s)”	the director(s) of the Company
“Dividend”	the dividend in a sum of HK\$100 million declared by the Target Company on 22 June 2017 and expected to be distributed on or around 26 July 2017
“EBIT”	earnings before interest and taxes
“EBITDA”	earnings before interest, taxes, depreciation, and amortisation
“EGM”	the extraordinary general meeting of the Company to be held at Room 03-05, 11/F, Millennium City 3, 370 Kwun Tong Road, Kowloon, Hong Kong on Tuesday, 25 July 2017 at 10:00 a.m. for the purpose of considering and, if thought fit, approving the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder

DEFINITIONS

“Enlarged Group”	the Company and its subsidiaries as enlarged by the Acquisition upon Completion
“Entrusted Shares”	95% of the equity interest collectively held by the Entrusters in Beijing Gangyuan as at the effective date of the Entrustment Agreement
“Entrusters”	Jangho Co. and Jangho Chuangzhan, being the shareholders holding in aggregate 95% equity interest in Beijing Gangyuan as at the date hereof
“Entrustment Agreement”	the entrustment agreement to be entered into among Beijing Gangyuan, the Entrusters and the Entrustee
“Entrustment Fee”	has the meaning ascribed to it under the sub-paragraph headed “Proposed entrustment arrangements under the Entrustment Agreement upon Completion — Entrustment fee” in this circular
“Entrustment Period”	has the meaning ascribed to it under the sub-paragraph headed “Proposed entrustment arrangements under the Entrustment Agreement upon Completion — Entrustment period” in this circular
“Equity Transfer Agreement”	the equity transfer agreement dated 17 May 2017 entered into between, among others, the Transferors and the Transferee in relation to the Acquisition
“EV”	enterprise value
“EV/EBITDA”	EV-to-EBITDA ratio
“Excluded Business”	has the meaning ascribed to it under the sub-paragraph headed “Proposed amendment to the Deed of Non-Competition — The Amended Deed” in this circular
“Group”	the Company and its subsidiaries
“Guarantees”	has the meaning ascribed to it under the sub-paragraph headed “Guarantees from controlling shareholders of the Company in respect of the banking facilities granted to the Target Company” in this circular
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HSBC Bank”	HSBC Bank (China) Company Limited

DEFINITIONS

“Independent Board Committee”	the independent committee of the Board comprising Mr. Tam Anthony Chun Hung, Mr. Huang Pu and Mr. Li Zheng, being all the independent non-executive Directors, appointed by the Board to advise the Independent Shareholders in relation to the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder
“Independent Financial Adviser” or “Lego”	Lego Corporate Finance Limited, a licensed corporation under the SFO to carry out type 6 (advise on corporate finance) regulated activity, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder
“Independent Shareholder(s)”	Shareholder(s) that is not required to abstain from voting at the EGM
“Independent Valuer”	Asset Appraisal Limited
“Jangho Chuangzhan”	北京江河創展管理諮詢有限公司 (Beijing Jangho Chuangzhan Management Consultancy Co., Limited*), a limited liability company established in the PRC on 8 December 2004, which is wholly-owned by Jangho Co.
“Jangho Co.”	江河創建集團股份有限公司 (Jangho Group Co., Ltd.*), a joint stock limited liability company established in the PRC on 4 February 1999 (the A shares of which have been listed on the Shanghai Stock Exchange (stock code: 601886) since 18 August 2011) and a controlling shareholder of the Company
“Jangho Group”	Jangho Co. and its subsidiaries, excluding the members of the Group
“Jangho HK”	Jangho Curtain Wall Hongkong Limited (江河幕牆香港有限公司), a limited liability company incorporated in Hong Kong on 28 October 2009, a wholly-owned subsidiary of Jangho Co. and a controlling shareholder of the Company
“Jangho Target Districts”	other provinces, municipalities and autonomous regions in the PRC excluding the Sundart Target Districts and the Overlapping District
“Latest Practicable Date”	20 June 2017, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication

DEFINITIONS

“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	29 December 2015, being the date of Listing
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	30 September 2017, or such later date as the parties to the Equity Transfer Agreement may agree in writing
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operating in parallel with the Growth Enterprise Market of the Stock Exchange
“Mr. Liu”	Mr. Liu Zaiwang (劉載望), the non-executive Director, a controlling shareholder of the Company and the spouse of Ms. Fu
“Ms. Fu”	Ms. Fu Haixia (富海霞), a controlling shareholder of the Company and the spouse of Mr. Liu
“National Bureau of Statistics”	National Bureau of Statistics of China (中華人民共和國國家統計局)
“New Business Opportunity”	has the meaning ascribed to it under the sub-paragraph headed “Proposed amendment to the Deed of Non-Competition — New business opportunity” in this circular
“Non-acceptance Notice”	has the meaning ascribed to it under the sub-paragraph headed “Proposed amendment to the Deed of Non-Competition — New business opportunity” in this circular
“Overlapping District”	Beijing, the PRC
“Performance Bonds”	has the meaning ascribed to it under the sub-paragraph headed “Performance bonds issued through Jangho Co.” in this circular
“PRC”	the People’s Republic of China, excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Legal Advisers”	Tian Yuan Law Firm, the Company’s legal advisers as to PRC laws
“PRC Non-competition Requirement”	has the meaning ascribed to it under the paragraph headed “Information on the Target Group” in this circular
“Prospectus”	the prospectus of the Company dated 11 December 2015

DEFINITIONS

“Reach Glory”	REACH GLORY INTERNATIONAL LIMITED, a company incorporated in the British Virgin Islands with limited liability on 15 June 2015, a wholly-owned subsidiary of Jangho HK and a controlling shareholder of the Company
“Restricted Business”	has the meanings ascribed to it under the sub-paragraphs headed “Proposed amendment to the Deed of Non-Competition — Background” and “Proposed amendment to the Deed of Non-Competition — The Amended Deed”, respectively, in this circular
“Restricted Period”	has the meaning ascribed to it under the sub-paragraph headed “Proposed amendment to the Deed of Non-Competition — Background” in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Sundart Beijing”, “Entrustee” or “Target Company”	北京承達創建裝飾工程有限公司 (Sundart Engineering & Contracting (Beijing) Limited*), a limited liability company established in the PRC on 19 September 2003 and a former subsidiary of the Company
“Sundart Dalian”	大連承達創建裝飾工程有限公司 (Sundart Engineering & Contracting (Dalian) Limited*), a limited liability company established in the PRC on 30 July 2012 and a wholly-owned subsidiary of the Target Company
“Sundart Shanghai”	上海承達企業發展有限公司, a limited liability company established in the PRC on 25 July 2016 and a wholly-owned subsidiary of the Target Company
“Sundart Target Districts”	12 selected provinces, municipalities and autonomous regions in the PRC, namely Inner Mongolia, Shanghai, Jiangsu, Zhejiang, Jiangxi, Hubei, Hunan, Guangdong, Chongqing, Sichuan and Yunnan

DEFINITIONS

“Sundart Timber”	Sundart Timber Products Company Limited (承達木材製品有限公司), a limited liability company incorporated in Hong Kong on 10 January 1995 and an indirect wholly-owned subsidiary of the Company
“Target Group”	the Target Company and its subsidiaries, namely, Sundart Dalian and Sundart Shanghai
“Tender Bond”	has the meaning ascribed to it under the sub-paragraph headed “A tender bond issued through Jangho Co.” in this circular
“Transferee”	Sundart Engineering Investments Limited (承達工程投資有限公司), a limited liability company incorporated in Hong Kong on 24 February 2017 and an indirect wholly-owned subsidiary of the Company
“Transferors”	Jangho Co. and Jangho HK
“USD”	United States dollars, the lawful currency of the United States of America
“Valuation Date”	28 February 2017
“%”	per cent.

* *All English translation of the Chinese names of the companies established in the PRC is for identification purpose only.*

LETTER FROM THE BOARD



SUNDART HOLDINGS LIMITED

承達集團有限公司

(incorporated under the laws of British Virgin Islands with limited liability)

(Stock code: 1568)

Executive Directors:

Mr. Ng Tak Kwan (*Chief Executive Officer*)

Mr. Leung Kai Ming

Mr. Xie Jianyu (*Chief Financial Officer*)

Mr. Ng Chi Hang

Mr. Pong Kam Keung

Registered office:

Commerce House

Wickhams Cay 1

P.O. Box 3140

Road Town, Tortola

British Virgin Islands, VG1110

Non-Executive Director:

Mr. Liu Zaiwang (*Chairman*)

Headquarters and principal place

of business in Hong Kong:

25/F, Millennium City 3

370 Kwun Tong Road

Kowloon

Hong Kong

Independent Non-Executive Directors:

Mr. Tam Anthony Chun Hung

Mr. Huang Pu

Mr. Li Zheng

30 June 2017

To the Shareholders

Dear Sir or Madam

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
100% EQUITY INTEREST IN SUNDART BEIJING;
(2) AMENDMENT TO THE DEED OF NON-COMPETITION;
AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcement of the Company dated 17 May 2017 in relation to, among other things, the proposed acquisition of 100% equity interest in the Target Company.

On 17 May 2017, the Transferee entered into the Equity Transfer Agreement with the Transferors, pursuant to which the Transferee has agreed to acquire, and the Transferors have agreed to transfer, in aggregate 100% equity interest in the Target Company at the Consideration.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further information on the Equity Transfer Agreement and the transaction contemplated thereunder; (ii) the proposed amendment to the Deed of Non-Competition; (iii) the letter of recommendation of the Independent Board Committee in respect of the Equity Transfer Agreement, the Amended Deed and the transaction contemplated thereunder; (iv) the letter of the Independent Financial Adviser containing its advice to the Independent Board Committee and Independent Shareholders in relation to the Equity Transfer Agreement, the Amended Deed and the transaction contemplated thereunder; and (v) the notice of EGM.

THE EQUITY TRANSFER AGREEMENT

A summary of the principal terms of the Equity Transfer Agreement is set out below:

Date

17 May 2017

Parties

- (1) Jangho Curtain Wall Hongkong Limited (江河幕牆香港有限公司) (as one of the Transferors);
- (2) 江河創建集團股份有限公司 (Jangho Group Co., Ltd.*) (as one of the Transferors); and
- (3) Sundart Engineering Investments Limited (承達工程投資有限公司) (as the Transferee)

Assets to be acquired

Pursuant to the Equity Transfer Agreement, the Transferee has agreed to acquire from Jangho HK and Jangho Co., and each of Jangho HK and Jangho Co. has agreed to transfer to the Transferee, 75% and 25% equity interests in the Target Company, respectively, representing an aggregate of 100% equity interest of the Target Company, in accordance with the terms and conditions as set out therein. Upon Completion, Sundart Beijing will become an indirect wholly-owned subsidiary of the Company.

Consideration and payment terms

The Consideration was determined after arm's length negotiations between the relevant parties based on (a) the fair value of 100% equity interest in the Target Company of HK\$520 million as at 28 February 2017 as appraised by the Independent Valuer which was determined with reference to (i) EV/EBITDA of market players which are listed companies; and (ii) the Dividend; and (b) the future prospects of the Target Group given its development and performance over the past few years and the potential growth in the market of fitting-out business in the PRC, details of which are set out in the paragraph headed "Reasons for and benefits of the Acquisition" in this circular.

* for identification purpose only

LETTER FROM THE BOARD

The declaration and distribution of the Dividend is for the purpose of realising the profit generated from the business operations of the Target Company which is entitled by the shareholders of the Target Company. Based on the current available financial resources of the Target Group, such as cash and cash equivalents of approximately HK\$497.0 million as at 31 December 2016 and the capital requirements of the Target Group based on the projects on hand, the management of the Target Company considered that the Target Group would have sufficient working capital for its daily operation after declaring and distributing the Dividend.

The Consideration shall be satisfied in cash and shall be payable by the Transferee to the Transferors within five Business Days upon the Completion Date.

The Consideration will be funded by internal resources of the Group and/or bank borrowings.

Conditions precedent

Completion is conditional upon the fulfilment (or waiver, if applicable) of all of the following conditions precedent:

- (a) the Transferee having obtained all necessary or appropriate approvals, authorisations, consents and permits as required under the applicable laws and regulations (including but not limited to the Listing Rules), including but not limited to the approval of the Independent Shareholders for the Acquisition and the compliance with the disclosure requirements thereunder;
- (b) each of the Transferors is the legal and beneficial owner of its respective equity interest in the Target Company at the Completion Date and its equity interest is free from any guarantee, mortgage, charge, lien, deposit or other security rights, or any other form of joint ownership or third party rights;
- (c) each of the Transferors and the Target Company having obtained all necessary or appropriate approvals, authorisations, consents, filings and permits as required by any governmental or regulatory authorities for the consummation of the Acquisition, and the Transferors and the Target Company having complied with all statutory requirements for the consummation of the Acquisition;
- (d) each of the Transferors and the Target Company having obtained all necessary approvals, authorisations, consents, filings and permits which may be required from any third party (including but not limited to any financial institution to whom the Target Company has an obligation) under any existing contractual arrangement of the Transferors or the Target Company for the consummation of the Acquisition;
- (e) the Transferee satisfying that all the licences, authorisations, permits or consents which are required to carry out the business of the Target Company under the PRC laws have been obtained by the Target Company and have full force and effect at the Completion Date and that the consummation of the Acquisition shall have no adverse impact on such licences, authorisations, permits or consents;

LETTER FROM THE BOARD

- (f) all representations, warranties and undertakings given by the Transferors under the Equity Transfer Agreement remaining true, complete and accurate in all material respects and not misleading as if the representations, warranties and undertakings are repeated by the Transferors at all times from the date of the Equity Transfer Agreement to the Completion Date;
- (g) the execution of the Amended Deed by the Covenantors as defined under the paragraph headed “Proposed Amendment to the Deed of Non-Competition” in this circular in favour of the Company and the Amended Deed having become unconditional in accordance with its terms. The Amended Deed is conditional upon (i) the approval thereof by the Independent Shareholders, and (ii) the Completion;
- (h) the entering into of the Entrustment Agreement by Beijing Gangyuan, the Entrusters and the Trustee. The Entrustment Agreement is conditional upon the Completion; and
- (i) all procedures for the change of record of foreign investment enterprises in respect of the Acquisition having been completed and all necessary filings having been made in accordance with the requirements under the PRC laws.

As at the Latest Practicable Date, conditions (c) and (d) had been fulfilled. In the event that the above conditions precedent cannot be fulfilled (or waived (other than items (a), (c), (d), (g), (h) and (i) above)) on or before the Long Stop Date, the Transferee shall have the right to terminate the Equity Transfer Agreement.

The waiver for conditions (b), (e) and (f) was to provide flexibility to the Company in determining whether to proceed with the Completion or to call off the Acquisition. The Company, when determining whether to waive a condition precedent, will exercise careful assessment on the relevant circumstances leading to the failure to fulfil such condition precedent and whether such non-fulfilment will cause any material adverse impact on the business operations and financial conditions of the Target Company. The Company will only exercise its right to waive any of the conditions (b), (e) or (f) if the Directors, after assessing the impact of such non-fulfilment, take the view that no material adverse impact will be caused to the Target Company and that it would be in the best interest of the Company and the Shareholders to proceed with the Completion.

Given that (i) the terms of the Equity Transfer Agreement were concluded after arm’s length negotiations between the relevant parties; (ii) the Directors consider that the Acquisition is in the interests of the Company and the Shareholders as a whole; (iii) the waiver for certain conditions precedent allows some flexibility for the Company to consider whether to proceed with the Completion even though such conditions precedent may not be satisfied by the Long Stop Date; and (iv) it was the commercial decision mutually agreed between the relevant parties to retain some flexibility on the fulfilment of conditions precedent, the Directors are of the view that such waiver is on normal commercial terms and is in the best interests of the Company and the Shareholders as a whole. As at the Latest Practicable Date, the Transferee had no intention to waive any of the conditions precedent.

LETTER FROM THE BOARD

Completion

The Target Company shall complete all the filing and registration procedures with the PRC administration for industry and commerce within 30 Business Days after the date on which all the conditions precedent are fulfilled or waived (such date not being later than the Long Stop Date), or such later date as may be agreed in writing between the Transferors and the Transferee. Completion shall take place upon the completion of such filing and registration procedures.

VALUATION

As disclosed in the Prospectus, the Target Company was historically a subsidiary of the Group. Sundart Timber transferred 50% and 25% equity interests in the Target Company to Jangho HK during the year ended 31 December 2015 at the consideration of approximately HK\$137.1 million in aggregate. Such consideration was determined with reference to the audited net asset value of the Target Company as at 31 December 2014 (being approximately HK\$182.9 million). Given that the revenue and net profit of the Target Company were relatively small at the time of the disposal in 2015, the Directors considered it inappropriate to adopt a market approach as it would be difficult to identify suitable comparables in the market.

The Target Group's revenue has increased from HK\$1,112.3 million to HK\$1,820.3 million from 2014 to 2016. Since acquired by Jangho Group, the Target Company has grown from a small-scale enterprise to a well-known enterprise in the industry. As a result of (i) the quality of works delivered and the quality of services provided by the Target Group; and (ii) the well-established brand and reputation of Jangho Group and its network built up from its provision of curtain wall services, the Target Group was able to maintain the business relationships with its existing customers and had better chances to start its business relationships with new customers which enabled the Target Group to continue broadening its customer base. In 2015 and 2016, the Target Group commenced business relationships with 21 and 17 new customers, respectively, and was awarded projects with a total contract sum of HK\$1,691.5 million from those new customers. In addition, in order to strengthen its market position in the fitting-out industry by demonstrating a high level of expertise, specialisation and technological capacity which in turn increases its competitiveness in securing new contracts from customers, the Target Company has been focusing on the research and development in the technology relating to its fitting-out business and has successfully registered eight patents and applied for registration of five patents during the years ended 31 December 2015 and 2016. For details of the patents registered by the Target Company as at the Latest Practicable Date, please refer to the paragraph headed "Reasons for and benefits of the Acquisition" in this circular. It has also been awarded with a number of honours in 2015 and 2016 including 2016-2017年度國家優質工程獎, 2015-2016年度中國建築工程裝飾獎 and 2015年度北京市建築長城杯工程金質獎. In view of the above, when determining the Consideration, the parties considered that the scale and size of the operations of the Target Group have increased and its financial performance has improved during the past few years and using the net asset value of the Target Company as at 31 December 2016 may not be the best option for determining the fair value of the equity interest in the Target Company. The parties thus mutually agreed to engage an independent valuer to appraise the fair value of the 100% equity interest in the Target Company so that the parties can determine the Consideration with reference to such valuation.

Assumptions

In view of the general environment and the particular situation in which the Target Company is operating, some assumptions have been adopted in the appraisal in order to sufficiently support the concluded value of the Target Company made by the Independent Valuer, including but not limited to:

- (a) the Target Company will not be constrained by the availability of finance and there will be no material fluctuation of the finance costs;

LETTER FROM THE BOARD

- (b) the Target Company shall have uninterrupted rights to operate its existing business during the unexpired term of its authorised enterprise operating period;
- (c) the unaudited financial statements of the Target Company as supplied to the Independent Valuer have been prepared in a manner truly and accurately reflected the financial position of the Target Company as at the respective balance sheet dates;
- (d) the Target Company has obtained all necessary permits and approvals to carry out its business and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs of substantial amount;
- (e) except those stated in the financial statements, the Target Company is free and clear of any lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever; and
- (f) the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other typical benefits which may influence the ordinary business enterprise value of the Target Company.

The assumptions (a) to (f) above are all applicable to the Company. The Directors confirm that as at the Latest Practicable Date, they were not aware of any event which may render any of the assumptions above inaccurate.

Valuation methodology

The Independent Valuer has advised that, in the appraisal of the equity of a business, there are three generally accepted approaches to value, known as cost approach, income approach and market approach.

Cost approach establishes value based on the cost of reproducing or replacing the property less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach might be considered the most consistently reliable indication of value for assets without a known used market or separately identifiable cash flows attributable to assets appraised.

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

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

The three generally accepted approaches to value were considered by the Independent Valuer. The cost approach is generally not considered applicable to the valuation of a going concern business, as it does not capture future earning potential of the business and the off balance sheet items of the business. Therefore, the Independent Valuer considered this method not appropriate in the valuation of the equity interest in the Target Company.

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The Independent Valuer has considered that the income approach was not the optimal approach to appraise the value of the Target Company considering its business nature and operation. The income approach involves the financial forecast information and the adoption of much more assumptions than the other two approaches, which may not be easily quantified or ascertained.

The Target Company has sufficient track record as it has participated in its existing operations for over 10 years. Since the Target Company is expected to maintain its existing business operations in the short and medium term, the Independent Valuer has considered that the market approach is the optimal approach to determine the fair value of the Target Company. The market approach determines the fair value of the assets by reference to the transaction prices, or valuation multiples implicit in the transaction prices of identical or similar assets in the market. A valuation multiple is a multiple determined by dividing the transaction price paid for similar business enterprises by a financial parameter, such as historical or prospective turnover or profit at a given level. Valuation multiples are applied to the corresponding financial parameter of the subject asset in order to value it. Adjustments are required to be made to the transaction prices or valuation multiples to reflect the differentiating characteristics among the business enterprise under value from and the comparable business enterprises for which the transaction prices or valuation multiples are known.

Selection of comparable companies

Several listed entities engaging in similar line of businesses to that of the Target Company have been identified and their share trading price ratios against various economic measures have been analysed for comparison purpose.

In selecting appropriate comparable companies, the Independent Valuer has adopted the following selection criteria, all of which must be satisfied:

- the company must specialise in providing renovation and refurbishment, decoration and fitting-out services;
- the company should have its main market in the PRC and/or in Hong Kong; and
- the company's share trading prices and financial information must be publicly available.

Given the above selection criteria, the following comparable companies have been identified for comparison purpose:

Name of the comparable company	Stock code of the comparable company
Suzhou Gold Mantis Construction Decoration Co., Ltd.	002081 CH
K W Nelson Interior Architect Group Limited	8411 HK
Guangdong Adway Construction (Group) Holdings Co., Ltd.	6189 HK
IBI Group Holdings Limited	1547 HK

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Selection of price multiples

Under the market approach, price multiples are the tools for conducting comparison. A valuation multiple is a ratio that relates share value to some economic measures of the comparable companies. Typical price multiples commonly used include:

- EV or equity value to gross revenue or net sales;
- EV or equity value to earnings;
- EV or equity value to EBIT or EBITDA; and
- EV or equity value to book value.

In view of the nature of the business of the Target Company, price-to-book value ratio was considered not appropriate for this valuation on the ground that the Target Company, which is not an asset holding company, has its fair value being determined based on its ability to generate future income streams rather than the costs of replacement of its assets and liabilities. The specific advantages of the Target Company could not be captured in the price-to-book value ratio. The price-to-revenue ratio was also considered not appropriate for this valuation since revenues may not take into account the cost structure and profitability (which are considered as the primary factors affecting the value of a company of the same kind). The price-to-earnings ratio may be affected by the depreciation policy and the capital structure which may vary among the Target Company and the comparable companies.

Therefore, the Independent Valuer has employed the median average of the EV/EBITDA based on publicly available information, including Bloomberg database, the financial statements and announcements of respective comparable companies, because it is not influenced by the company's corporate structure.

Based on the above financial figures, as at the Valuation Date, the average EV/EBITDA of the comparable companies of the last 12 months was 10.9275.

The average EV/EBITDA of the sample group is taken as the expected multiple for determination of the EV of the Target Company. For analysis purpose, full amount of cash on hand of the companies is regarded as operating assets and forms part of the EV.

Determination of normalised EBITDA and EV of the Target Company

According to the audited consolidated financial statements of the Target Company, the reported revenue, contract costs, gross profit, gross margin and EBITDA margin for the past three financial years are set out as follows:

	For the year ended 31 December		
	2014	2015	2016
Revenue (<i>HK\$ million</i>)	1,112.3	1,426.9	1,820.3
Contract costs (<i>HK\$ million</i>)	(1,038.2)	(1,302.4)	(1,630.0)
Gross profit (<i>HK\$ million</i>)	74.1	124.5	190.3
Gross margin	6.66%	8.72%	10.46%
EBITDA margin	0.43%	4.18%	7.47%

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The variation in the EBITDA margin over the past three years was caused by the variation in the respective gross margins in the past three years. The variation in the gross margin was mainly attributable to the revenue recognition policy adopted by the Target Company. Given that the life cycle of the projects undertaken by the Target Company is in general about three years, the revenue of each project would be recognised by the Target Company based on the percentage of completion, measured by the value of the actual work performed during the relevant financial year. In other words, the contract cost of a project with a life cycle of three years will affect the gross margin, and thus the EBITDA margin, of such project throughout the three financial years.

In determining the normalised EBITDA, the Independent Valuer has considered the contract costs (i.e. the direct costs incurred by undertaking the fitting-out projects) from which the normalised revenue is deduced based on a reasonable level of gross margin. Based on the historical gross margin in the past three financial years as set out above, the average gross margin is 8.61%.

Taking into account the above parameters, the normalised EBITDA of the Target Company for the 12-month period prior to the Valuation Date is calculated as follows:

	Parameters	Remarks
Expected gross margin	8.61%	
	<i>HK\$ million</i>	
Contract costs	1,641.0	For 12-month period prior to the Valuation Date
Normalised revenue	1,795.6	Contract costs/(1-Expected gross margin)
Gross profit	154.6	
Selling expenses	(0.5)	For 12-month period prior to the Valuation Date
Administrative expenses	(60.7)	For 12-month period prior to the Valuation Date
Add back depreciation	2.3	For 12-month period prior to the Valuation Date
Normalised EBITDA	95.7	

Taking into account the expected EV/EBITDA and the normalised EBITDA, the EV of the Target Company is calculated at HK\$1,045.5 million.

Determination of the share equity value of the Target Company

The determined EV is then translated to share equity by adding non-operating receivables and assets (if any) and deducting short term and long term loans (including non-operating liabilities) and non-controlling interests (if any).

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Discount for lack of marketability

Before concluding its opinion on fair value of the share equity of the Target Company, the Independent Valuer has applied a marketability discount of 25%.

The Independent Valuer has advised that the concept of marketability deals with the liquidity of an ownership interest, i.e. how quickly and easily it can be converted to cash if the owner chooses to sell. The discount for lack of marketability reflects the fact that there is no real market for shares in a privately held company. Ownership interests in a privately held company are generally not readily marketable compared to those in a public company. Therefore, shares in a privately held company are usually worth less than comparable shares in a public company.

As the Target Company is a private company and the shares of which are not listed on any stock exchange, there is a lack of open market for the transfer of the shares of the Target Company and thus the marketability of the equity interest in the Target Company would be affected. The Independent Valuer has considered several empirical studies conducted such as “Marketability and Value: Measuring the Illiquidity Discount” by Aswath Damodaran and “Discount for Lack of Marketability – Job Aid for IRS Valuation Professionals” by Internal Revenue Services. Pursuant to those studies, the discounts for lack of marketability were usually in the range of 20% to 30%. Hence, the Independent Valuer adopted the average of 25% of marketability discount in appraising the fair value of the Target Company.

The determined EV is translated into equity value as follows:

	As at 28 February 2017 HK\$ million
EV	1,045.5
Add: non-operating receivables and assets	14.4
Less: non-operating liabilities	<u>(232.6)</u>
Equity value before marketability discount	827.3
Marketability discount (25%)	<u>(206.8)</u>
Equity value after discount	620.5
Less: Dividend	<u>(100.0)</u>
Equity value (rounded in ten million)	<u><u>520.0</u></u>

Effect of the Dividend and the Amended Deed on the valuation

The original fair value of the 100% equity interest in the Target Company as at 28 February 2017 was HK\$620 million. As the declaration and distribution of the Dividend would reduce the net asset value of the Target Company by HK\$100 million, the Independent Valuer therefore made a dollar-to-dollar adjustment to the fair value of the 100% equity interest in the Target Company, amounting to the sum of HK\$520 million.

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Further, the Independent Valuer, in appraising the fair value of the equity interest in the Target Company, reviewed and considered the draft Amended Deed. The Enlarged Group, through the Target Group, intended to carry on its fitting-out business only in 12 selected provinces, municipalities and autonomous regions which were carefully delineated based on the criteria, among others, that the Jangho Target Districts are districts in which the Target Group does not currently have any fitting-out projects or have any current intention to expand into. Further, the Amended Deed was proposed to be entered into as a measure to minimise future potential competition between the Enlarged Group and Jangho Group. It only excludes the restrictions imposed on Jangho Group to conduct its fitting-out business in the PRC based on the agreed geographical and business positioning delineations but not to limit the scope of operation of the Target Company or to prohibit the Target Company from conducting fitting-out business in the Jangho Target Districts upon Completion. In view of the above, the Independent Valuer was of the view that the entering into of the Amended Deed would protect the business of the Target Company conducted in the Sundart Target Districts and thus would not have any material adverse impact on the business operations of the Target Company which would cause any material effect on the fair value of the equity interest in the Target Company.

Conclusion of valuation

Based on the investigation and analysis stated above and on the valuation method employed, the fair value of the 100% equity interest in the Target Company as at the Valuation Date was, in the opinion of the Independent Valuer, HK\$520 million.

Having taken into account (i) the development and performance of the Target Company over the past few years; (ii) the basis of determining the Consideration was decided after arm's length negotiations between the relevant parties; (iii) the opinion of the Independent Valuer on the fair value of the 100% equity interest in the Target Company including the basis and assumptions thereof; and (iv) the future prospects of the Target Group in which the Board is optimistic given the potential growth in the property and tourism markets in the PRC, details of which are set out in the paragraph headed "Reasons for and benefits of the Acquisition" in this circular, the Directors (including the independent non-executive Directors) consider that the valuation appraised by the Independent Valuer is fair and reasonable, and that the Consideration and the terms of the Equity Transfer Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is one of the leading integrated fitting-out contractors in Hong Kong and Macau, specialising in providing professional fitting-out works for residential properties and hotels. The Group has been operating its fitting-out business in Hong Kong since 1996 and further expanded its fitting-out business to Macau in 2005. Apart from the fitting-out business, the Group is also engaged in construction, interior decoration, repair, maintenance and alteration and addition works for residential properties, hotels, factories, and commercial buildings in Hong Kong. The Group also manufactures interior decorative timber products such as fire-rated timber doors and wooden furniture.

The Shares were listed on the Main Board on 29 December 2015.

INFORMATION ON THE TARGET GROUP

The Target Company is a limited liability company established in the PRC on 19 September 2003 and is currently owned as to 75% and 25% by Jangho HK and Jangho Co., respectively. The total registered capital of the Target Company as at the Latest Practicable Date was HK\$136.7 million. The Target Company, by itself and through its wholly-owned subsidiaries, Sundart Dalian and Sundart Shanghai, is principally engaged in the fitting-out business in the PRC.

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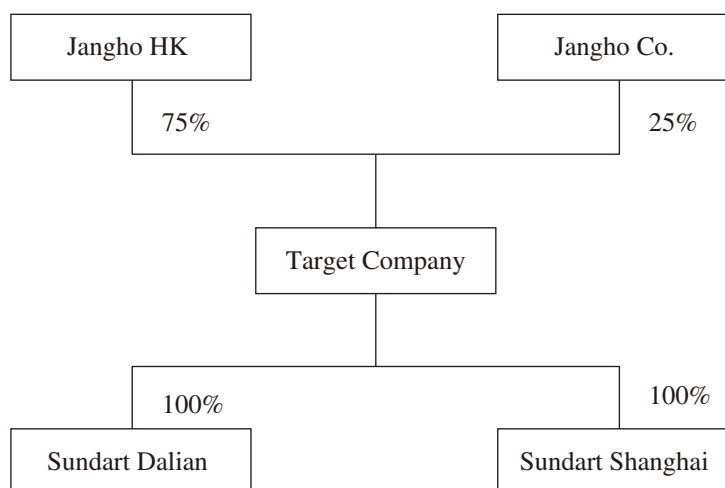
The Target Company is one of the leading integrated fitting-out contractors in the PRC. As at the Latest Practicable Date, it had nine branch offices in the PRC, mainly providing fitting-out works for high-end residential properties and hotels. It has been granted 建築業企業資質證書 (建築裝修裝飾工程專業承包壹級) in 2004 and awarded ISO 14001 certification in 2006. The Target Company is also a member of Beijing Construction Decoration Association and a committee member of China Building Decoration Association. It has been awarded with a number of honours including 2014–2015年度中國建設工程魯班獎 (國家優質工程), 2015年度北京市建築長城杯工程金質獎, 2015-2016年度中國建築工程裝飾獎 and 2016–2017年度國家優質工程獎.

The Target Company had been a wholly-owned subsidiary of Sundart Timber until 26 November 2012, when the Target Company increased its registered capital by approximately 25% of its enlarged registered capital after such capital increase. Since then the Target Company was beneficially owned as to 75% and 25% by Sundart Timber and Jangho Co., respectively. On 5 December 2014, the Target Company further increased its registered capital, which was subscribed by Sundart Timber and Jangho Co. on a pro-rata basis in accordance with their respective equity interests in the Target Company at par.

The Listing constituted a spin-off of certain assets and businesses held by the Group from Jangho Co.. Such spin-off required the obtaining of no-objection confirmation from the CSRC. According to the Circular 67, one of the conditions for granting such no-objection confirmation is that the business of the group of companies to be spun off shall not compete with that of its listed parent company (the “**PRC Non-competition Requirement**”). By then, both Beijing Gangyuan and the Target Group were principally engaged in the fitting-out business in the PRC.

To ensure compliance with the PRC Non-competition Requirement, Sundart Timber transferred 50% and 25% equity interests in the Target Company to Jangho HK during the year ended 31 December 2015 at the consideration of approximately HK\$91.4 million and HK\$45.7 million respectively, in aggregate of approximately HK\$137.1 million. Such considerations were determined after arm’s length negotiation between the relevant parties with reference to the audited net asset value of the Target Company as at 31 December 2014 (being approximately HK\$182.9 million).

Set out below was the shareholding structure of the Target Company as at the Latest Practicable Date:



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Set out below is the audited consolidated financial information of the Target Group for the three years ended 31 December 2016:

	For the year ended 31 December		
	2014	2015	2016
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Revenue	1,112.3	1,426.9	1,820.3
Net profit before taxation	4.6	53.7	135.5
Net profit after taxation	3.3	51.0	113.0

The audited net asset value of the Target Group as at 31 December 2016 was approximately HK\$315.1 million.

FINANCIAL EFFECTS OF THE ACQUISITION

The unaudited pro forma financial information on the Enlarged Group, illustrating the financial effects of the Acquisition on the assets and liabilities of the Enlarged Group, assuming that the Acquisition having been taken place on 31 December 2016, is set out in Appendix IV to this circular.

Upon Completion, the Target Company will be accounted for as a wholly-owned subsidiary of the Group and its results, assets and liabilities will be consolidated into the consolidated financial statements of the Group. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming the Completion having taken place on 31 December 2016, net assets attributed to the Group will decrease by approximately HK\$308.4 million. The total assets of the Group would increase by approximately HK\$1,208.5 million and the total liabilities of the Group would increase by approximately HK\$1,516.9 million. As set out in the accountant's report of the Target Group in Appendix II to this circular, the revenue and profit were approximately HK\$1,820.3 million and HK\$113.0 million for the year ended 31 December 2016, respectively. After Completion, the newly generated revenue and profits of the Target Group will be consolidated in the Group's consolidated financial statements.

In view of the potential future prospects offered by the Acquisition as stated in the section headed "Reasons for and benefits of the Acquisition" below, the Directors are of the view that the Acquisition will likely contribute positively to the Group. Nevertheless, the actual effect on earnings of the Group will depend on the future financial performance of the Target Group.

For further details of the financial effects of the Acquisition on the assets and liabilities of the Group together with the bases in preparing the unaudited pro forma financial information, please refer to Appendix IV to this circular.

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REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is one of the leading integrated fitting-out contractors in Hong Kong and Macau, specialising in providing professional fitting-out works for residential properties and hotels. In addition, the Group also generated revenue from alteration and addition and construction works in Hong Kong and from manufacturing, sourcing and distribution of interior decorative materials business for sales globally. During the year ended 31 December 2016, the majority of the Group's revenue was derived from its fitting-out projects in the private sector. Despite the fact that Hong Kong's economy grew slowly and remained uncertain in 2016, the Group continued to deliver a solid financial performance during the year ended 31 December 2016. With its established reputation, proven track record and long working relationships with customers, the Group continued to obtain several sizeable new projects during the year ended 31 December 2016.

The principal business of the Group during the track record period as stated in the Prospectus was the provision of fitting-out works for residential property and hotel projects in Hong Kong and Macau. As disclosed in the Prospectus, in terms of revenue, the Group was the largest fitting-out contractor in Hong Kong and Macau with approximately 6.1% of Hong Kong market share and 15.5% of Macau market share, respectively, in 2014. For the three years ended 31 December 2014, the consolidated net profits of the Target Group accounted for only approximately 2.3%, 15.0% and 1.8% of the total net profits of the Group during the same period, respectively. In view of the proven track record of the Group in Hong Kong and Macau and its performance during the track record period as stated in the Prospectus, the Directors decided to focus on the Hong Kong and Macau markets and retain only the Group's business in those jurisdictions in the listed group at the time of the Listing. Further, given that the Group had no intention to expand its fitting-out business into the PRC then, the Directors did not study in details the relevant economic environment, including but not limited to the living standard of the residents, in the PRC at that time.

On the other hand, since the Listing constituted a spin-off of certain assets and businesses held by the Group from Jangho Group, Jangho Co. had to satisfy the PRC Non-competition Requirement. Having considered (i) the Listing process; and (ii) the fact that the Directors decided to focus on the business of the Group in Hong Kong and Macau, the Directors were of the view that a clear business delineation between the Group and Jangho Group would be appropriate for the Listing and the operations of the Group.

Since the Listing, the Group has been delivering a solid financial performance, despite the fact that Macau's gaming industry experienced a downturn in 2015 and Hong Kong's economy grew slowly and remained uncertain in 2016. The Directors consider that the business of the Group in Hong Kong and Macau remained stable over the past few years. With a view to further improving the profitability of the Group, the Board has been focusing on and actively seeking opportunities to expand its fitting-out business to markets outside Hong Kong and Macau. In particular, the Directors placed their focus on exploring the opportunities in expanding the fitting-out business of the Group into other markets, considering the growth potential of such markets and ascertaining the Group's capability in entering into such markets. Further, in view of the growth in the property market and the tourism market in the PRC, the Group considers it a valuable opportunity to capitalise on the results of the economic development in the PRC.

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According to the National Bureau of Statistics, the investment in residential properties in the PRC increased by over 6% in 2016 compared with that in 2015, and over 11% for the first three months in 2017 compared with the corresponding period in 2016. Further, according to the 13th Five-Year National Development Plan for the fitting-out industry, it is estimated that the population in urban areas will continue to increase during the period from 2016 to 2020 and could reach the urbanisation rate at approximately 60% by 2020. The PRC government will continue to support the industry with relevant policies to increase new projects, expansion projects and reconstruction projects in infrastructure construction or real estate development which are expected to lead to increased demand and growth for the fitting-out industry. The acceleration of urbanisation continuously stimulates the investment of fixed assets, leading to the increase of infrastructure development, social housing development as well as real estate development. The rising urbanisation could stimulate the demand for new houses and facilities which need to be renovated before they are put into use. As a result, the rising demand for various types of properties will provide a solid ground for the development of the fitting-out industry and generate substantial market potential for the fitting-out service providers. According to the National Bureau of Statistics, the disposable income per capita of urban residents in the PRC increased from approximately RMB26,467 in 2013 to approximately RMB31,195 in 2015, representing a CAGR of approximately 8.6%. The living expenditure per capita of urban residents in the PRC also increased from approximately RMB4,301 in 2013 to approximately RMB4,726 in 2015, representing a CAGR of approximately 4.8%. These showed the increase in the willingness of urban residents to consume, resulting from the increase in their purchasing power.

Further, the PRC government promulgated the “13th Five-Year Plan” for the tourism industry in December 2016 which specified that the PRC government targets to grow, among others, the total tourism revenue by more than 11% and the direct investment in tourism by more than 14% per year during the 13th Five-Year Plan period. By 2020, it is expected that the tourism market in the PRC will grow to accommodate at least 6.7 billion travels, together with the total tourism investment reaching RMB2 trillion and the total tourism revenue reaching RMB7 trillion. With the acceleration of urbanisation, the continuing improvement in the living standard of the residents in the PRC, and the promulgation and implementation of the PRC government’s “13th Five-Year Plan” in boosting the tourism market, the Board is particularly optimistic in the future prospect of the fitting-out business for residential properties and hotels in the PRC.

Historically a subsidiary of the Group, the Target Company, by itself and through its wholly-owned subsidiaries, Sundart Dalian and Sundart Shanghai, has been principally engaged in the fitting-out business in the PRC. Over the years, the Target Group has been building its reputation and developing its network as a fitting-out contractor in the PRC. Benefited from the growth of the fitting-out market in the PRC and equipped with the Target Group’s established reputation, proven track record and long working relationships with its customers, the Target Group continued to obtain new projects during the three years ended 31 December 2016 which led to a significant growth in revenue and net profit of the Target Group for such period.

The Target Group’s revenue has increased from HK\$1,112.3 million to HK\$1,820.3 million from 2014 to 2016. Since acquired by Jangho Group, the Target Company has grown from a small-scale enterprise to a well-known enterprise in the industry. As a result of (i) the quality of works delivered and the quality of services provided by the Target Group; and (ii) the well-established brand and reputation of Jangho Group and its network built up from its provision of curtain wall services, the Target Group was able to maintain the business relationships with its existing customers and had better chances to start its business relationships with new customers which enabled the Target Group to continue broadening its

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customer base. In 2015 and 2016, the Target Group commenced business relationships with 21 and 17 new customers, respectively, and was awarded projects with a total contract sum of HK\$1,691.5 million from those new customers. In addition, in order to strengthen its market position in the fitting-out industry by demonstrating a high level of expertise, specialisation and technological capacity which in turn increases its competitiveness in securing new contracts from customers, the Target Company has been focusing on the research and development in the technology relating to its fitting-out business and has successfully registered eight patents and applied for registration of five patents during the years ended 31 December 2015 and 2016.

As at the Latest Practicable Date, the Target Company had registered the following patents in the PRC:

Patent	Registered owner	Patent number	Grant date	Expiry date
一種大小便器暗敷式水箱的活動式掩飾結構	The Target Company	ZL201620320154.3	28 September 2016	14 April 2026
建築室內樓地面異形材質交接收口條	The Target Company	ZL201620283648.9	17 August 2016	6 April 2026
無立柱式室內玻璃欄板固定結構及其固定方法	The Target Company	ZL201610305856.9	19 April 2017	9 May 2036
無立柱式室內玻璃欄板固定結構	The Target Company	ZL201620419179.9	28 September 2016	9 May 2026
圓形鋁合金兩拼飾板柱面安裝結構	The Target Company	ZL201620312065.4	28 September 2016	13 April 2026
室內牆面木飾板組合式鋁合金幹掛件及其掛接結構	The Target Company	ZL201620417291.9	28 September 2016	9 May 2026
室內牆面插掛式木飾板掛件系統	The Target Company	ZL201620417292.3	28 September 2016	9 May 2026
鋁合金格柵頂棚系統配套結構	The Target Company	ZL201620417290.4	28 September 2016	9 May 2026

It has also been awarded with a number of honours in 2015 and 2016 including 2016-2017年度國家優質工程獎, 2015-2016年度中國建築工程裝飾獎 and 2015年度北京市建築長城杯工程金質獎. To the best knowledge of the Directors, the backlog of the ongoing projects of the Target Group as at 31 December 2016 amounted to approximately HK\$1,282.3 million. As at the Latest Practicable Date, the Target Company has established nine branch offices located at those economically developed major cities in the PRC.

Given (i) the growth in the property market and the tourism market in the PRC; (ii) the development and performance of the Target Group over the past few years; and (iii) that the Group had the experience in carrying out fitting-out business in the PRC before the disposal of the Target Company in June 2015, the Directors take the view that the Acquisition provides an opportunity for the Group to tap

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into the fitting-out industry in the PRC, expand its income stream as well as improve its financial performance. Further, as disclosed in the paragraph headed “Delineations between the Enlarged Group and Jangho Group” in this circular, based on the different geographical locations and business positioning of the Enlarged Group, through the Target Company, and Jangho Co., the Directors consider that the businesses of the Enlarged Group and Jangho Group can be sufficiently delineated.

Under the Deed of Non-Competition, the Covenantors granted a right of first refusal to the Company in the event that the Covenantors intend to transfer, sell, lease, licence or in any other way transfer their interests in the Target Company to any third party. Notwithstanding the above, the Acquisition and/or the proposed entrustment arrangements, details of which are set out below, were not made pursuant to the exercise of such right of first refusal.

DELINEATIONS BETWEEN THE ENLARGED GROUP AND JANGHO GROUP

After Completion, the Enlarged Group will be engaged in the fitting-out business in the PRC. The Directors consider that, based on the geographical and business positioning delineations, and the entering into of the Amended Deed and the Entrustment Agreement, the details of which are set out below, the businesses of the Enlarged Group and Jangho Group can be sufficiently delineated.

Geographical and business positioning delineations

The fitting-out businesses of the Enlarged Group and Jangho Group in the PRC are delineated based on their geographical locations. After the Completion, the Enlarged Group will conduct its fitting-out business in the PRC only in the Sundart Target Districts and the Overlapping District whereas Jangho Group will conduct its fitting-out business in the Jangho Target Districts and the Overlapping District. The Sundart Target Districts are carefully delineated based on the following criteria:

- (a) Business network and expansion plan: The Jangho Target Districts are districts in which the Target Group does not currently have any fitting-out projects or have any current intention to expand into.
- (b) Economy and growth potential of the districts: The Target Group has been providing fitting-out services mainly for high-end residential properties and hotels. The Sundart Target Districts are selected for their economies and high growth potentials. Each of the Sundart Target Districts has a population of 20 million or above and a local GDP of over RMB1 trillion. The population and GDP support the demand for a higher living standard and stimulate stronger spending habits which in turn support the future growth of the property and tourism markets.

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With regard to the Overlapping District where both the Enlarged Group and Jangho Group will conduct fitting-out business, their businesses will be delineated based on their respective business positioning. It is agreed that, after the Completion, Jangho Group will only undertake projects from the PRC government and projects with an average unit price of less than RMB5,000 per square metre in the Overlapping District. Notwithstanding the above, Jangho Group, through its fitting-out business carried out by Beijing Gangyuan, has developed a long-standing business relationship with the Developer whereby Beijing Gangyuan has undertaken a number of fitting-out projects in the PRC from the Developer, mainly for residential properties with an average unit price of less than RMB5,000 per square metre. In view of such long-standing business relationship, the Target Group and Jangho Group agreed that projects from the Developer will be undertaken by Jangho Group notwithstanding the geographical locations of such projects in the PRC. To the best of the Directors' knowledge, information and belief, other than the provision of supply and installation of curtain wall services by a subsidiary of Jangho Co., the Developer had no other relationships with the controlling shareholders of the Company as at the Latest Practicable Date. Further, there were no businesses, transactions or agreements between the Developer and the Target Group in the previous three years.

The Directors consider that the geographical and business positioning delineations set out above are effective in ring-fencing the fitting-out business of the Enlarged Group from Jangho Group.

Measures to minimise future potential competition between the Enlarged Group and Jangho Group

Proposed amendment to the Deed of Non-Competition

As a condition precedent for the Acquisition, it is proposed that the controlling shareholders of the Company, namely Beijing Jiangheyuan, Jangho Co., Jangho HK, Mr. Liu, Ms. Fu and Reach Glory, will execute the Amended Deed in favour of the Company (for itself and as trustee for each of its subsidiaries).

Background

On 8 December 2015, the controlling shareholders of the Company as covenantors (each a “**Covenantor**”, and collectively, the “**Covenantors**”) executed the Deed of Non-Competition in favour of the Company (for itself and as trustee for its subsidiaries), pursuant to which, each of the Covenantors undertakes that, during the Restricted Period as stated in the Deed of Non-Competition, it/he/she will not, and will use its/his/her best endeavours to procure, its/his/her close associates (other than any member of the Group) not to, either on its/his/her own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance, directly or indirectly, to any person, firm or company (except members of the Group) to conduct any business which, directly or indirectly, competes or may compete with the principal business of and such other business conducted or carried on by any member of the Group in Hong Kong and Macau or such other places as the Group may conduct or carry on such business from time to time (the “**Restricted Business**”).

The “**Restricted Period**” as stated in the Deed of Non-Competition refers to, in respect of a Covenantor, the period from the Listing Date and ending on the occurrence of the earliest of the date on which (i) any Covenantor and/or its/his/her close associates, whether directly or indirectly, individually or taken together, ceases to be beneficially interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the total number of issued Shares or ceases to be a controlling shareholder of the

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Company, provided that the Deed of Non-Competition shall continue to be in full force and effect as against the other Covenantors; or (ii) the Shares cease to be listed on the Stock Exchange (other than temporary suspension of trading of the Shares for any other reason); or (iii) the Covenantors beneficially own or become interested jointly or severally in all the issued Shares.

The Amended Deed

Given that upon the Completion, the Company, through the Target Group, will enter into the fitting-out market in the Sundart Target Districts and the Overlapping District in the PRC; as part of the negotiations of the Equity Transfer Agreement, it was proposed that as a condition of the Acquisition, the Covenantors shall execute the Amended Deed in favour of the Company. It is proposed that the definition of the “Restricted Business” will be amended under the Amended Deed to expressly exclude the Covenantors from carrying on or being interested in, through Beijing Gangyuan, the fitting-out business in the Jangho Target Districts in the PRC, undertaking projects from the PRC government and projects with an average unit price of less than RMB5,000 per square metre in the Overlapping District and undertaking projects from the Developer (notwithstanding the geographical locations of such projects in the PRC) (the “**Excluded Business**”). For the avoidance of doubt, “**Restricted Business**” under the Amended Deed means the principal business of and such other business conducted or carried on by any member of the Group in Hong Kong and Macau or such other places as the Group may conduct or carry on such business from time to time but excluding the Excluded Business. Nevertheless, under the Amended Deed, save for the Excluded Business, the Covenantors will still be obliged to not directly or indirectly, carry on or engage or be interested in any business which is or may be in competition with the business carried out by the Company from time to time.

New business opportunity

If, during the Restricted Period, any Covenantor and/or its/his/her close associates (other than any member of the Group) is offered or becomes aware of any business opportunity to, directly or indirectly, engage in or own any of the Restricted Business (the “**New Business Opportunity**”):

- (a) it/he/she shall or shall within its/his/her power procure its/his/her close associates (other than any member of the Group) to promptly notify the Company of such New Business Opportunity in writing and refer the same to the Company for consideration, and shall provide such information as may be reasonably required by the Company in order to enable it to make an informed assessment of such opportunity; and
- (b) it/he/she shall not, and shall within its/his/her power procure that its/his/her close associates (other than any member of the Group) not to, invest or participate in any New Business Opportunity, unless such New Business Opportunity shall have been rejected by the Company and the principal terms on which the Covenantor or its/his/her close associates (other than any member of the Group) shall invest or participate in such New Business Opportunity are no more favourable than those made available to the Company.

A Covenantor may only engage in the New Business Opportunity if (i) a written notice is received by the Covenantor from the Company confirming that the New Business Opportunity is not accepted and/or does not constitute a Restricted Business (the “**Non-acceptance Notice**”); or (ii) the Non-acceptance Notice is not received by the Covenantor within 10 days after the proposal of the New Business Opportunity is received by the Company.

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A Covenantor being a Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless his attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity. The remaining non-interested Directors will be responsible for assessing the New Business Opportunity and making the decision as to whether or not to take up any particular New Business Opportunity.

General undertakings

In order to ensure the performance of the above-mentioned non-competition undertakings, each of the Covenantors will:

- (a) provide all information necessary to the Company and the Directors for the annual review by the independent non-executive Directors with regard to compliance with the terms of the Amended Deed and the enforcement of the undertakings contained therein by the parties thereto;
- (b) make an annual declaration on compliance with such undertakings in the annual reports of the Company and each of the Covenantors acknowledges that the independent non-executive Directors will review, at least on an annual basis, the compliance with the terms of the Amended Deed and such undertakings given by each of the Covenantors, including all decisions taken in each quarter of the year on whether to pursue a New Business Opportunity in accordance with the Amended Deed and the Company will make disclosures in its annual reports or by way of announcements regarding those decisions (including the rationale of those decisions) (as appropriate) and each of them hereby gives its/his/her general consent to such disclosure; and
- (c) abstain from voting at, and not be counted as part of the quorum of, any meetings of Shareholders and/or Board for consideration and approval of any matters referred to in the Amended Deed which have given rise, or may give rise, to conflicts of interest, actual or potential.

In the event of any disagreement between the parties to the Amended Deed as to whether or not any activity or proposed activity of the Covenantors constitutes a Restricted Business, the matter should be determined by the independent non-executive Directors whose majority decision shall be final and binding.

The Amended Deed does not apply to any of the following:

- (a) the holding of shares or other securities in the Company and its subsidiaries; and
- (b) if a Covenantor and its/his/her close associate in aggregate own any interest not exceeding five (5) per cent. of the total number of the issued shares in any company conducting any Restricted Business, and such company or its holding company is listed on any recognised stock exchange (as defined under the SFO).

The Amended Deed is conditional upon (i) the approval thereof by the Independent Shareholders; and (ii) the Completion.

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Corporate governance measures

The Company will also adopt the following procedures to ensure that the undertakings under the Amended Deed are observed:

- (a) the Company will provide its independent non-executive Directors with notices in respect of the New Business Opportunity referred to it by the controlling shareholder of the Company or the right of first refusal within 10 days from the receipt of such notices;
- (b) if any controlling shareholder of the Company or Director has a conflict of interest in a matter to be considered, it/he/she shall act in accordance with the requirements of the articles of association of the Company, the Listing Rules and the Amended Deed regarding voting on such matter;
- (c) the independent non-executive Directors will report, and the Company will disclose in its annual reports, the findings, decisions and the basis of any decisions made by the independent non-executive Directors on the compliance by the controlling shareholder of the Company with and implementation of the Amended Deed; and
- (d) the Directors are of the view that they have sufficient experience in assessing whether or not to take up the New Business Opportunity or exercise the right of first refusal. If the Directors consider that approval of the independent Shareholders in respect of such opportunities is required under the Listing Rules, they may appoint an independent financial adviser or other professionals to advise, at the expense of the Company, on whether or not to take up the New Business Opportunity or exercise the right of first refusal under the Amended Deed.

Factors to be considered by the Board

In considering the proposal of amending the Deed of Non-Competition (including the scope of the Excluded Business), the Board (including independent non-executive Directors) took into account a number of factors, including (i) it would be impractical for the Covenantors to continue to comply with the original scope of the Restricted Business under the Deed of Non-Competition given that Mr. Liu and Ms. Fu are the ultimate beneficial owners of Beijing Jiangheyuan which in turn holds 27.35% equity interest in Jangho Co., the holding company of Beijing Gangyuan, and Beijing Gangyuan will be engaged in fitting-out business in the PRC, and if the Deed of Non-Competition was not amended, it would give rise to an immediate breach by Mr. Liu, Ms. Fu, Beijing Jiangheyuan and Jangho Co. of their respective undertakings under the Deed of Non-Competition for engaging in the business to be carried on by the Company once the Acquisition was completed; and (ii) the Company will continue to benefit from the protection provided under the Amended Deed, among which, the Covenantors would still be obliged to not directly or indirectly, carry on or engage or be interested in any business which is or may be in competition with the business carried out by the Company from time to time.

In view of the above, subject to the Independent Shareholders' approval and the Completion, the Directors consider that the proposed amendments to the Deed of Non-Competition under the Amended Deed are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Proposed entrustment arrangements under the Entrustment Agreement upon Completion

As a condition precedent for the Acquisition, it is proposed that the Entrustment Agreement will be entered into between the Entrusters, the Trustee and Beijing Gangyuan.

Entrustment period

Subject to the occurrence of any of the event as set out in the paragraph headed “Termination” below, the entrustment period shall be for a term of two years upon the Entrustment Agreement becoming unconditional and shall automatically be extended for one year if none of the parties to the Entrustment Agreement has proposed termination or modification thereof upon its expiration (the “**Entrustment Period**”).

Scope of the entrustment

Other than the right to receive dividend, the right to receive residual assets and properties upon the winding up of Beijing Gangyuan and the entitlement and undertaking to profit and loss, the Trustee is entitled to exercise all shareholders’ rights over the Entrusted Shares, including:

- (a) making decisions on the daily operations and management of Beijing Gangyuan, for example, the operation strategy, business planning and management, as a shareholder; and if such decisions are required to be passed by the board of directors or shareholders, the Entrusters shall procure the passing of such decisions in the relevant board meetings or general meetings;
- (b) assigning personnel as representatives of the Entrusters to convene or participate in the shareholders’ meeting of Beijing Gangyuan;
- (c) providing recommendation on the appointment and removal of directors and members of the management of Beijing Gangyuan;
- (d) making, modifying or proposing to make or modify the internal management policies of Beijing Gangyuan; and
- (e) inspecting or copying the memorandum and articles of associations, board and supervisors resolutions, accounting books and financial reports in order to supervise and inspect the daily operation of Beijing Gangyuan.

The Entrusters and Beijing Gangyuan shall cooperate and assist the Trustee in exercising the aforesaid entrusted rights and shall not, without the Trustee’s prior written consent, transfer, assign, pledge or entrust the Entrusted Shares to any third party or by any other means to dispose of the Entrusted Shares and the interest attached during the Entrustment Period.

In the event that any of the Entrusters intends to transfer any or all of the Entrusted Shares to any third party with the consent of the Trustee during the Entrustment Period, the Trustee shall be entitled to the right of first refusal to purchase such shares under the same terms and conditions. As at the Latest Practicable Date, the Company had no intention, plan or understanding to exercise such right of first refusal for the Entrusted Shares.

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Entrustment fee

The Entrustment fee payable by the Entrusters to the Entrustee during the Entrustment Period shall be in aggregate RMB300,000 per annum (the “**Entrustment Fee**”). The Entrustment Fee was calculated on a cost-plus basis with reference to the estimate of 20% of the working time of the two designated personnel, namely Mr. Wang Qifeng (the chairman of the Target Company) and Mr. Zhu Dan (the chief executive officer of the Target Company), to be spent on the entrustment arrangement and a profit margin of 20%.

The Entrustment Fee shall be paid by the Entrusters to the Entrustee within 15 Business Days following the expiry of each 12 months’ period within the Entrustment Period. If the Entrustment Agreement is terminated at anytime within the Entrustment Period, the Entrustment Fee shall be paid within 15 Business Days upon termination by the Entrusters to the Entrustee on a pro rata basis.

Condition precedent

The Entrustment Agreement is conditional upon the Completion.

Termination

The Entrustment Agreement will be terminated automatically upon the occurrence of any of the following event (whichever is earlier):

- (a) All Entrusted Shares have been transferred to the Entrustee or any other third party;
- (b) The legal personality of Beijing Gangyuan is terminated for any reason;
- (c) The parties to the Entrustment Agreement mutually agreed to terminate the Entrustment Agreement; or
- (d) Any force majeure event which renders the parties not being able to perform their obligations under the Entrustment Agreement.

Reasons for entering into the Entrustment Agreement

The Amended Deed is proposed to be executed by the Convenantors in favour of the Company for the purpose of, among other things, providing an undertaking that the Convenantors will not carry on or engage or be interested in any business which is or may be in competition with the business carried on by the Company from time to time, other than the Excluded Business whereas the Entrustment Agreement is for the purpose of providing specific measures and safeguards for Jangho Co. to avoid any future competition with the Enlarged Group upon Completion. The PRC Legal Advisers are of the view that through executing the Amended Deed and the Entrustment Agreement and implementing the entrustment arrangement thereunder, Jangho Co. would comply with the PRC Non-competition Requirement.

LETTER FROM THE BOARD

PRC LEGAL ADVISERS' AND THE DIRECTORS' VIEWS

As advised by the PRC Legal Advisers, Circular 67 primarily governs the conditions and procedures for any affiliated enterprise of a PRC listed company to apply for an overseas listing. Therefore, the Acquisition would not render the Company in violation of Circular 67. The PRC Legal Advisers have advised that the PRC Non-competition Requirement simply refers to the commonly-recognised principle in the PRC that the business of an affiliated enterprise spun off from its listed parent company in the PRC shall not compete with that of its listed parent company. Given (i) the geographical and business positioning delineations of the Enlarged Group and Jangho Group; (ii) the proposed execution and implementation of the Amended Deed; and (iii) the proposed execution and implementation of the Entrustment Agreement, the PRC Legal Advisers have advised that (i) the Acquisition complies with the PRC Non-competition Requirement and all the applicable laws and regulations in the PRC; and (ii) the Acquisition did not amount to a reorganisation of any material asset of Jangho Co., which requires approval or confirmation from the CSRC.

Having considered, among other things:

- (a) the fast growing economic conditions of the PRC and the increasing demand for a higher living standard;
- (b) the expected market potential of fitting-out business for residential properties and hotels in the PRC;
- (c) the financial performance of the Target Group during the year ended 31 December 2016 and the future prospect of the Target Group;
- (d) the proposed execution and implementation of the Amended Deed;
- (e) the proposed arrangements under the Entrustment Agreement to safeguard the business operation of the Target Group upon the Completion; and
- (f) the advice from the PRC Legal Advisers,

the Directors take the view that the Acquisition enables the Company to seize the market opportunities, create long-term and strategic benefits to the Group and create value for the Shareholders. The Directors also consider that the terms of the Equity Transfer Agreement and the Amended Deed are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As the Acquisition is subject to the fulfilment of certain conditions precedent and may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

LETTER FROM THE BOARD

IMPLICATIONS OF THE ACQUISITION, THE AMENDED DEED AND THE ENTRUSTMENT AGREEMENT UNDER THE LISTING RULES

As at the Latest Practicable Date, the Company was owned as to 69.50% by Reach Glory, a wholly-owned subsidiary of Jangho HK which in turn was a wholly-owned subsidiary of Jangho Co.. As such, each of Jangho Co. and Jangho HK is a substantial shareholder of the Company and thus a connected person of the Company under Chapter 14A of the Listing Rules, and accordingly the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios of the Acquisition exceeds 5%, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

As at the Latest Practicable Date, each of Beijing Jiangheyuan, Jangho Co., Jangho HK, Mr. Liu, Ms. Fu and Reach Glory was a substantial shareholder of the Company and thus a connected person of the Company as defined under the Listing Rules. The execution of the Amended Deed constitutes a connected transaction under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

Upon Completion, the Target Company will be an indirect wholly-owned subsidiary of the Company. The execution and implementation of the Entrustment Agreement will amount to a continuing connected transaction under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios for the estimate annual amount payable to the Enlarged Group by the Entrusters in relation to the entrustment arrangements is less than 5% and the total consideration is less than HK\$3,000,000, this transaction will constitute de minimis continuing connected transaction exempt from the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Rule 14A.76(1)(c) of the Listing Rules.

Mr. Liu, a controlling shareholder of the Company, is considered to have a material interest in the Acquisition and is required to abstain, and have abstained, from voting on the relevant Board resolutions to approve the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder. Save for Mr. Liu, no other Directors have a material interest in the Acquisition and none of them is required to abstain, or has abstained from, voting on the relevant Board resolutions to approve the same.

LETTER FROM THE BOARD

CONTINUING CONNECTED TRANSACTIONS UPON COMPLETION

Transactions with Beijing Gangyuan

The Target Company has entered into transactions with Beijing Gangyuan, a subsidiary of Jangho Co., a substantial shareholder of the Company and thus a connected person of the Company, in the ordinary and usual course of business, which will continue after the Completion and hence, upon Completion, will constitute continuing connected transactions under Chapter 14A of the Listing Rules. Set out below a summary of such continuing connected transactions of the Company. Such transactions with Beijing Gangyuan are intended to be non-recurring upon completion of the relevant projects.

Provision of agency services in respect of the fitting-out project for the new international airport in Luanda to Beijing Gangyuan

Since July 2015, the Target Company has been providing agency services to Beijing Gangyuan in procuring suppliers and/or sub-contractors for the fitting-out works carried out at the new international airport in Luanda. On 11 May 2017, the Target Company and Beijing Gangyuan entered into an agency services agreement, pursuant to which the Target Company agreed to provide agency services to Beijing Gangyuan at a consideration of USD1.5 million from 15 July 2015 to 15 July 2018. As the Target Company has been and will continue to provide such services to Beijing Gangyuan, a connected person of the Company, following the Completion on normal commercial terms, the provision of the agency services by the Target Company to Beijing Gangyuan will constitute a continuing connected transaction upon Completion.

Provision of agency services in respect of the fitting-out project for Chongqing Jiangbei International Airport to Beijing Gangyuan

Since August 2015, the Target Company has been providing agency services to Beijing Gangyuan in procuring suppliers and/or sub-contractors for the fitting-out works carried out at Chongqing Jiangbei International Airport. On 11 May 2017, the Target Company and Beijing Gangyuan entered into an agency services agreement, pursuant to which the Target Company agreed to provide agency services to Beijing Gangyuan at a consideration of RMB4.5 million from 25 August 2015 to 25 August 2018. As the Target Company has been and will continue to provide such services to Beijing Gangyuan, a connected person of the Company, following the Completion on normal commercial terms, the provision of the agency services by the Target Company to Beijing Gangyuan will constitute a continuing connected transaction upon Completion.

As each of the applicable percentage ratios (other than the profits ratio) for the aggregate considerations of the two transactions above is less than 5%, the transactions will constitute continuing connected transactions exempt from the circular and Independent Shareholders' approval requirements under Rule 14A.76(2)(a) of the Listing Rules when conducting such transactions.

LETTER FROM THE BOARD

Guarantees from controlling shareholders of the Company in respect of the banking facilities granted to the Target Company

As at the Latest Practicable Date, the Target Company has maintained four banking facilities which were secured by, among other things, guarantees provided by Jangho Co. and/or Mr. Liu and/or Ms. Fu (the “Guarantees”). As each of Jangho Co., Mr. Liu and Ms. Fu is a substantial shareholder of the Company, the provision of Guarantees will constitute continuing connected transactions in the form of financial assistance from connected persons in favour of the Group upon Completion. As (i) the Directors confirm that the Guarantees are not secured by any assets of the Group; and (ii) the Directors consider that the Guarantees are on normal commercial terms or better, the Guarantees are fully exempt from the reporting, announcement, circular, annual review and Independent Shareholders’ approval requirements under Rule 14A.90 of the Listing Rules.

Banking facility granted by Bank of Beijing

Pursuant to the facility letter dated 3 June 2016, Bank of Beijing granted a banking facility to the Target Company with an aggregate sum of RMB300 million. Such facility was secured by a guarantee executed by Jangho Co..

Banking facility granted by China Minsheng Bank

Pursuant to the facility letter dated 20 January 2017, China Minsheng Bank granted a banking facility to the Target Company with an aggregate sum of RMB50 million. Such facility was secured by a guarantee executed by Jangho Co..

Banking facility granted by HSBC Bank

Pursuant to the facility letter dated 19 August 2016, HSBC Bank granted a banking facility to Jangho Co. and the Target Company with an aggregate sum of RMB130 million. Such facility was secured by (i) pledged bank deposit by Jangho Co.; (ii) pledged bank deposit by the Target Company; (iii) a guarantee executed by Jangho Co.; (iv) pledged trade and retentions receivables by the Target Company; (v) a guarantee executed by Mr. Liu; and (vi) a guarantee executed by Ms. Fu.

Banking facility granted by China Guangfa Bank

Pursuant to the facility letter dated 8 April 2016, China Guangfa Bank granted a banking facility to the Target Company with an aggregate sum of RMB280 million. Such facility was secured by a guarantee executed by Jangho Co..

The Directors confirm that one of the banks above has approved in principle whereas the other three banks have verbally consented to release and replace the Guarantees with the corporate guarantee to be given by the Company on substantially the same terms. As at the Latest Practicable Date, the Directors did not foresee any impediments in releasing and replacing the Guarantees. To the best of the Directors’ knowledge, information and belief, due to the internal procedures of the relevant banks, the release and replacement of all the Guarantees may not be completed by the Completion, but is expected to be completed by the end of 2017.

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Performance bonds issued through Jangho Co.

As at the Latest Practicable Date, the Target Company has undertaken seven fitting-out projects in the PRC which required the provision of performance bonds to guarantee the performance of the Target Company of its obligations pursuant to the requirements as set out in the relevant contracts of these projects. Jangho Co. authorised a bank to issue certain performance bonds to the customers of the Target Company for such purpose accordingly (collectively, the “**Performance Bonds**”). Details of each of the seven Performance Bonds are set out below:

Customer	Issued Bank	Amount of the Performance Bond RMB	Period of the Performance Bond
Customer A	China Construction Bank	8,525,000.00	26 January 2016 – 31 December 2017
Customer B	China Construction Bank	10,050,432.11	23 December 2016 – 30 August 2017
Customer C	China Construction Bank	15,584,000.00	16 January 2017 – 31 March 2019
Customer D	China Construction Bank	2,923,022.84	22 March 2017 – 30 September 2017
Customer E	China Construction Bank	5,989,000.00	30 March 2017 – 1 March 2018
Customer C	China Construction Bank	5,496,000.00	2 May 2017 – 31 March 2019
Customer C	China Construction Bank	14,574,000.00	2 May 2017 – 30 June 2019

As Jangho Co. is a substantial shareholder of the Company, the provision of the Performance Bonds will constitute continuing connected transactions in the form of financial assistance from connected persons in favour of the Group upon Completion. As (i) the Directors confirm that the Performance Bonds are not secured by any assets of the Group; and (ii) the Directors consider that the Performance Bonds are on normal commercial terms or better, the Performance Bonds are fully exempt from the reporting, announcement, circular, annual review and Independent Shareholders’ approval requirements under Rule 14A.90 of the Listing Rules.

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Advance payment bonds issued through Jangho Co.

As at the Latest Practicable Date, the Target Company has undertaken four fitting-out projects in the PRC which required the provision of advance payment bonds. Pursuant to the requirements as set out in the relevant contracts of these projects, Jangho Co. authorised a bank to issue certain advance payment bonds to the customers of the Target Company for guarantee of the Target Company's repayment of such advanced payment to the customers under the relevant contracts (collectively, the "Advance Payment Bonds"). Details of each of the four Advance Payment Bonds are set out below:

Customer	Issued Bank	Amount of the Advance Payment Bond RMB	Period of the Advance Payment Bond
Customer B	China Construction Bank	10,050,432.11	23 December 2016 – 30 August 2017
Customer C	China Construction Bank	28,334,000.00	16 January 2017 – 31 March 2018
Customer C	China Construction Bank	9,993,000.00	2 May 2017 – 31 March 2018
Customer C	China Construction Bank	24,928,000.00	2 May 2017 – 30 June 2018

As Jangho Co. is a substantial shareholder of the Company, the provision of the Advance Payment Bonds will constitute continuing connected transactions in the form of financial assistance from connected persons in favour of the Group upon Completion. As (i) the Directors confirm that the Advance Payment Bonds are not secured by any assets of the Group; and (ii) the Directors consider that the Advance Payment Bonds are on normal commercial terms or better, the Advance Payment Bonds are fully exempt from the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

A tender bond issued through Jangho Co.

As at the Latest Practicable Date, the Target Company has tendered one fitting-out project in the PRC which required the provision of a tender bond (the "Tender Bond"). Pursuant to the requirements as set out in the relevant tender, Jangho Co. authorised a bank to issue the Tender Bond for guarantee of the Target Company's obligations under the relevant tender. Details of the Tender Bond are set out below:

Customer	Issued Bank	Amount of the Tender Bond RMB	Period of the Tender Bond
Customer F	China Construction Bank	800,000.00	21 March 2017 – 23 September 2017

As Jangho Co. is a substantial shareholder of the Company, the provision of the Tender Bond will constitute a continuing connected transaction in the form of financial assistance from connected persons in favour of the Group upon Completion. As (i) the Directors confirm that the Tender Bond is not secured

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by any assets of the Group; and (ii) the Directors consider that the Tender Bond is on normal commercial terms or better, the Tender Bond is fully exempt from the reporting, announcement, circular, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Listing Rules.

The Performance Bonds, the Advance Payment Bonds and the Tender Bond were issued before the entering into of the Equity Transfer Agreement based on the terms of the relevant contracts/tender of the ongoing projects of the Target Group. The Directors consider it not advisable to terminate and replace the Performance Bonds, the Advance Payment Bonds and the Tender Bond by performance bonds, advance payment bonds or a tender bond to be issued through the banks of the Target Company as this may affect the progress of those ongoing projects which in turn may cause adverse effect to the business operations of the Target Company. Nevertheless, the Directors confirm that as at the Latest Practicable Date, the Target Company had its own bond lines of approximately HK\$207.1 million in aggregate (of which HK\$149.6 million was unutilised) which were part of the existing facilities granted by two banks through which the Target Company would be able to authorise the issuance of any performance bond, advance payment bond or tender bond for any future projects undertaken by the Target Group following Completion. The Directors have confirmed that separate and further bond lines of approximately HK\$322.1 million in aggregate (of which HK\$300.2 million was unutilised) which were part of the existing facilities granted by another two banks were in the process of being renewed as at the Latest Practicable Date. The Directors do not foresee any impediments in renewing such bond lines. To the best of the Directors' knowledge, information and belief, one bond line of approximately HK\$92.0 million is expected to be renewed by June 2017 whereas the other bond line of approximately HK\$230.1 million is expected to be renewed by July 2017. Therefore, upon renewal of the above bond lines of approximately HK\$322.1 million in aggregate, the Target Company will have bond lines of approximately HK\$529.2 million in aggregate (of which HK\$449.8 million was unutilised). On that basis, the Directors consider that the Target Company's own bond lines will be sufficient for its future operations. Such existing facilities were secured by the Guarantees and were under the process of release and replacement with the corporate guarantee to be given by the Company as at the Latest Practicable Date. For details, please refer to the sub-paragraph headed "Guarantees from controlling shareholders of the Company in respect of the banking facilities granted to the Target Company" in this circular.

INDEPENDENCE FROM JANGHO GROUP

Notwithstanding that the Group will have continuing connected transactions with Jangho Group and its associates upon Completion as disclosed in the paragraph headed "Continuing Connected Transactions upon Completion" in this circular, having considered the following reasons, the Directors take the view that the Target Company can operate and finance independently from Jangho Group:

- (a) The value of the transactions with Beijing Gangyuan is immaterial and such transactions are intended to be non-recurring upon completion of the relevant projects;
- (b) There will be a clear separation of staff of the Enlarged Group and Jangho Group;
- (c) The Enlarged Group has its own finance department with a team of independent financial staff members, who are responsible for the financial control, accounting, financial reporting and credit functions of the Target Company;
- (d) The Enlarged Group can make financial decisions independently and Jangho Group does not intervene with the use of funds of the Target Company;

LETTER FROM THE BOARD

- (e) The Directors confirm that one of the banks has approved in principle whereas the other three banks have verbally consented to release and replace the corporate guarantee provided by Jangho Co. and/or the personal guarantees provided by Mr. Liu and Ms. Fu by the corporate guarantee to be given by the Company which are expected to be completed by the end of 2017;
- (f) The Directors confirm that as at the Latest Practicable Date, the Target Company had its own bond lines of approximately HK\$207.1 million in aggregate (of which HK\$149.6 million was unutilised) granted by two banks through which the Target Company would be able to authorise the issuance of any performance bond, advance payment bond or tender bond for any future projects undertaken by the Target Group following Completion. The Directors confirm that bond lines of approximately HK\$322.1 million in aggregate (of which HK\$300.2 million was unutilised) granted by another two banks were under renewal as at the Latest Practicable Date and such renewals are expected to be completed by June 2017 and July 2017, respectively; and
- (g) Save for the continuing connected transactions as disclosed in the paragraph headed “Continuing connected transactions upon Completion” in this circular, the Enlarged Group had no intention to enter into any other connected transactions with Jangho Group and/or its associates as at the Latest Practicable Date.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on whether the terms of the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole. Lego has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

EGM

The EGM will be held on 25 July 2017 at 10:00 a.m. at Room 03-05, 11/F, Millennium City 3, 370 Kwun Tong Road, Kowloon, Hong Kong during which an ordinary resolution shall be proposed to the Independent Shareholders to approve the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder. The Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders at the EGM on a vote taken by way of poll and on which Reach Glory (the immediate controlling shareholder of the Company which holds 1,500,000,000 Shares, equivalent to approximately 69.50% of the issued Shares) shall abstain from voting.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, save as disclosed above, no connected person of the Company, Shareholders or their respective associates with a material interest in the resolution to be proposed at EGM is required to abstain from voting at the EGM.

A notice convening the EGM for the purpose of considering and, if thought fit, approving the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder is set out on pages EGM-1 to EGM-2 of this circular.

LETTER FROM THE BOARD

Whether or not you are able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be) should you so wish.

RECOMMENDATIONS

The Board (excluding Mr. Liu who had abstained from voting at the Board resolutions approving the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder but including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee contained in this circular) considers that the terms of the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder are on normal or better commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board therefore recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder set out in the notice of EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 40 to 41 of this circular which contains its recommendation to the Shareholders and the letter from the Independent Financial Adviser set out on pages 42 to 70 of this circular which contains its advice to the Independent Board Committee and Shareholders in relation to the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder, and the principal factors and reasons considered by it in arriving its opinions.

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

Yours faithfully,
By order of the Board
SUNDART HOLDINGS LIMITED
承達集團有限公司
NG Tak Kwan
Chief Executive Officer and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of the letter of recommendation from the Independent Board Committee to the Independent Shareholders prepared for the purpose of incorporation in this circular.



SUNDART HOLDINGS LIMITED

承達集團有限公司

(incorporated under the laws of British Virgin Islands with limited liability)

(Stock code: 1568)

30 June 2017

To the Independent Shareholders

Dear Sir or Madam

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
100% EQUITY INTEREST IN SUNDART BEIJING;
AND
(2) AMENDMENT TO THE DEED OF NON-COMPETITION**

We refer to the circular dated 30 June 2017 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Unless the context otherwise requires, terms and expressions define in the Circular shall have the same meanings in this letter.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder are fair and reasonable, on normal or better commercial terms and the interests of the Company and the Shareholders as a whole. Lego has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the fairness and reasonableness in respect of the terms of the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder.

The terms of the Equity Transfer Agreement and the Amended Deed, and the reasons for the Acquisition are described in the letter from the Board as set out in the Circular.

We wish to draw your attention to the letter from the Board in the Circular and the letter from the Independent Financial Adviser containing its advice to us and the Independent Shareholders in relation to the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

As your Independent Board Committee, we have discussed with the management of the Company the reasons for entering into the Equity Transfer Agreement, the Amended Deed, the Entrustment Agreement and the transactions contemplated thereunder and the basis upon which their terms have been determined. We have also considered the key factors taken into account by Lego in arriving at its opinion regarding the terms of the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder as set out in the letter from the Independent Financial Adviser as set out in the Circular, which we urge you to read carefully.

Having considered the advice given by the Independent Financial Adviser, we considered that the Acquisition, though is not in the ordinary and usual course of business of the Group due to the fact that the Group is expanding its fitting-out business to the PRC, is on normal commercial terms, fair and reasonable and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder.

Yours faithfully

The Independent Board Committee

Mr. TAM Anthony Chun Hung

Mr. HUANG Pu

Mr. LI Zheng

Independent Non-Executive Directors

LETTER FROM LEGO

The following is the full text of the letter of advice from Lego, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, in respect of the terms of the Equity Transfer Agreement and the Amended Deed, which has been prepared for the purpose of inclusion in the Circular.



30 June 2017

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

**(1) MAJOR AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
100% EQUITY INTEREST IN SUNDART BEIJING;
AND
(2) AMENDMENT TO THE DEED OF NON-COMPETITION**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular dated 30 June 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 17 May 2017, the Transferee entered into the Equity Transfer Agreement with the Transferors, pursuant to which the Transferee has agreed to acquire, and the Transferors have agreed to transfer, in aggregate 100% equity interest in the Target Company at a consideration of HK\$520 million. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company.

As at the Latest Practicable Date, the Company was owned as to 69.50% by Reach Glory, a wholly-owned subsidiary of Jangho HK which in turn was a wholly-owned subsidiary of Jangho Co. As such, each of Jangho Co. and Jangho HK is a substantial shareholder of the Company and thus a connected person of the Company under Chapter 14A of the Listing Rules, and accordingly the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios of the Acquisition exceeds 5%, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

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

LETTER FROM LEGO

As at the Latest Practicable Date, each of Beijing Jiangheyuan, Jangho Co., Jangho HK, Mr. Liu, Ms. Fu and Reach Glory was a substantial shareholder of the Company and thus a connected person of the Company as defined under the Listing Rules. The execution of the Amended Deed constitutes a connected transaction under Chapter 14A of the Listing Rules, which is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

Mr. Liu, a controlling shareholder of the Company, is considered to have a material interest in the Acquisition and is required to abstain, and has abstained, from voting on the relevant Board resolutions to approve the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder. Save for Mr. Liu, no other Directors have a material interest in the Acquisition and none of them is required to abstain, or has abstained from, voting on the relevant Board resolutions to approve the same.

An Independent Board Committee comprising all of the independent non-executive Directors, namely Mr. Tam Anthony Chun Hung, Mr. Huang Pu and Mr. Li Zheng, has been formed to advise the Independent Shareholders on whether the terms of the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder are fair and reasonable, on normal or better commercial terms and in the interests of the Company and the Shareholders as a whole and to recommend the Independent Shareholders to vote in respect of the relevant resolution to be proposed at the EGM to approve the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego. In the last two years, there was no engagement between the Group and Lego. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the terms of the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information, including the Prospectus. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular and the Prospectus were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group were true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the Latest Practicable Date.

LETTER FROM LEGO

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular and the Prospectus so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or the Target Company or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation, we have taken into consideration the following principal factors and reasons:

A. EQUITY TRANSFER AGREEMENT

1. Background of and reasons for the Acquisition

1.1 Information on the Group

The Group is one of the leading integrated fitting-out contractors in Hong Kong and Macau, specialising in providing professional fitting-out works for residential property and hotel projects. In addition, the Group also generated revenue from alteration and addition and construction works in Hong Kong and from manufacturing, sourcing and distribution of interior decorative materials for sales globally. During the year ended 31 December 2016, the majority of the Group's revenue was derived from its fitting-out projects in the private sector.

The following table is a summary of the audited consolidated financial information of the Group for the financial years ended 31 December 2014, 2015 and 2016 as extracted from the annual reports of the Company for the year ended 31 December 2015 (the “**2015 Annual Report**”) and the year ended 31 December 2016 (the “**2016 Annual Report**”), respectively.

	For the year ended 31 December		
	2014	2015	2016
	HK\$ million	HK\$ million	HK\$ million
Revenue			
Fitting-out works	1,983.6	3,516.6	2,776.8
Alteration and addition and construction works	308.9	583.4	424.1
Manufacturing, sourcing and distribution of interior decorative materials	44.2	33.1	112.4
	<u>2,336.7</u>	<u>4,133.1</u>	<u>3,313.3</u>
Gross profit	288.1	582.9	573.3
Profit for the year	<u>175.4</u>	<u>371.9</u>	<u>410.1</u>

Note: For the avoidance of doubt, the above financial information for the years ended 31 December 2014 and 2015 excluded the financial information of the Target Group which was classified as “Discontinued operations” in the financial statements of the Group. For details, see “1.2 Information on the Target Group”.

LETTER FROM LEGO

	As at 31 December		
	2014	2015	2016
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Non-current assets	109.5	254.6	270.8
Current assets	<u>2,503.8</u>	<u>2,726.4</u>	<u>2,835.8</u>
Total assets	<u>2,613.3</u>	<u>2,981.0</u>	<u>3,106.6</u>
Current liabilities	1,732.4	1,571.5	1,010.6
Non-current liabilities	<u>23.5</u>	<u>–</u>	<u>–</u>
Total liabilities	<u>1,755.9</u>	<u>1,571.5</u>	<u>1,010.6</u>
Net assets	<u>857.4</u>	<u>1,409.5</u>	<u>2,096.0</u>

Note: For the avoidance of doubt, the above financial information as at 31 December 2014 included the financial information of the Target Group which was classified as “Discontinued operations” in the financial statements of the Group. For details, see “1.2 Information on the Target Group”.

The Group’s revenue increased by approximately HK\$1,796.4 million from approximately HK\$2,336.7 million for the year ended 31 December 2014 to approximately HK\$4,133.1 million for the year ended 31 December 2015, representing an increase of approximately 76.9%, mainly contributed by the significant increase in revenue from the Group’s fitting-out business of approximately HK\$1,533.0 million. According to the 2015 Annual Report, such increase was primarily attributable to revenue generated from fitting-out works for hotels and casinos mainly derived from the commencement of 10 projects in Macau during the second half of 2014 and the first half of 2015 and five of which were substantially or practically completed during the year ended 31 December 2015. As a result, the gross profit and net profit of the Group increased by approximately 102.3% and 112.0%, respectively from the year ended 31 December 2014 to the year ended 31 December 2015.

The Group’s revenue decreased by approximately HK\$819.8 million from approximately HK\$4,133.1 million for the year ended 31 December 2015 to approximately HK\$3,313.3 million for the year ended 31 December 2016, representing a decrease of approximately 19.8%, mainly attributable to the decrease in the revenue from the Group’s fitting-out business of approximately HK\$739.8 million. According to the 2016 Annual Report, the reason for such decrease was mainly because the Group has completed most of the works of eight fitting-out projects during the year ended 31 December 2015. As a result, the revenue of the Group for the year ended 31 December 2016 derived from these projects decreased by HK\$1,441.8 million when compared to the year ended 31 December 2015. Such impact was not fully mitigated by the increase in the revenue brought by the fitting-out projects of which most of the works have been completed during the year ended 31 December 2016. Yet, the gross profit of the Group maintained at similar level for the two years ended 31 December 2015 and 2016 at approximately HK\$582.9 million and HK\$573.3 million, respectively. Notwithstanding the decrease in revenue, the Group’s gross profit margin increased from approximately 14.1% for the year ended 31 December 2015 to

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approximately 17.3% for the year ended 31 December 2016. According to the 2016 Annual Report, such increase was mainly attributable to (i) the effective cost control of the Group as a result of the increased use of the interior decorative materials manufactured by the Group in its fitting-out works for several sizeable hotel and casino fitting-out projects in Macau during the year ended 31 December 2016; and (ii) gains derived from certain large amount variation orders with higher profit margin work trades from a five-star hotel and casino project. The Group's profit increased by approximately HK\$38.2 million from approximately HK\$371.9 million for the year ended 31 December 2015 to approximately HK\$410.1 million for the year ended 31 December 2016, representing an increase of approximately 10.3%. Such increase was primarily attributable to (i) the listing expenses incurred for the year ended 31 December 2015 while no such expenses were incurred for the year ended 31 December 2016; and (ii) increase in share of profits of associates during the year ended 31 December 2016.

It is noted from the above analysis that although the gross profit of the Group increased during the two years ended 31 December 2015 and 2016, the revenue of the Group experienced significant fluctuations during the past three financial years. As discussed with the management of the Company, as the gross margin and the profitability of projects varied among different customers and different types of projects, despite the Group targets to engage in projects with considerable margin, there is no guarantee that the Group can always secure such projects. The Directors consider that broadening the revenue base can help safeguard the overall profitability of the Group and sustain its continuous development.

1.2 Information on the Target Group

The Target Company, by itself and through its wholly-owned subsidiaries, Sundart Dalian and Sundart Shanghai, is engaged in the fitting-out business carried out in the PRC. The management of the Company confirmed that the Target Group only earned a very minimal amount of interior design fee, which included in other income and accounted for less than 1% of the total revenue of the Target Group for the year ended 31 December 2016. The total registered capital of the Target Company as at the Latest Practicable Date was HK\$136.7 million.

The Target Company is one of the leading integrated fitting-out contractors in the PRC. As at the Latest Practicable Date, it had nine branch offices in the PRC, mainly providing fitting-out works for high-end residential properties and hotels. It has been granted 建築業企業資質證書(建築裝修裝飾工程專業承包壹級)(Construction Industry Enterprise Qualification Certificate (Construction, Decoration and Fitting-Out Contractor Level One)*) in 2004 and awarded ISO 14001 certification in 2006. The Target Company is also a member of Beijing Construction Decoration Association and a committee member of China Building Decoration Association. It has been awarded with a number of honours including 2014-2015年度中國建設工程魯班獎(國家優質工程)(2014-2015 China Construction Engineering Luban Award (National Quality Project)*), 2015年度北京市建築長城杯工程金質獎(2015 Beijing Construction Great Wall Cup Project Gold Award*), 2015-2016年度中國建築工程裝飾獎(2015-2016 China Construction Engineering and Decoration Award*) and 2016-2017年度國家優質工程獎(2016-2017 National Quality Project Award*).

* for identification purpose only

LETTER FROM LEGO

As disclosed in the Prospectus, Sundart Beijing had been a wholly-owned subsidiary of Sundart Timber, an indirect wholly-owned subsidiary of the Company until 26 November 2012, when Jangho Co. injected new capital into Sundart Beijing to increase its registered capital, since then Sundart Beijing was beneficially owned as to 75% and 25% by Sundart Timber and Jangho Co., respectively.

The Listing constituted a spin-off of certain assets and businesses held by the Group from Jangho Co. Such spin-off required the obtaining of no-objection confirmation from the CSRC. According to the Circular 67, one of the conditions for granting such no-objection confirmation is that the business of the group of companies to be spun off shall not compete with that of its listed parent company. By then, both Beijing Gangyuan and the Target Group were principally engaged in the fitting-out business in the PRC.

To ensure compliance with the PRC Non-competition Requirement, Sundart Timber transferred 50% and 25% equity interests in the Target Company to Jangho HK during the year ended 31 December 2015 at the consideration of approximately HK\$91.4 million and HK\$45.7 million, respectively, or approximately HK\$137.1 million in aggregate. Such considerations were determined after arm's length negotiation between the relevant parties with reference to the audited net asset value of the Target Company as at 31 December 2014 (being approximately HK\$182.9 million).

Upon the change of the shareholding which was effective on 25 June 2015, the Group ceased to have any interest in Sundart Beijing (and Sundart Dalian).

Set out below are the audited consolidated financial information of the Target Group for the three years ended 31 December 2016 as extracted from accountants' report set out in Appendix II to the Circular:

	For the year ended 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	1,112,328	1,426,925	1,820,255
Gross profit	74,059	124,497	190,311
Net profit	3,254	51,022	113,020

	As at 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets	182,867	220,968	315,076

LETTER FROM LEGO

As illustrated in the table above, revenue of the Target Group amounted to approximately HK\$1,426.9 million for the year ended 31 December 2015, representing an increase of approximately 28.3% as compared to that of approximately HK\$1,112.3 million for the year ended 31 December 2014. According to the information provided by the management of the Company, such increase was primarily due to the increase in the fitting-out projects undertaken by the Target Company for commercial buildings and shopping malls in 2015, which was in turn led by (i) the development of the brand and reputation of the Target Company in the PRC; (ii) the broadening of its customer base; and (iii) the growth in the property market and the tourism market in the PRC, creating more opportunities for the fitting-out business. In addition, gross profit of the Target Group increased by approximately 68.1% from approximately HK\$74.1 million for the year ended 31 December 2014 to approximately HK\$124.5 million for the year ended 31 December 2015 due to (i) the increase in revenue; and (ii) the increase in the gross profit margin from 6.7% for the year ended 31 December 2014 to 8.7% for the year ended 31 December 2015 due to the additional costs incurred for the year ended 31 December 2014 for building the showrooms. Net profit of the Target Group amounted to approximately HK\$51.0 million for the year ended 31 December 2015, representing an increase of approximately 14.7 times as compared to that of approximately HK\$3.3 million for the year ended 31 December 2014. Such increase was primarily attributable to the increases in revenue and gross profit given the reasons as discussed above.

Financial performance of the Target Group stayed strong in the year ended 31 December 2016, with revenue of the Target Group further increased to approximately HK\$1,820.3 million, representing an increase of approximately 27.6% as compared to that for the year ended 31 December 2015. The increase was primarily due to the increase in the fitting-out projects undertaken by the Target Company for residential properties and commercial buildings in 2016, which was in turn also led by (i) the development of the brand and reputation of the Target Company in the PRC; (ii) the broadening of its customer base; and (iii) the growth in the property market in the PRC, creating more opportunities for the fitting-out business. Gross profit of the Target Group increased by approximately 52.9% from the year ended 31 December 2015 to approximately HK\$190.3 million for the year ended 31 December 2016 due to (i) the increase in revenue; and (ii) the increase in gross profit margin from 8.7% for the year ended 31 December 2015 to 10.5% for the year ended 31 December 2016 as a result of (a) a large amount of fitting-out works orders from numerous individual property owners in respect of a residential project with high profit margin; and (b) cost savings resulted from the massive works orders and standard design of the fitting-out works provided in such project. Net profit of the Target Group amounted to approximately HK\$113.0 million for the year ended 31 December 2016, representing an increase of approximately 1.2 times as compared to that for the year ended 31 December 2015. Such increase was mainly due to the increase in gross profit contributed by the projects engaged. Apart from the above, having a project life cycle of about three years for the Target Group in general was also a factor causing the fluctuations in the gross profit margin for the past three years.

LETTER FROM LEGO

1.3 Information on the Transferors

Jangho Co. is a joint stock limited liability company established in the PRC on 4 February 1999 (the A shares of which have been listed on the Shanghai Stock Exchange (stock code: 601886) since 18 August 2011) and a controlling shareholder of the Company.

Jangho HK is a limited liability company incorporated in Hong Kong on 28 October 2009, a wholly-owned subsidiary of Jangho Co. and a controlling shareholder of the Company.

1.4 Information on the Transferee

The Transferee is a limited liability company established in Hong Kong on 24 February 2017 and an indirect wholly-owned subsidiary of the Company.

2. Industry overview

2.1 Overview of the fitting-out industry in the PRC

According to the National Bureau of Statistics, the total nominal output value of construction industry in the PRC (which represents the total amount of pecuniary investment by project owners in a construction project (excluding land price)) increased from approximately RMB9,603.1 billion for the year ended 31 December 2010 to approximately RMB19,356.7 billion for the year ended 31 December 2016, representing a compound annual growth rate (“CAGR”) of approximately 12.4%. Moreover, according to the National Bureau of Statistics, the investment in construction and instalments, which includes the investment in real estate development in both urban and rural areas, increased from approximately RMB14,860.1 billion for the year ended 31 December 2010 to approximately RMB37,972.8 billion for the year ended 31 December 2015, representing a CAGR of approximately 20.6%.

According to the 13th Five-Year National Development Plan for the fitting-out industry, it is estimated that the population in urban areas will continue to increase during the period from 2016 to 2020 and could reach the urbanisation rate at approximately 60% by 2020. The PRC government will continue to support the industry with relevant policies to increase new projects, expansion projects and reconstruction projects in infrastructure construction or real estate development which are expected to lead to increased demand and growth for the fitting-out industry.

The acceleration of urbanisation continuously stimulates the investment of fixed assets, leading to the increase of infrastructure development, social housing development as well as real estate development. The rising urbanisation could stimulate the demand for new houses and facilities which need to be renovated before they are put into use. As a result, the rising demand for various types of properties will provide a solid ground for the development of the fitting-out industry and generate substantial market potential for fitting-out service providers.

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Moreover, the Silk Road Economic Belt and the 21st-Century Maritime Silk Road initiatives will generate greater trade and enhance connectivity between China and Africa, Eurasia, Europe, the Middle East, and South and Southeast Asia. Such initiatives offer opportunities for PRC companies to invest in the infrastructure projects such as railway development, which in turn is expected to lead to the urban development of the above areas or cities nearby. The potential urban development will create opportunities for the development of public utilities as well as property development and thus, provide more opportunities to fitting-out service providers to expand their business under the Silk Road Economic Belt and the 21st-Century Maritime Silk Road initiatives.

2.2 Overview of the tourism industry in the PRC

The tourism industry in the PRC has been growing rapidly in recent years. According to the National Bureau of Statistics, the number of hotel operating enterprises increased from approximately 15,713 units for the year ended 31 December 2010 to approximately 18,937 units for the year ended 31 December 2015, representing a CAGR of approximately 3.8%. Moreover, the business revenue of hotel operations increased from approximately RMB279.8 billion for the year ended 31 December 2010 to approximately RMB364.8 billion for the year ended 31 December 2015, representing a CAGR of approximately 5.4%.

The 13th Five-Year Plan specified that the PRC government targets to grow, among others, the total tourism revenue by more than 11% and the direct investment in tourism by more than 14% per year during the 13th Five-Year Plan period. By 2020, it is expected that the tourism market in the PRC will grow to accommodate at least 6.7 billion travels, together with the total tourism investment reaching RMB2 trillion and the total tourism revenue reaching RMB7 trillion. The growth of the tourism industry will derive higher demand for hospitality market and supply of hotels and in turn is expected to stimulate the potential demand for fitting-out services for hotels in the PRC.

3. Reasons for and benefits of the Acquisition

The principal business of the Group during the track record period as stated in the Prospectus was the provision of fitting-out works for residential property and hotel projects in Hong Kong and Macau. As disclosed in the Prospectus, in terms of revenue, the Group was the largest fitting-out contractor in Hong Kong and Macau with approximately 6.1% of Hong Kong market share and 15.5% of Macau market share, respectively, in 2014. For the three years ended 31 December 2014, the consolidated net profits of the Target Group accounted for only approximately 2.3%, 15.0% and 1.8% of the total net profits of the Group during the same period, respectively. In view of the proven track record of the Group in Hong Kong and Macau and its performance during the track record period as stated in the Prospectus, the Directors decided to focus on the Hong Kong and Macau markets and retain only the Group's business in those jurisdictions in the listed group at the time of the Listing.

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On the other hand, since the Listing constituted a spin-off of certain assets and businesses held by the Group from Jangho Group, Jangho Co. had to satisfy the PRC Non-competition Requirement. Having considered (i) the Listing process; and (ii) the fact that the Directors decided to focus on the business of the Group in Hong Kong and Macau, the Directors were of the view that a clear business delineation between the Group and Jangho Group would be appropriate for the Listing and the operations of the Group.

Since the Listing, the Group has been delivering a solid financial performance, despite the fact that Macau's gaming industry experienced a downturn in 2015 and Hong Kong's economy grew slowly and remained uncertain in 2016. The Directors consider that the business of the Group in Hong Kong and Macau remained stable over the past few years.

As stated in the sub-section headed "1.1 Information of the Group", although the profit of the Group followed an upward trend, the revenue of the Group fluctuated for the three years ended 31 December 2016. With a view to further improving the profitability of the Group, the Board has been focusing on and actively seeking opportunities to expand its fitting-out business to markets outside Hong Kong and Macau. In particular, the Directors placed their focus on exploring the opportunities in expanding the fitting-out business of the Group into other markets, considering the growth potential of such markets and ascertaining the Group's capability in entering into such markets. Further, in view of the growth in the property market and the tourism market in the PRC, the Group considers it a valuable opportunity to capitalise on the results of the economic development in the PRC.

As stated in the sub-section headed "2. Industry overview", the PRC macroeconomic environment and administrative policies are considered to be beneficial to the industry and is expected to boost up the demand of the fitting-out services in the PRC. The Target Group is principally engaged in the fitting-out business in the PRC. Over the years, the Target Group has been building its reputation and developing its network as a fitting-out contractor in the PRC. Indeed, benefited from the aforesaid macroeconomic environment and administrative policies, as discussed in the sub-section headed "1.2 Information on the Target Group", the business of the Target Group continued to grow and the financial position of the Target Group has become stronger over the past three financial years. As such, we concur with the view of the Directors that the Acquisition provides the Company with an opportunity to tap into the fitting-out industry in the PRC, expand its income stream as well as improve its financial performance.

It is considered that acquisition is a quicker way for the Group to enter into the fitting-out industry in the PRC than setting up a new corporation, which involves regulatory approval and administrative arrangement, which will be a complicated and lengthy process. Benefited from the growth of the fitting-out market in the PRC and equipped with the Target Group's established reputation, industry expertise, proven track record and long working relationships with its customers, the Target Group continued to obtain new projects during the three years ended 31 December 2016 which led to a significant growth in revenue and net profit of the Target Group for such period. As at the Latest Practicable Date, the Target Company has established nine branch offices located at economically developed major cities in the PRC. Given (i) the growth in the property market and the tourism market in the PRC; (ii) the development and performance of the Target Group over the past few years; and (iii) that the Group had the experience in carrying out fitting-out business in the PRC before the disposal of the Target Company in June 2015, the Directors take the view that the Acquisition provides an opportunity for the Group to tap into the

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fitting-out industry in the PRC, expand its income stream as well as improve its financial performance. Further, as disclosed in the paragraph headed “Delineations between the Enlarged Group and Jangho Group” in the Circular, based on the different geographical locations and business positioning of the Enlarged Group, through the Target Company, and Jangho Co., the Directors consider that the businesses of the Enlarged Group and Jangho Group can be sufficiently delineated.

To the best knowledge of the Directors, for the three years ended 31 December 2016, the top five customers of the Target Group included hotels operators, real estate developers and engineers and broadcast television operator. The top five suppliers of the Target Group for the three years ended 31 December 2016 mainly included raw material suppliers and subcontractors. As such, the Target Group already possesses well-established business connection with major industry players within the sector in the PRC.

We have reviewed the list of ongoing projects of the Target Group as at 31 December 2016 (the “**List**”) prepared by the Target Company showing the total contract sum and remaining contract sum of each ongoing project as at 31 December 2016. The total value of the remaining contract sums of those ongoing projects as at 31 December 2016 amounted to approximately HK\$1,282.3 million, which shall be completed over a period of two years up to 31 December 2018. We have reviewed the contracts of the seven largest ongoing projects (the “**Selected Projects**”) in terms of the value of the remaining contract sum, which accounted for approximately 58.1% of the total value of the remaining contract sums of all ongoing projects of the Target Group as at 31 December 2016, as well as the latest project progress assessment of the Selected Projects by the quantity surveyors of the Target Company. The total contract sums of the Selected Projects set out in the contracts are consistent with those stated in the List. The expected completion dates of the Selected Projects stated in the List are consistent with the assessments of the quantity surveyors. The management of the Target Company confirmed that they do not foresee any material suspension or delay on those ongoing projects of the Target Group. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the Group’s accounts. Thus, based on the confirmation of the Target Company’s management that they do not foresee any material suspension or delay on those ongoing projects of the Target Group and our review of the contracts and quantity surveyors’ assessments of the Selected Projects as discussed above, the ongoing projects of the Target Group are expected to generate revenue to the Group following Completion, let alone other potential projects which may arise.

In summary, the principal business of the Target Group is within the ordinary and usual course of business of the Group, and given that (i) the prospect of the fitting-out industry in the PRC is promising driven by the PRC macroeconomic environment and the administrative policies; (ii) the Target Group has achieved substantial increase in revenue and net profit in the past few years; and (iii) the Acquisition would increase the revenue of the Group and generate greater return potential to the Shareholders, we are of the view that the Acquisition is in the interests of the Company and Shareholders as a whole.

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4. Independence from Jangho Group

Notwithstanding that the Group will have continuing connected transactions with Jangho Group and its associates upon Completion, as disclosed in the paragraph headed “Continuing Connected Transactions upon Completion” in the Circular, it is noted that:

- (a) the value of the transactions with Beijing Gangyuan is immaterial and such transactions are intended to be non-recurring upon completion of the relevant projects;
- (b) the Directors confirm that there will be a clear separation of staff of the Enlarged Group and Jangho Group;
- (c) the Enlarged Group has its own finance department with a team of independent financial staff members, who are responsible for the financial control, accounting, financial reporting and credit functions of the Target Company;
- (d) the Enlarged Group can make financial decisions independently and Jangho Group does not intervene with the use of funds of the Target Company;
- (e) the Directors confirm that one of the banks has approved in principle whereas the other three banks have verbally consented to release and replace the corporate guarantee provided by Jangho Co. and/or the personal guarantees provided by Mr. Liu and Ms. Fu by the corporate guarantee to be given by the Company on substantially the same terms, which are expected to be completed by the end of 2017. Based on our review of the email correspondence of the Target Company with one of the banks, we understand that the bank has consented to the release and replacement of the corporate guarantee provided by Jangho Co. by the corporate guarantee to be given by the Company and that it would take about six months for the bank to complete the procedures. We were advised by the management of the Group that there are no written correspondences with the other three banks regarding their consents to release and replace the corporate guarantee provided by Jangho Co. and/or the personal guarantees provided by Mr. Liu and Ms. Fu by the corporate guarantee to be given by the Company;
- (f) the Performance Bonds, the Advance Payment Bonds and the Tender Bond were issued before the entering into of the Equity Transfer Agreement based on the terms of the contracts/tender of the ongoing projects of the Target Group and it is not commercially feasible to terminate such financing as a result of the entering into of the Equity Transfer Agreement, otherwise the operation of the ongoing projects of the Target Group will be affected. We were advised by the Company that any future performance bonds, advance payment bonds and tender bonds in relation to future projects of the Target Group taken up after Completion will be issued through the Company and/or its subsidiaries. We understand that the Target Group has its own bond lines for issuing performance bonds, advance payment bonds and tender bonds from time to time. We also understand from the Company that the reason for Jangho Co. authorising the issue of bonds for the Target Group’s projects is that the Target Company is required to place bank deposit in order to issue bonds while no bank deposit is required for Jangho Co. to issue bonds. Therefore, it is more convenient for

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Jangho Co. to authorise banks to issue performance bonds, advance payment bonds and tender bonds to the customers of the Target Group. The total outstanding value of performance bonds, advance payment bonds and tender bonds in relation to the Target Group's projects as at 31 December 2016 was approximately HK\$96.0 million, while only approximately 42.7% of which were authorised by Jangho Co. and the rest were authorised by the Target Company itself which are backed by corporate guarantee provided by Jangho Co. and/or personal guarantees provided by Mr. Liu and Ms. Fu. We have reviewed the prospectuses or annual reports of certain other companies listed in Hong Kong that are engaged in construction and/or fitting-out businesses and noted that it is common to have such kinds of bonds guaranteed by shareholders/holding companies. Thus, we are of the view that the banking facilities of the Target Company which are backed by corporate guarantee provided by Jangho Co. and/or personal guarantees provided by Mr. Liu and Ms. Fu are in line with commercial banks' general practice and does not necessarily constitute the Target Group's reliance on the controlling shareholders of the Company;

- (g) the Directors confirm that as at the Latest Practicable Date, the Target Company had its own bond lines of approximately HK\$207.1 million in aggregate (of which HK\$149.6 million was unutilised), which were part of the existing facilities granted by two banks through which the Target Company would be able to authorise the issuance of any performance bond, advance payment bond or tender bond for any future projects undertaken by the Target Group following Completion. The Directors have confirmed that the Target Company has further bond lines of approximately HK\$322.1 million in aggregate (of which HK\$300.2 million was unutilised) that were part of the existing facilities granted by another two banks and were in the process of being renewed as at the Latest Practicable Date and such renewals are expected to be completed by June 2017 and July 2017, respectively. We have reviewed (i) the banking facility letters of the existing bond lines of approximately HK\$207.1 million in aggregate (of which HK\$149.6 million was unutilised) granted by two banks and further bond lines of approximately HK\$322.1 million in aggregate (of which HK\$300.2 million was unutilised) granted by another two banks which were expected to be renewed and (ii) the correspondences regarding the renewal of the bond lines and understand that one bond line of approximately HK\$92.0 million (of which HK\$70.1 million was unutilised) is expected to be renewed by June 2017 and the other bond line of approximately HK\$230.1 million is expected to be renewed by July 2017; and
- (h) save for the continuing connected transactions as disclosed in the paragraph headed "Continuing Connected Transactions upon Completion" in the Circular, the Enlarged Group did not have intention to enter into other connected transactions with Jangho Group and its associates as at the Latest Practicable Date.

Having considered the aforesaid reasons, in particular that (i) the corporate guarantee provided by Jangho Co. and/or the personal guarantees provided by Mr. Liu and Ms. Fu will be released and replaced by the corporate guarantee to be given by the Company; and (ii) the Target Company is expected to have bond lines of approximately HK\$529.2 million in aggregate (of which HK\$449.8 million was unutilised) upon renewal, we are of the view that the Target Group will be able to operate and finance independently from the controlling shareholders of the Company after the Completion.

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5. Terms of the Equity Transfer Agreement

Set out below are the principal terms of the Equity Transfer Agreement:

Date: 17 May 2017 (after trading hours)

Parties: (i) Jangho HK (as one of the Transferors);
(ii) Jangho Co. (as one of the Transferors); and
(iii) Sundart Engineering Investments Limited (承達工程投資有限公司)
(as the Transferee)

Assets to be acquired

Pursuant to the Equity Transfer Agreement, the Transferee has agreed to acquire from Jangho HK and Jangho Co., and each of Jangho HK and Jangho Co. has agreed to transfer to the Transferee, 75% and 25% equity interests in the Target Company, respectively, representing an aggregate of 100% equity interest of the Target Company, in accordance with the terms and conditions as set out therein.

Conditions precedent

Completion is conditional upon the fulfilment (or waiver, if applicable) of all of the following conditions precedent:

- (a) the Transferee having obtained all necessary or appropriate approvals, authorisations, consents and permits as required under the applicable laws and regulations (including but not limited to the Listing Rules), including but not limited to the approval of the Independent Shareholders for the Acquisition and the compliance with the disclosure requirements thereunder;
- (b) each of the Transferors is the legal and beneficial owner of its respective equity interest in the Target Company at the Completion Date and the equity interests are free from any guarantee, mortgage, charge, lien, deposit or other security rights, or any other form of joint ownership or third party rights;
- (c) each of the Transferors and the Target Company having obtained all necessary or appropriate approvals, authorisations, consents, filings and permits as required by any governmental or regulatory authorities for the consummation of the Acquisition, and the Transferors and the Target Company having complied with all statutory requirements for the consummation of the Acquisition;

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- (d) each of the Transferors and the Target Company having obtained all necessary approvals, authorisations, consents, filings and permits which may be required from any third party (including but not limited to any financial institution to whom the Target Company has an obligation) under any existing contractual arrangement of the Transferors or the Target Company for the consummation of the Acquisition;
- (e) the Transferee satisfying that all the licences, authorisations, permits or consents which are required to carry out the business of the Target Company under the PRC laws have been obtained by the Target Company and have full force and effect at the Completion Date and that the consummation of the Acquisition shall have no adverse impact on such licences, authorisations, permits or consents;
- (f) all representations, warranties and undertakings given by the Transferors under the Equity Transfer Agreement remaining true, complete and accurate in all material respects and not misleading as if the representations, warranties and undertakings are repeated by the Transferors at all times from the date of the Equity Transfer Agreement to the Completion Date;
- (g) the execution of the Amended Deed by the Covenantors as defined under the paragraph headed “Proposed Amendment to the Deed of Non-Competition” in the Circular in favour of the Company and the Amended Deed having become unconditional in accordance with its terms. The Amended Deed is conditional upon (i) the approval thereof by the Independent Shareholders, and (ii) the Completion;
- (h) the entering into of the Entrustment Agreement by Beijing Gangyuan, the Entrusters and the Entrustee. The Entrustment Agreement is conditional upon the Completion; and
- (i) all procedures for the change of record of foreign investment enterprises in respect of the Acquisition having been completed and all necessary filings having been made in accordance with the requirements under the PRC laws.

As at the Latest Practicable Date, conditions (c) and (d) had been fulfilled. In the event that the above conditions precedent cannot be fulfilled (or waived (other than items (a), (c), (d), (g), (h) and (i) above)) on or before the Long Stop Date, the Transferee shall have the right to terminate the Equity Transfer Agreement.

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

As stated in the “Letter from the Board” in the Circular, the waiver for conditions (b), (e) and (f) was to provide flexibility to the Company in determining whether to proceed with the Completion or to call off the Acquisition. We have reviewed the conditions precedent and noted that all of the conditions relating to shareholders and/or regulatory approvals are

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not capable of being waived, while the conditions that may be waived are related to commercial issues. We agree that the waiver for such conditions relating to commercial issues gives flexibility to the Company in determining whether to proceed with the Completion and that it is a common practice for transactions of similar nature to allow commercial conditions to be waived. We have also discussed with the management of the Company and understood that the Company, when determining whether to waive a condition precedent, will exercise careful assessment on the relevant circumstances leading to the failure to fulfil such condition precedent and whether such non-fulfilment will cause any material adverse impact on the business operations and financial conditions of the Target Company. The Company will only exercise its right to waive any of the conditions (b), (e) or (f) if the Directors, after assessing the impact of such non-fulfilment, take the view that no material adverse impact will be caused to the Target Company and that it would be in the best interest of the Company and the Shareholders to proceed with the Completion. Accordingly, we consider that the Company has an appropriate policy in place to ensure that waiver would only be given in the case that the non-fulfilment of the condition(s) precedent will not have any material impact on the Target Company's business and to safeguard the interests of the Company and the Shareholders as a whole.

Given that (i) the terms of the Equity Transfer Agreement were concluded after arm's length negotiations between the relevant parties; (ii) the Directors consider, and we concur, that the Acquisition is in the interests of the Company and the Shareholders as a whole; (iii) the waiver for certain conditions precedent allows some flexibility for the Company to consider whether to proceed with the Completion even though such conditions precedent may not be satisfied by the Long Stop Date; and (iv) it was the commercial decision mutually agreed between the relevant parties to retain some flexibility on the fulfilment of conditions precedent, the Directors are of the view and we concur that the conditions precedent (including the waiver) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Completion

The Target Company shall complete all the filing and registration procedures with the PRC administration for industry and commerce within 30 Business Days after the date on which all the conditions precedent are fulfilled or waived (such date not being later than the Long Stop Date), or such later date as may be agreed in writing between the Transferors and the Transferee. Completion shall take place upon the completion of such filing and registration procedures.

We have reviewed the legal opinion prepared by the PRC Legal Advisers, where they are of the view that Circular 67 primarily governs the conditions and procedures for any affiliated enterprise of a PRC listed company to apply for an overseas listing. Therefore, the Acquisition would not render the Company violating Circular 67. Further, the Acquisition did not amount of a reorganisation of any material asset of Jangho Co., approval or confirmation from the CSRC was not required.

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Consideration

As stated in the “Letter from the Board” in the Circular, the Consideration was determined after arm’s length negotiations between the relevant parties based on (a) the fair value of 100% equity interest in the Target Company of HK\$520 million as at 28 February 2017 as appraised by the Independent Valuer which was determined with reference to (i) EV/EBITDA of market players which are listed companies; and (ii) the Dividend; and (b) the future prospects of the Target Group given its development and performance over the past few years and the potential growth in the market of fitting-out business in the PRC, details of which are set out in the paragraph headed “Reasons for and benefits of the Acquisition” in the Circular.

The Consideration shall be satisfied in cash and shall be payable by the Transferee to the Transferors within five Business Days upon the Completion Date. The Consideration will be funded by internal resources of the Group and/or bank borrowings.

As stated in the “Letter from the Board” in the Circular, when determining the Consideration, the parties considered that the scale and size of the operations of the Target Group have increased and its financial performance has improved during the past few years and using the net asset value of the Target Company as at 31 December 2016 may not be the best option for determining the fair value of the equity interest in the Target Company. The parties thus mutually agreed to engage an independent valuer to appraise the fair value of 100% equity interest in the Target Company so that the parties can determine the Consideration with reference to such valuation.

For our due diligence purpose, we have reviewed and enquired with the Independent Valuer into (i) the terms of engagement of the Independent Valuer; (ii) the Independent Valuer’s relevant qualification and experience; and (iii) the steps and due diligence measures taken by the Independent Valuer for preparing the valuation report. We are satisfied with the terms of engagement of the Independent Valuer as well as its qualification and experience for preparing of the valuation. The Independent Valuer has also confirmed that it is independent to the Company, the Transferors and the Transferee.

We have discussed with the Independent Valuer regarding the methodology of, and the bases and assumptions adopted for, the valuation of the Target Company. We understand from the Independent Valuer that they have considered three different generally accepted approaches, namely market approach, cost approach and income approach in arriving at the market value of the 100% equity interest in the Target Company. We have been advised that it is inappropriate to adopt the cost approach for the purpose of valuing the equity interest in the Target Company as the cost approach does not reflect the market value of the Target Company on a going-concern basis. The Independent Valuer considered the market approach, among the three approaches, is the optimal approach to determine the fair value of the Target Group, since it makes direct reference to the open market while the income approach is subject to the financial estimate and cash flow projection which would involve various assumptions and bases. Considering that the Target Group derives its revenue from contracts awarded through tendering process and is not recurring in nature, we are of the view that it is difficult to formulate a reliable financial estimate and cash flow projection for the income approach. After considering the three approaches and their respective

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characteristics, we concur with the Independent Valuer's view that the market approach was the optimal approach among the three approaches.

By adopting the market approach, the EV/EBITDA is selected by the Independent Valuer as the appropriate multiple. We have discussed with the Independent Valuer and understand that the EV/EBITDA adopted in determining the fair value of the equity interest in the Target Company was based on a number of factors, in particular, the average EV/EBITDA of the selected comparables and the discount for the lack of marketability that may affect the value of the Target Company. The Independent Valuer has confirmed that the marketability discount of 25% is within the range of market practice. We have reviewed some precedent cases in relation to the application of the discount for the lack of marketability in the transactions of other listed companies on the Stock Exchange. We are of the view that the use of 25% marketability discount is consistent with the market practice and is fair and reasonable. We were also advised that normalised EBITDA was used in the valuation of the equity interest in the Target Company since there was a variation in the gross margin over the past three years caused by the project life cycle of approximately three years in general of the Target Company, which in turn affect the EBITDA margin. As such, the Independent Valuer considered that normalised EBITDA would be better to reflect the earnings of the underlying projects. We have reviewed the financial information of the Target Company and noted that the financial performances of the Target Company fluctuated in the past three years and the projects undertaken by the Target Company have a life cycle of three years in general. Accordingly, we are of the view that the use of normalised EBITDA by the Independent Valuer in its valuation is fair and reasonable. We also reviewed and enquired the Independent Valuer on the basis of the calculation of the normalised EBITDA and we are satisfied with the Independent Valuer's normalisation calculation.

Based on our discussion with the Independent Valuer, we understand the above-mentioned approach is a commonly adopted approach for valuation of equity interests and we consider that the methodology used to value the equity interests in the Target Company is generally in line with market practice. We are of view that the valuation methodology, and the bases and assumptions adopted by the Independent Valuer are fair and reasonable.

To assess the fairness and reasonableness of the Consideration, we reviewed the financial and operation information on the Target Group. We identified an exhaustive list of six companies (the "**Comparable Companies**") on our best endeavour that (i) are listed on the main board of the Stock Exchange, Shenzhen Stock Exchange or Shanghai Stock Exchange; (ii) are principally engaged in the fitting-out business, i.e. substantial portion (over 90%) of revenue of such companies was generated from fitting-out business (excluding revenue from interior design activities) for their respective latest financial year given that the Target Group only derived very minimal income (i.e. less than 1% as a

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percentage of revenue) from interior design activities. The Comparable Companies have been selected exhaustively based on the criteria set out above, which have been identified, to the best of our efforts, from our research through public sources and hence are fair and representative. Our relevant findings are summarised in the table below:

Company name	Stock code	Stock exchange	Principal business	Geographic location of operation	Market capitalisation as at the date of Equity Transfer Agreement (million)	Price-to-earnings ratio ("P/E Ratio") (Notes 1 and 3)	EV/EBITDA (Notes 2 and 4)
IBI Group Holdings Limited	1547	Hong Kong	Building renovation services including fitting out projects; and alteration and addition projects	Hong Kong and Macau	HK\$300.0	10.4	8.8
Lai Si Enterprise Holding Limited	2266	Hong Kong	Fitting-out works as an integrated fitting-out contractor; construction works as a main contractor; and repair and maintenance works	Macau	HK\$972.0	22.6	20.6
Shenzhen Jianyi Decoration Group Co., Ltd	002789	Shenzhen	Provision of architectural ornament and interior architectural construction with design services for public buildings and residences	PRC	RMB4,185.0	34.3	26.8
Shenzhen Qixin Construction Group Co. Ltd	002781	Shenzhen	Provision of design and construction business of architectural works	PRC	RMB6,232.5	57.3	34.2
Shenzhen Bauing Construction Holding Group Co., Ltd	002047	Shenzhen	Comprehensive architectural engineering contractor mainly engaged in architectural decoration	PRC, Asia and the United States	RMB9,965.9	29.4	18.5

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Company name	Stock code	Stock exchange	Principal business	Geographic location of operation	Market capitalisation as at the date of Equity Transfer Agreement <i>(million)</i>	Price-to-earnings ratio ("P/E Ratio") <i>(Notes 1 and 3)</i>	EV/EBITDA <i>(Notes 2 and 4)</i>
Shanghai Trendzone Construction Decoration Group Co., Ltd	603030	Shanghai	Provision of residential full decoration integrated solutions and system services	PRC	RMB5,099.1	50.8	35.5
					Maximum	57.3	35.5
					Minimum	10.4	8.8
					Average	34.1	24.1
The Target Group						4.6	3.8

Notes:

1. P/E Ratios of the Comparable Companies are calculated by dividing the market capitalisation as the date of Equity Transfer Agreement by the net profit attributable to the owners of the Comparable Companies (excluding listing expenses charged (if applicable)) for the most recent financial year.
2. EV/EBITDA of the Comparable Companies are calculated by dividing the equity value, i.e. market capitalisation after adding back non-operating liabilities, by the earnings before interests, taxes, depreciation and amortisation (excluding listing expenses charged (if applicable)) for the most recent financial year.
3. P/E Ratio of the Target Group is calculated by dividing the Consideration by the net profit attributable to the owners of the Target Company for the most recent financial year.
4. EV/EBITDA of the Target Group is calculated by dividing the equity value, i.e. the Consideration after adding back non-operating liabilities, by the earnings before interests, taxes, depreciation and amortisation for the most recent financial year.

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Based on the table above, we noted that the P/E Ratios of the Comparable Companies ranged from approximately 10.4 times to 57.3 times with an average of approximately 34.1 times and the EV/EBITDA of the Comparable Companies ranged from approximately 8.8 times to 35.5 times with an average of approximately 24.1 times. Although the ranges of the P/E Ratios and the EV/EBITDA of the Comparable Companies appear to be wide and do not converge within a narrow band, given that the P/E Ratio and the EV/EBITDA of the Target Group of approximately 4.6 times and approximately 3.8 times are significantly lower than the average of the P/E Ratios and the EV/EBITDA of the Comparable Companies, and fall below the low end of the range of the P/E Ratios of the Comparable Companies, we consider the wide ranges of multiples are indicative and representative for valuation comparison purpose.

The above EV/EBITDA analysis for the Comparable Companies adopted the same approach as the valuation conducted by the Independent Valuer, yet has not taken into account of the marketability of the subject equity interest and the normalisation of EBITDA of the Target Company. Even if the EV of the Comparable Companies were deducted by one-fourth as a marketability discount, the EV/EBITDA of the Target Group would still be lower than the average and low end of the range of the EV/EBITDA of the Comparable Companies after having deducted the marketability discount. We did not adopt the normalised EBITDA of the Target Company in the above EV/EBITDA analysis since the historical financial performance of each of the Target Company and the Comparable Companies are different and that the average duration of the projects of each of the Target Company and the Comparable Companies also vary. We consider it more appropriate to use the most recent EBITDA of the Target Company and the Comparable Companies for consistency purpose in the analysis. Notwithstanding, for reference purpose, if we adopt the normalised EBITDA of the Target Company as used by the Independent Valuer, the EV/EBITDA of the Target Group would still be lower than the average and low end of the range of the EV/EBITDA of the Comparable Companies. Therefore, the fact that there are differences between our approach and that adopted by the Independent Valuer does not affect our view that the Consideration is fair and reasonable.

While there are certain differences between our approach and that adopted by the Independent Valuer, we consider our analysis fair and reasonable since the purpose of the two works are different. As discussed above, we are also of view that the valuation methodology, and the bases and assumptions adopted by the Independent Valuer are fair and reasonable. The Independent Valuer conducted an equity valuation to determine the fair value of the 100% equity interest in the Target Company, which involved valuation methodologies and adjustments based on valuation standards and the Independent Valuer's judgement. On the other hand, the purpose of our comparison analysis is to adopt an independent alternative method to compare the implied multiple of the Consideration with the comparative multiples of the Comparable Companies in order to assess the fairness and reasonableness of the Consideration. As a result, such difference in the purposes would result in different methodologies.

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Selection of valuation multiples

In our assessment of the valuation of the Target Group, we have also considered various commonly used valuation multiples, including (i) price-to-net book value ratio (“**P/B Ratio**”); and (ii) price-to-sales ratio (“**P/S Ratio**”).

We are given to understand that the major assets of the Target Group as at 31 December 2016 included trade and other receivables, amounts due from customers for contract work, retentions receivable and cash on hand and in bank. Similar to the Comparable Companies whose businesses are mainly project-based without heavy capital investment, the major assets of the Target Group were liquid financial assets. P/B Ratio is normally used when one is looking at capital-intensive businesses with plenty of assets on the books and thus the P/B Ratio might not be meaningful for the companies in the fitting-out industry which is project-based without significant capital investment.

P/S Ratio ignores the cost structure and the profitability of a company, which is critical in reflecting the market value of the equity interests. Such multiple is not suitable in our assessment since for fitting-out business, the composition of cost, such as subcontracting cost, labour cost and raw materials cost varied among projects and companies.

Thus, we are of the view that P/E Ratio and EV/EBITDA, which evaluate the profitability of companies, are the most relevant multiples for assessing the fairness and reasonableness of the Consideration against the market value of the Comparable Companies.

The declaration and distribution of the Dividend is for the purpose of realising the profit generated from the business operations of the Target Company, which is entitled by the shareholders of the Target Company. We considered that the declaration and distribution of the Dividend is commercially reasonable as a result of the significant growth of revenue and net profit of the Target Group for the three years ended 31 December 2016. The bank balances and cash and the net assets of the Target Group as at 31 December 2016 would decrease from approximately HK\$497.0 million to approximately HK\$397.0 million and from approximately HK\$315.1 million to approximately HK\$215.1 million, respectively as a result of the payment of the Dividend. Given the current available financial resources of the Target Group, such as the bank balances and cash, and the capital requirements of the Target Group based on the projects on hand, the management of the Target Group considered that the payment of the Dividend will not materially affect the daily operation of the Target Group. Moreover, as discussed with the management of the Company, the determination of the Consideration has already taken into account of the Dividend, which means that if there was no such Dividend, the Consideration would adjust upward. Thus, we are of the view that the declaration and distribution of the Dividend is fair and reasonable.

As discussed in sub-section headed “1.2 Information on the Target Group” of this letter, the revenue and net profit of the Target Group increased significantly from the year ended 31 December 2014 to the two years ended 31 December 2015 and 2016 and the net assets increased significantly from 31 December 2014 to 31 December 2015 and 31 December 2016. At the time of the disposal of the Target Company in 2015 by the Group, the scale of the Target Group has not been as established as the time of the Acquisition.

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Therefore, we considered that the consideration of the disposal of the Target Company in 2015 by the Group would not be comparable to the Consideration.

Having considered all the factors discussed above, in particular, (i) the significant growth of the Target Group's business in the past three years; (ii) the reasons as stated in the sub-section headed "3. Reasons for and benefits of the Acquisition" above; (iii) the increase in revenue and profit of the Target Group from year ended 31 December 2014 to the year ended 31 December 2016; and (iv) that the P/E Ratio and the EV/EBITDA of the Target Group based on the Consideration are significantly lower than the average of the P/E Ratios and the EV/EBITDA of the Comparable Companies, and the P/E Ratio of the Target Group falls below the low end of the range of the P/E Ratios of the Comparable Companies, we consider that the terms of the Equity Transfer Agreement (including the determination of the Consideration) are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

6. Possible financial effects of the Acquisition

Upon Completion, the Target Group will become the wholly-owned subsidiaries of the Company and their financial results will be consolidated into the consolidated financial statements of the Group.

(a) Net asset value

With reference to the unaudited pro forma financial information of the Enlarged Group as contained in Appendix IV to the Circular, although the Target Group recorded a net asset value as at 31 December 2016, since the Consideration will be settled by way of cash, the Acquisition and the payment of the Dividend would lead to a decrease in the net assets of the Enlarged Group of approximately HK\$308.4 million.

(b) Earnings

Based on the consolidated statement of comprehensive income of the Target Group as set out in Appendix II to the Circular, it is expected that the Target Group would contribute positively to the revenue and the net income after tax of the Group upon Completion. After taking into account the outlook of the industry in the PRC and the prospects of the Target Group as discussed above, the Directors expected that the Acquisition will likely to deliver a positive impact on the future earnings of the Group.

(c) Gearing

According to the 2016 Annual Report, the gearing ratio of the Group as at 31 December 2016 calculated by dividing total debts with total equity was nil as a result of repayment of all bank borrowings during the year ended 31 December 2016. Since the Enlarged Group would have a net cash position, the Acquisition would have no effect on the gearing ratio.

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7. Conclusion

Having considered the above, we are of the view that the entering into of the Equity Transfer Agreement is in the interests of the Company and the Shareholders as a whole, and the terms of the Equity Transfer Agreement are on normal commercial terms and fair and reasonable so far as the Company and the Independent Shareholders are concerned.

B. PROPOSED AMENDMENT TO THE DEED OF NON-COMPETITION

1. Background of the Deed of Non-Competition

As mentioned in the sub-section headed “1.2 Information on the Target Group”, the Target Company was a subsidiary of the Group which was disposed of before the Listing in order to satisfy the requirement under the Circular 67 and to enhance the business positioning delineation due to different geographical locations between the fitting-out business carried on by each of Jangho Group and the Group. Jangho Group has been carrying out fitting-out business in the PRC through its subsidiary, Beijing Gangyuan, which was also engaged in the provision of research, design, production and construction of curtain walls and related consultation services in the PRC.

As such, on 8 December 2015, the controlling shareholders of the Company as Covenantors executed the Deed of Non-Competition in favour of the Company (for itself and as trustee for its subsidiaries), pursuant to which, each of the Covenantors undertakes that, during the Restricted Period as stated in the Deed of Non-Competition, it/he/she will not, and will use its/his/her best endeavours to procure, its/his/her close associates (other than any member of the Group) not to, either on its/his/her own or in conjunction with anybody corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance, directly or indirectly, to any person, firm or company (except members of the Group) to conduct any business which, directly or indirectly, competes or may compete with the principal business of and such other business conducted or carried on by any member of the Group in Hong Kong and Macau or such other places as the Group may conduct or carry on such business from time to time.

The “**Restricted Period**” as stated in the Deed of Non-Competition refers to, in respect of a Covenantor, the period from the Listing Date and ending on the occurrence of the earliest of the date on which (i) any Covenantor and/or its/his/her close associates, whether directly or indirectly, individually or taken together, ceases to be beneficially interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the total number of issued Shares or ceases to be a controlling shareholder of the Company, provided that the Deed of Non-Competition shall continue to be in full force and effect as against the other Covenantors; or (ii) the Shares cease to be listed on the Stock Exchange (other than temporary suspension of trading of the Shares for any other reason); or (iii) the Covenantors beneficially own or become interested jointly or severally in all the issued Shares.

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2. Background of the Amended Deed

After Completion, the Enlarged Group will be engaged in the fitting-out business in the PRC. The Directors consider that, based on the geographical and business positioning delineations, and the entering into of the Amended Deed and the Entrustment Agreement, the details of which are set out below, the businesses of the Enlarged Group and Jangho Group can be sufficiently delineated.

As stated in the “Letter from the Board” in the Circular, after the Completion, the Enlarged Group will conduct its fitting-out business in the PRC only in the Sundart Target Districts and the Overlapping District whereas Jangho Group will conduct its fitting-out business in the Jangho Target Districts and the Overlapping District. The Sundart Target Districts are carefully delineated based on the following criteria:

- (a) Business network and expansion plan: The Jangho Target Districts are districts in which the Target Group does not currently have any fitting-out projects or have any current intention to expand into; and
- (b) Economy and growth potential of the districts: The Target Group has been providing fitting-out services mainly for high-end residential properties and hotels. The Sundart Target Districts are selected for their economies and high growth potentials. Each of the Sundart Target Districts has a population of 20 million or above and a local GDP of over RMB1 trillion. The population and GDP support the demand for a higher living standard and stimulate stronger spending habits which in turn support the future growth of the property and tourism markets.

With regard to the Overlapping District where both the Enlarged Group and Jangho Group will conduct fitting-out business, their businesses will be delineated based on their respective business positioning. It is agreed that, after the Completion, Jangho Group will only undertake projects from the PRC government and projects with an average unit price of less than RMB5,000 per square metre in the Overlapping District.

Notwithstanding the above, Jangho Group, through its fitting-out business carried out by Beijing Guangyuan, has developed a long-standing business relationship with the Developer, whereby Beijing Gangyuan has undertaken a number of fitting-out projects in the PRC from the Developer, mainly for residential properties with an average unit price of less than RMB5,000 per square metre. In view of such long-standing business relationship, the Target Group and Jangho Group agreed that projects from the Developer will be undertaken by Jangho Group notwithstanding the geographical locations of such projects in the PRC. To the best of the Directors’ knowledge, information and belief, other than the provision of supply and installation of curtain wall services by a subsidiary of Jangho Co., the Developer has no other relationship with the controlling shareholders of the Company as at the Latest Practicable Date.

Upon Completion, the Company, through the Target Group, will enter into the fitting-out market in the Sundart Target Districts and the Overlapping District in the PRC; as part of the negotiations of the Equity Transfer Agreement, it was proposed that as a condition of the Acquisition, the Covenantors shall execute the Amended Deed in favour of the Company. It is

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proposed that the definition of the “Restricted Business” will be amended under the Amended Deed to expressly exclude the Covenantors from carrying on or being interested in, through Beijing Guangyuan, the fitting-out business in the Jangho Target Districts in the PRC, undertaking projects from the PRC government and projects with an average unit price of less than RMB5,000 per square metre in the Overlapping District and undertaking projects from the Developer (notwithstanding the geographical locations of such projects in the PRC). For the avoidance of doubt, “Restricted Business” under the Amended Deed means the principal business of and such other business conducted or carried on by any member of the Group in Hong Kong and Macau or such other places as the Group may conduct or carry on such business from time to time but excluding the Excluded Business. Nevertheless, under the Amended Deed, save for the Excluded Business, the Covenantors will still be obliged to not directly or indirectly, carry on or engage or be interested in any business which is or may be in competition with the business carried out by the Company from time to time.

The Amended Deed is conditional upon (i) the approval thereof by the Independent Shareholders; and (ii) the Completion.

3. Reasons for entering into the Amended Deed

Giving the fact that under the existing Deed of Non-Competition, it would be impractical for the Covenantors to continue to comply with the original scope of the Restricted Business under the Deed of Non-Competition in view that Mr. Liu and Ms. Fu are the ultimate beneficial owners of Beijing Jiangheyuan, which in turn holds 27.35% equity interest in Jangho Co., the holding company of Beijing Gangyuan, and Beijing Gangyuan will be engaged in fitting-out business in the PRC, and if the Deed of Non-Competition was not amended, it would give rise to an immediate breach by Mr. Liu, Ms. Fu, Beijing Jiangheyuan and Jangho Co. of their respective undertakings under the Deed of Non-Competition for engaging in the business to be carried on by the Company once the Acquisition was completed.

According to the representation from the management of the Group, the Target Group has been focusing on fitting-out business mainly for high-end residential properties and hotels and Jangho Group has been focusing on the PRC government and public projects and mid- to low-end residential properties and hotels. The Jangho Target Districts are districts in which the Target Group does not currently have any fitting-out projects or have any current intention to expand into. Given the establishment, expertise and business network of each of the Target Group and Jangho Group in respective areas and geographic locations, it is commercially more sensible to delineate the fitting-out business based on the current business and location focus of the Target Group and Jangho Group.

According to the National Bureau of Statistics, the gross domestic products and populations of the Sundart Target Districts are generally higher than those of the Jangho Target Districts, which support the demand for a higher living standard and stimulate stronger spending habits which in turn support the future growth of the property and tourism markets. It is believed that the profitability of the projects engaged in the Sundart Target Districts would be higher than in the Jangho Target Districts and it is no less favourable for the Target Group to continue its fitting-out services for high-end residential properties and hotels pursuant to the Amended Deed. With regard to the Overlapping District, we were advised that Jangho Group will only undertake projects from the PRC government and projects with an average unit price of less than RMB5,000 per square metre, which further delineates the position of the Enlarged Group and Jangho Group.

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Given the long-standing business relationship between Jangho Group and the Developer, the Target Group and Jangho Group agreed that projects from the Developer will be undertaken by Jangho Group. Jangho Group mainly provides fitting-out works and construction of curtain wall of residential properties and to a lesser extent shopping malls and hotels for the Developer. The revenue contributed by the Developer accounted for approximately 2%, 2% and 6% of the total revenue of Jangho Group for the three years ended 31 December 2016, respectively. As discussed with the management of the Company, we were advised that it is not feasible for the Developer to change business partner from Jangho Group to the Target Group, therefore, it is necessary to allow an exception to the aforesaid geographical delineation under the Amended Deed in order to maintain Jangho Group's business relationship with the Developer. Otherwise, both Jangho Group and the Enlarged Group will lose the Developer as a customer. As advised by the management of the Company, the Target Group did not engage in any business activities and transactions with the Developer during the three years ended 31 December 2016, and thus the Developer was not a reason of the recent growth of the Target Group and the Target Company appeared to have no reliance on the Developer, therefore we are of the opinion that the exclusion of the business with the Developer will not have any material adverse impact on the operation and financial performance of the Target Group.

As a condition precedent for the Acquisition, it is proposed that the Entrustment Agreement will be entered into between the Entrusters, the Trustee and Beijing Gangyuan for a term of two years upon the Entrustment Agreement becoming unconditional and shall automatically be extended for one year if none of the parties to the Entrustment Agreement has proposed termination or modification thereof upon its expiration. Other than the right to receive dividend, the right to receive residual assets and properties upon the winding up of Beijing Gangyuan and the entitlement and undertaking to profit and loss, the Trustee is entitled to exercise all shareholders' rights over the Entrusted Shares, including but not limited to making decisions on the daily operations and management of Beijing Gangyuan, assigning personnel as representatives of the Entrusters to convene or participate in the shareholders' meeting of Beijing Gangyuan, providing recommendation on the appointment and removal of directors and members of the management of Beijing Gangyuan, making, modifying or proposing to make or modify the internal management policies of Beijing Gangyuan and inspecting or copying the memorandum and articles of associations, board and supervisors resolutions, accounting books and financial reports in order to supervise and inspect the daily operation of Beijing Gangyuan. The Entrusters and Beijing Gangyuan shall cooperate and assist the Trustee to exercise the aforesaid entrusted rights and shall not, without the Trustee's prior written consent, transfer, assign, pledge or entrust the Entrusted Shares to any third party or by any other means to dispose of the Entrusted Shares and the interest attached during the Entrustment Period. In the event that any of the Entrusters intends to transfer any or all of the Entrusted Shares to any third party with the consent of the Trustee during the Entrustment Period, the Trustee shall be entitled to the right of first refusal to purchase such shares under the same terms and conditions.

Thus, the entering into of the Entrustment Agreement allows the Target Company to have higher level of control towards Jangho Co. in respect of Beijing Gangyuan's business, management decision and shareholders' rights and enhance the transparency of the business operation of Beijing Gangyuan so as to minimise the potential competition among the Target Group and Jangho Group.

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Furthermore, pursuant to the Amended Deed, the major provisions therein are the same as those of the existing Deed of Non-Competition, save as the amendments in relation to the geographical and business positioning delineations. Pursuant to the Amended Deed, during the Restricted Period, if any Covenantor and/or its/his/her close associates (other than any member of the Group) is offered or becomes aware of any business opportunity to, directly or indirectly, engage in or own any of the Restricted Business, it/he/she shall or shall within its/his/her power procure its/his/her close associates (other than any member of the Group) to promptly notify the Company of such New Business Opportunity in writing and refer the same to the Company for consideration, and shall provide such information as may be reasonably required by the Company in order to enable it to make an informed assessment of such opportunity; and it/he/she shall not, and shall within its/his/her power procure that its/his/her close associates (other than any member of the Group) not to, invest or participate in any New Business Opportunity, unless such New Business Opportunity shall have been rejected by the Company and the principal terms on which the Covenantor or its/his/her close associates (other than any member of the Group) shall invest or participate in such New Business Opportunity are no more favourable than those made available to the Company.

The Company will also continue to adopt the procedures to ensure that the undertakings under the Amended Deed are observed, which include, among others, notification to the independent non-executive Directors in respect of the New Business Opportunity and the reporting mechanism of the findings, decisions and the basis of any decisions made by the independent non-executive Directors on the compliance by the controlling shareholder of the Company with and implementation of the Amended Deed.

Based on the above, in particular, that (i) if the Deed of Non-Competition was not amended, it would give rise to an immediate breach by Mr. Liu, Ms. Fu, Beijing Jiangheyuan and Jangho Co. of their respective undertakings under the Deed of Non-Competition for engaging in the business to be carried on by the Company once the Acquisition was completed; (ii) the Company will benefit from the protection provided under the Amended Deed; (iii) the entering into of the Entrustment Agreement allows the Target Company to have higher level of control towards Jangho Co. in respect of Beijing Gangyuan's business and enhance the transparency of the business operation of Beijing Gangyuan so as to minimise the potential competition between the Target Group and Jangho Group; and (iv) all of the major provisions of the Amended Deed are the same as those of the existing Deed of Non-Competition, save as the amendments in relation to the geographical and business positioning delineations, we concur with the Directors that the terms of the Amended Deed are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

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RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that the terms of the Equity Transfer Agreement and the Amended Deed are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Equity Transfer Agreement and the Amended Deed are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Kristie Ho
Managing Director

Ms. Kristie Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). She has over 12 years of experience in the finance and investment banking industry.

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for the three years ended 31 December 2014, 2015 and 2016, as extracted from the annual reports of the Company for the years ended 31 December 2015 and 2016.

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
RESULTS			
Continuing operations			
Revenue	2,336,708	4,133,146	3,313,327
Profit before taxation	205,790	435,583	473,682
Income tax expense	(30,350)	(63,655)	(63,535)
Profit for the year from continuing operations	175,440	371,928	410,147
Profit for the year from discontinued operations	3,254	9,372	–
Profit for the year	178,694	381,300	410,147
As at 31 December			
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
ASSETS, LIABILITIES AND EQUITY			
Total assets	2,613,283	2,980,976	3,106,550
Total liabilities	(1,755,896)	(1,571,456)	(1,010,599)
Total equity	857,387	1,409,520	2,095,951

Financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 are disclosed in the annual reports of the Company for the two years ended 31 December 2015 and 2016, which are published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.sundart.com).

2. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to the Enlarged Group, including the available credit facilities, the internally generated funds and the cash flow impact of the Acquisition, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next twelve months following the date of this circular.

3. INDEBTEDNESS

As at 30 April 2017, the Enlarged Group had outstanding performance bonds and advance payment bonds issued through its banks in respect of supply and installation contracts amounting to a total of HK\$1,098.7 million. Save as the aforesaid or otherwise disclosed herein, and other than intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance (other than normal trade bills), or acceptance credits, debentures, mortgages, charges, guarantees or other material contingent liabilities as at 30 April 2017, being our indebtedness statement date.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is one of the leading integrated fitting-out contractors in Hong Kong and Macau, specialising in providing professional fitting-out works for residential properties and hotels. In addition, the Group also generated revenue from alteration and addition and construction works in Hong Kong and from manufacturing, sourcing and distribution of interior decorative materials business for sales globally. During the year ended 31 December 2016, the majority of the Group's revenue was derived from its fitting-out projects in the private sector.

Looking forward, the Acquisition represents an expansion of the Group's existing business activities. As disclosed in the section of "Letter from the Board – Reasons for and benefits of the Acquisition", after taking into account the factors set out in that section, the Directors consider that the Acquisitions is beneficial for the Group as it could provide the Enlarged Group stable and additional revenue stream in the future, thereby improving the financial results of the Enlarged Group. Further, the Enlarged Group will continue to implement prudent investment principal to identify investment opportunities that will enhance shareholders' value.

Looking ahead, the Group will continue to strive for business growth and seize opportunities in order to bring greater returns to the Shareholders.

The following is the text of a report set out on pages II-1 to II-42 received from the Company's reporting accountant, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SUNDART HOLDINGS LIMITED 承達集團有限公司

Deloitte.

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Introduction

We report on the historical financial information of 北京承達創建裝飾工程有限公司 Sundart Engineering & Contracting (Beijing) Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-3 to II-42, which comprises the consolidated statements of financial position as at 31 December 2014, 31 December 2015 and 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2016 (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages II-3 to II-42 forms an integral part of this report, which has been prepared for inclusion in the circular of SUNDART HOLDINGS LIMITED 承達集團有限公司 (the "Company") dated 30 June 2017 (the "Circular") in connection with the proposed acquisition of the 100% equity interest in the Target Company pursuant to the equity transfer agreement dated 17 May 2017 ("Acquisition").

Directors' responsibility for the Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.



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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2014, 2015 and 2016 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30 June 2017

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December		
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Revenue	6	1,112,328	1,426,925	1,820,255
Contract costs		(1,038,269)	(1,302,428)	(1,629,944)
Gross profit		74,059	124,497	190,311
Other income, other gains and losses	7	1,060	1,953	6,357
Selling expenses		(58)	(1,964)	(966)
Administrative expenses		(69,237)	(65,970)	(59,678)
Finance costs	8	(1,207)	(4,768)	(540)
Profit before taxation		4,617	53,748	135,484
Income tax expense	9	(1,363)	(2,726)	(22,464)
Profit for the year	10	3,254	51,022	113,020
Other comprehensive income (expense)				
<i>Item that will not be reclassified to profit or loss:</i>				
Exchange differences arising on translation from functional currency to presentation currency		1,584	(12,921)	(18,912)
Total comprehensive income for the year		4,838	38,101	94,108

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	At 31 December		
		2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
NON-CURRENT ASSETS				
Property, plant and equipment	14	10,182	7,624	4,970
Investment property	15	8,366	7,997	7,503
Other intangible assets	16	54	36	20
		<u>18,602</u>	<u>15,657</u>	<u>12,493</u>
CURRENT ASSETS				
Amount due from a related company	17	19	–	436
Amounts due from fellow subsidiaries	17	–	9,737	9,613
Amount due from ultimate holding company	17	–	–	212
Trade and other receivables	18	299,166	727,464	857,791
Bills receivable	18	–	8,784	–
Amounts due from customers for contract work	19	214,622	175,674	201,563
Retentions receivable	18	99,103	129,100	187,412
Tax recoverable		1,205	–	–
Pledged bank deposits	20	32,648	52,330	71,356
Bank balances and cash	20	18,594	242,834	496,989
		<u>665,357</u>	<u>1,345,923</u>	<u>1,825,372</u>
CURRENT LIABILITIES				
Trade and other payables	21	270,047	868,327	1,253,364
Bills payable	21	100,044	191,181	205,911
Amounts due to fellow subsidiaries	17	9,440	–	4,010
Amount due to immediate holding company	17	50,887	1,794	–
Amount due to ultimate holding company	17	31,380	15,821	–
Amounts due to customers for contract work	19	38,086	37,993	49,133
Tax payable		–	683	9,465
Bank borrowings	22	253	23,872	–
		<u>500,137</u>	<u>1,139,671</u>	<u>1,521,883</u>
NET CURRENT ASSETS		<u>165,220</u>	<u>206,252</u>	<u>303,489</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>183,822</u>	<u>221,909</u>	<u>315,982</u>

		At 31 December		
	NOTES	2014	2015	2016
		HK\$'000	HK\$'000	HK\$'000
CAPITAL AND RESERVES				
Paid up capital	24	136,700	136,700	136,700
Reserves		<u>46,167</u>	<u>84,268</u>	<u>178,376</u>
TOTAL EQUITY		182,867	220,968	315,076
NON-CURRENT LIABILITY				
Deferred tax liabilities	23	<u>955</u>	<u>941</u>	<u>906</u>
		<u>183,822</u>	<u>221,909</u>	<u>315,982</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Paid up capital HK\$'000	Statutory reserve HK\$'000 (Note)	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 January 2014	106,700	2,946	1,241	12,721	24,421	148,029
Exchange differences arising on translation from functional currency to presentation currency	-	-	-	1,584	-	1,584
Profit for the year	-	-	-	-	3,254	3,254
Total comprehensive income for the year	-	-	-	1,584	3,254	4,838
Transfer from accumulated profits to statutory reserve	-	86	-	-	(86)	-
Capital injection	30,000	-	-	-	-	30,000
At 31 December 2014	136,700	3,032	1,241	14,305	27,589	182,867
Exchange differences arising on translation from functional currency to presentation currency	-	-	-	(12,921)	-	(12,921)
Profit for the year	-	-	-	-	51,022	51,022
Total comprehensive (expense) income for the year	-	-	-	(12,921)	51,022	38,101
Transfer from accumulated profits to statutory reserve	-	1,452	-	-	(1,452)	-
At 31 December 2015	136,700	4,484	1,241	1,384	77,159	220,968
Exchange differences arising on translation from functional currency to presentation currency	-	-	-	(18,912)	-	(18,912)
Profit for the year	-	-	-	-	113,020	113,020
Total comprehensive (expense) income for the year	-	-	-	(18,912)	113,020	94,108
Transfer from accumulated profits to statutory reserve	-	9,798	-	-	(9,798)	-
At 31 December 2016	136,700	14,282	1,241	(17,528)	180,381	315,076

Note: As stipulated by the relevant laws and regulations in the People's Republic of China (the "PRC"), the companies comprising the Target Group shall set aside 10% of their net profits based on statutory accounts prepared in accordance with the relevant regulations and accounting principles generally accepted in the PRC to the statutory reserve before the distribution of the net profit each year until the balance reaches 50% of its paid-in capital. The statutory reserve can only be used upon approval by the board of directors of the respective company to offset accumulated losses or increase capital.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
OPERATING ACTIVITIES			
Profit before taxation	4,617	53,748	135,484
Adjustments for:			
Depreciation of property, plant and equipment	3,500	2,256	2,290
Amortisation of other intangible assets	16	16	14
Loss on disposal/write-off of property, plant and equipment	210	161	87
Gain on fair value change of investment property	–	(125)	–
Interest income	(548)	(1,248)	(2,423)
Interest expense	1,207	4,768	540
	<u>9,002</u>	<u>59,576</u>	<u>135,992</u>
Operating cash flows before movements in working capital	9,002	59,576	135,992
(Increase) decrease in amount due from a related company	(19)	19	(456)
(Increase) decrease in amounts due from fellow subsidiaries	–	(4,542)	2,250
Increase in amount due from ultimate holding company	–	–	(222)
Increase in trade and other receivables	(29,028)	(466,279)	(183,856)
Decrease (increase) in bills receivable	6,321	(9,188)	8,641
(Increase) decrease in amounts due from customers for contract work	(77,645)	27,635	(38,544)
Increase in retentions receivable	(43,601)	(37,429)	(69,524)
Increase in trade and other payables	53,224	632,005	446,312
Increase in bills payable	70,119	101,440	27,849
(Decrease) increase in amounts due to fellow subsidiaries	(8,006)	(9,298)	4,205
Decrease in amount due to ultimate holding company	(105)	(25,164)	–
(Decrease) increase in amounts due to customers for contract work	(42,976)	2,227	14,147
	<u>(62,714)</u>	<u>271,002</u>	<u>346,794</u>
Cash (used in) generated from operations	(62,714)	271,002	346,794
Interest paid	(529)	(4,537)	(540)
Income tax paid	(3,768)	(780)	(13,187)
	<u>(67,011)</u>	<u>265,685</u>	<u>333,067</u>
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(67,011)</u>	<u>265,685</u>	<u>333,067</u>

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(6,196)	(2,234)	(340)
Proceeds from disposal of property, plant and equipment	–	1,871	251
Interest received	548	1,248	2,423
Placement of pledged bank deposits	(84,477)	(79,919)	(122,371)
Release of pledged bank deposits	60,278	58,331	100,108
Advance to ultimate holding company	–	–	(96,018)
Repayment from ultimate holding company	–	–	96,018
Advance to a fellow subsidiary	–	(5,644)	(2,751)
NET CASH USED IN INVESTING ACTIVITIES	(29,847)	(26,347)	(22,680)
FINANCING ACTIVITIES			
New bank borrowings raised	254	58,717	–
Repayments of bank borrowings	(31,798)	(35,083)	(23,872)
Advance from immediate holding company	3,234	1,876	–
Repayment to immediate holding company	–	(50,352)	(1,765)
Advance from ultimate holding company	–	10,806	–
Repayment to ultimate holding company	–	–	(15,564)
Advance from a fellow subsidiary	–	107,427	–
Repayment to a fellow subsidiary	–	(107,427)	–
Capital injection	30,000	–	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES	1,690	(14,036)	(41,201)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(95,168)	225,302	269,186
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	112,137	18,594	242,834
Effect of foreign exchange rate changes	1,625	(1,062)	(15,031)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	18,594	242,834	496,989

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

The Target Company is a private limited liability company established in the PRC. Its immediate holding company is Jangho Curtain Wall Hongkong Limited, a private limited company incorporated in Hong Kong. Its ultimate holding company is Jangho Group Co., Ltd. ("Jangho Co."), a joint stock company incorporated in the PRC and listed on the Shanghai Stock Exchange. The ultimate controlling party of the Target Company is Mr. Liu Zaiwang, the chairman of Jangho Co.. The address of the registered office and principal place of business of the Target Company are No. 2 Airport East Road, Guomen Business District, Shunyi District, Beijing, China and Block 3, No. 277 Yongdeng Road, Putuo District, Shanghai, China, respectively.

The principal activity of the Target Group is provision of fitting-out works.

The Historical Financial Information is presented in HK\$, which is different from the functional currency of the Target Company, i.e. Renminbi ("RMB") as the directors of the Company manage and monitor the performance and financial position of the Target Group by using HK\$.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information of the Target Group has been prepared for inclusion in the Circular in connection with the Acquisition.

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with HKFRSs issued by the HKICPA.

3. APPLICATION OF HKFRSs

For the purposes of preparing and presenting the Historical Financial Information for the Relevant Periods, the Target Group has consistently applied the HKFRSs, which are effective for the accounting period beginning on 1 January 2016 throughout the Relevant Periods.

New and amendments to HKFRSs in issue but not yet effective

The Target Group has not early applied the following new and amendments to HKFRSs that have been issued but not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate of Joint Venture ³
Amendments to HKAS 7	Disclosure Initiative ⁴
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to HKAS 40	Transfer of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

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

⁴ Effective for annual periods beginning on or after 1 January 2017.

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018 as appropriate.

HKFRS 9 Financial instruments

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

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

The director of the Target Company anticipates that the application of HKFRS 9 in the future may result in early recognition of credit losses based on the expected loss model in relation to the Target Group's financial assets measured at amortised costs and is not likely to have other material impact on the results and financial position of the Target Group based on an analysis of the Target Group's existing business model.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Target Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Target Group performs a detailed review.

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Target Group has non-cancellable operating lease commitments of HK\$927,000 as disclosed in note 25. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Target Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Target Company complete a detailed review.

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Target Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Other than disclosed above, the directors of the Target Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the Historical Financial Information of the Target Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The Historical Financial Information has been prepared on the historical cost basis except for investment property which is measured at fair value, as explained in the accounting policies set out below.

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

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

Basis of consolidation

The Historical Financial Information incorporate the financial information of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved when the Target Company:

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Target Group's accounting policies.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowance.

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

Revenue from fixed price supply and installation contracts including fitting-out works is recognised on the percentage of completion method, measured by reference to the value of work performed during the Relevant Periods. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers.

Design fee income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Target Company's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Supply and installation contracts including fitting-out works

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

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

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract 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 deposits received. Amounts billed for work performed but not yet paid by the customers are included in the consolidated statements of financial position under trade receivables.

Borrowing costs

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

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

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

Leasing

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

The Target Group as lessor

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

The Target Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

Taxation

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

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

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

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

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

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

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

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Target Group's operations are translated into the presentation currency of the Target Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Property, plant and equipment

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

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

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

Investment property

Investment property is property held to earn rentals and/or for capital appreciation.

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at their fair values. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including amounts due from a related company, fellow subsidiaries and ultimate holding company, trade and other receivables, bills receivable, retentions receivable, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period or observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Financial liabilities

Financial liabilities (including trade and other payables, bills payable, amounts due to a fellow subsidiary, immediate holding company and ultimate holding company and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimation uncertainty on supply and installation contracts including fitting-out works

The Target Group's contract profit or loss arising from supply and installation contracts is estimated by reference to the latest available budgets of individual supply and installation contracts prepared by the management of the Target Group. The estimation of budget contract costs is based on management's best estimates and judgments. Contract costs include costs for interior decorative materials, labour costs and subcontracting fees. If the price of interior decorative materials or the wages of labour or the subcontracting fees varied significantly in the coming months from the budgets, the contract profit for each of the individual projects will differ significantly from the estimated contract profit. If estimated costs exceed contract revenue, a contract loss will be recognised.

Estimated impairment of trade and other receivables and retentions receivable

The provision policy for bad and doubtful debts of the Target Group is based on the evaluation of collectability and aging analysis of accounts and 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. If the financial conditions of customers of the Target Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2014, 2015 and 2016, the carrying amounts of trade receivables were HK\$192,729,000, HK\$642,765,000 and HK\$796,413,000 respectively.

As at 31 December 2014, 2015 and 2016, the carrying amounts of retentions receivable were HK\$99,103,000, HK\$129,100,000 and HK\$187,412,000, respectively.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for fitting-out works rendered by the Target Group to customers, net of discounts.

Information reported to the chief operating decision makers who are the directors of Target Group for the resource allocation and performance assessment is based on the Target Group's overall performance which is considered as a single operating and reportable segment. Accordingly, no segment information is presented other than entity-wide disclosures.

No geographical segment information of the Target Group is shown as all the assets are located in the PRC.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Target Group was as follows:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Customer A	146,732	N/A ^(Note)	N/A ^(Note)
Customer B	N/A ^(Note)	223,058	N/A ^(Note)
Customer C	N/A ^(Note)	N/A ^(Note)	322,805

Note: The corresponding revenue did not contribute over 10% of the total revenue of the Target Group for the relevant years.

7. OTHER INCOME, OTHER GAINS AND LOSSES

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Other income			
Design fee income	215	843	3,147
Interest income	548	1,248	2,423
Rental income	207	410	731
Others	131	–	143
	<u>1,101</u>	<u>2,501</u>	<u>6,444</u>
Other gains and losses			
Net foreign exchange gain (loss)	169	(512)	–
Gain on fair value change of investment property	–	125	–
Loss on disposal/write-off of property, plant and equipment	(210)	(161)	(87)
	<u>(41)</u>	<u>(548)</u>	<u>(87)</u>
	<u>1,060</u>	<u>1,953</u>	<u>6,357</u>

8. FINANCE COSTS

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Interest on:			
Bank borrowings	529	2,007	540
Amount due to immediate holding company	678	231	–
Amount due to a non-controlling shareholder of the Target Company	–	91	–
Amount due to a fellow subsidiary	–	2,439	–
	<u>1,207</u>	<u>4,768</u>	<u>540</u>

9. INCOME TAX EXPENSE

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Current tax			
PRC Enterprise Income Tax	–	3,446	17,735
Under (over) provision in prior years			
PRC Enterprise Income Tax	1,338	(764)	4,705
Deferred tax (<i>Note 23</i>)			
Current year	<u>25</u>	<u>44</u>	<u>24</u>
	<u>1,363</u>	<u>2,726</u>	<u>22,464</u>

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the Target Group is 25% for the Relevant Periods. The Target Company obtained approval from the relevant tax bureau and is qualified as High and New Technology Enterprise which its tax rate reduced from 25% to 15% from 2014 to 2016.

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

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Profit before taxation	<u>4,617</u>	<u>53,748</u>	<u>135,484</u>
Tax at the PRC Enterprise Income Tax rate of 25%	1,154	13,437	33,871
Tax effect of expenses not deductible for tax purpose	1,013	703	597
Under (over) provision in prior years	1,338	(764)	4,705
Tax effect of tax losses not recognised	2,136	–	–
Utilisation of tax losses previously not recognised	–	(2,112)	–
Income tax on concession rate	(702)	(6,142)	(13,787)
Additional tax allowance for research and development expenses (<i>Note</i>)	(2,706)	(3,620)	(4,369)
Others	<u>(870)</u>	<u>1,224</u>	<u>1,447</u>
Income tax expense for the year	<u>1,363</u>	<u>2,726</u>	<u>22,464</u>

Note: A further tax deduction of 50% on the qualifying expenses for research and development activities were granted to the Target Company.

10. PROFIT FOR THE YEAR

	Year ended 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Profit for the year has been arrived at after charging (crediting):			
Depreciation of property, plant and equipment	3,500	2,256	2,290
Amortisation of other intangible assets (included in administrative expenses)	16	16	14
Total depreciation and amortisation	3,516	2,272	2,304
Gross rental income from investment property	(207)	(410)	(731)
Less: Direct operating expenses incurred for investment property that generated rental income during the year	67	67	63
	(140)	(343)	(668)
Contract costs recognised as expense	1,038,269	1,302,428	1,629,944
Operating lease payments in respect of rented properties	8,012	8,017	10,188
Staff costs			
Gross staff costs (including directors' and supervisors' emoluments)	85,485	73,042	65,600
Less: Staff costs capitalised to contract costs	(47,540)	(47,786)	(44,731)
	<u>37,945</u>	<u>25,256</u>	<u>20,869</u>

11. DIVIDEND

No dividend was paid or proposed by the Target Company during the Relevant Periods. On 22 June 2017, a dividend in a sum of HK\$100 million (RMB87.6 million) was declared by the Target Company and is expected to be distributed on or around 26 July 2017.

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the directors of the Target Company for their services in the management of the affairs of the Target Group were as follows:

For the year ended 31 December 2014

Name of directors	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary incentive payments HK\$'000	Retirement	Total HK\$'000
				benefit scheme contributions HK\$'000	
Mr. Ng Tak Kwan	-	-	-	-	-
Mr. Leung Kai Ming	-	-	-	-	-
Mr. Wang Qifeng	-	303	125	37	465
Mr. Xie Jianyu	-	-	-	-	-
Mr. Ma Zhenyu	-	76	-	3	79
	-	379	125	40	544

For the year ended 31 December 2015

Name of directors	Notes	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary incentive payments HK\$'000	Retirement	Total HK\$'000
					benefit scheme contributions HK\$'000	
Mr. Ng Tak Kwan	(c)	-	-	-	-	-
Mr. Leung Kai Ming	(c)	-	-	-	-	-
Mr. Wang Qifeng		-	300	200	86	586
Mr. Xie Jianyu	(d)	-	-	-	-	-
Mr. Ma Zhenyu	(b)	-	-	-	-	-
Mr. Xu Xingli	(a)	-	-	-	-	-
Mr. Liu Zhongyue	(e)	-	-	-	-	-
		-	300	200	86	586

For the year ended 31 December 2016

Name of directors	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary incentive payments HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Mr. Wang Qifeng	–	282	422	91	795
Mr. Xu Xingli	–	–	–	–	–
Mr. Liu Zhongyue	–	–	–	–	–
	–	282	422	91	795

Notes:

- (a) Appointed on 5 April 2015
- (b) Resigned on 5 April 2015
- (c) Resigned on 16 April 2015
- (d) Resigned on 15 June 2015
- (e) Appointed on 15 June 2015

The discretionary incentive payments are discretionary and are determined with reference to the performance of individual and the Target Group.

No remuneration was paid or payable to certain directors in respect of their services. Certain directors received remuneration from entities in the group headed by Jangho Co. or the Company. The directors are of the opinion that the services provided to the Target Group only occupy an insignificant amount of their time and therefore it is concluded that the directors were not remunerated for such services for the Target Group.

(b) Supervisors' emoluments*For the year ended 31 December 2014*

Name of supervisors	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary incentive payments HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Mr. Lou Shifei	–	287	23	19	329

For the year ended 31 December 2015

Name of supervisors	Note	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary incentive payments HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Mr. Lou Shifei		–	210	12	19	241
Mr. Liu JIangen	(a)	–	205	17	21	243
		–	415	29	40	484

For the year ended 31 December 2016

Name of supervisors	Fees <i>HK\$'000</i>	Salaries and other benefits <i>HK\$'000</i>	Discretionary incentive payments <i>HK\$'000</i>	Retirement	Total <i>HK\$'000</i>
				benefit scheme contributions <i>HK\$'000</i>	
Mr. Lou Shifei	–	141	12	20	173
Mr. Liu Jianguan	–	111	–	12	123
	–	252	12	32	296

Note:

(a) Appointed on 16 April 2015

The discretionary incentive payments are discretionary and are determined with reference to the performance of individual and the Target Group.

(c) Employees' emoluments

The five highest paid individuals included 1 director of the Target Company for the Relevant Periods and whose emoluments were disclosed in above. The emoluments of the remaining 4 employees who were neither a director nor a supervisor for the Relevant Periods were as follows:

	Year ended 31 December		
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Salaries and other benefits	1,485	1,297	1,436
Retirement benefit scheme contributions	279	196	222
	1,764	1,493	1,658

The number of the highest paid employees who were not the directors nor supervisors of the Target Company whose remuneration fell within the following bands was as follows:

	Year ended 31 December		
	2014	2015	2016
Nil to HK\$1,000,000	4	4	4

No emolument was paid to the directors and supervisors of the Target Company and the five highest paid individuals of the Target Group as an inducement to join or upon joining the Target Group or as compensation for loss of office and no directors and supervisors waived any of their emoluments during the Relevant Periods.

13. EARNINGS PER SHARE

No earnings per share information was presented for the purpose of this report as its inclusions was not considered meaningful.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixture and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 January 2014	4,917	6,459	488	11,864
Exchange adjustments	–	(17)	(1)	(18)
Additions	5,186	1,010	–	6,196
Written-off	(931)	–	–	(931)
	<u>9,172</u>	<u>7,452</u>	<u>487</u>	<u>17,111</u>
At 31 December 2014	9,172	7,452	487	17,111
Exchange adjustments	(545)	(340)	(28)	(913)
Additions	1,650	251	333	2,234
Disposals/written-off	(1,438)	(2,411)	(329)	(4,178)
	<u>8,839</u>	<u>4,952</u>	<u>463</u>	<u>14,254</u>
At 31 December 2015	8,839	4,952	463	14,254
Exchange adjustments	(547)	(308)	(14)	(869)
Additions	–	340	–	340
Disposals	–	(303)	(314)	(617)
	<u>8,292</u>	<u>4,681</u>	<u>135</u>	<u>13,108</u>
At 31 December 2016	8,292	4,681	135	13,108
DEPRECIATION				
At 1 January 2014	2,132	1,837	184	4,153
Exchange adjustments	(2)	(1)	–	(3)
Provided for the year	2,118	1,295	87	3,500
Eliminated on written-off	(721)	–	–	(721)
	<u>3,527</u>	<u>3,131</u>	<u>271</u>	<u>6,929</u>
At 31 December 2014	3,527	3,131	271	6,929
Exchange adjustments	(234)	(165)	(10)	(409)
Provided for the year	1,475	699	82	2,256
Eliminated on disposals/written-off	(834)	(1,095)	(217)	(2,146)
	<u>3,934</u>	<u>2,570</u>	<u>126</u>	<u>6,630</u>
At 31 December 2015	3,934	2,570	126	6,630
Exchange adjustments	(303)	(194)	(6)	(503)
Provided for the year	1,293	937	60	2,290
Eliminated on disposals	–	(193)	(86)	(279)
	<u>4,924</u>	<u>3,120</u>	<u>94</u>	<u>8,138</u>
At 31 December 2016	4,924	3,120	94	8,138
CARRYING VALUES				
At 31 December 2014	<u>5,645</u>	<u>4,321</u>	<u>216</u>	<u>10,182</u>
At 31 December 2015	<u>4,905</u>	<u>2,382</u>	<u>337</u>	<u>7,624</u>
At 31 December 2016	<u>3,368</u>	<u>1,561</u>	<u>41</u>	<u>4,970</u>

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the remaining term of lease
Furniture, fixtures and equipment	18%
Motor vehicles	18%

15. INVESTMENT PROPERTY

	<i>HK\$'000</i>
FAIR VALUE	
At 1 January 2014	8,394
Exchange adjustments	(28)
	<hr/>
At 31 December 2014	8,366
Increased in fair value recognised in profit or loss	125
Exchange adjustments	(494)
	<hr/>
At 31 December 2015	7,997
Exchange adjustments	(494)
	<hr/>
At 31 December 2016	<u>7,503</u>

The fair values at 31 December 2014, 2015 and 2016 have been arrived by an independent qualified professional valuer not connected with the Target Group, namely Asset Appraisal Limited. The address of Asset Appraisal Limited is Room 901, 9/F, On Hong Commercial Building, 145 Hennessy Road, Wanchai, Hong Kong. It is a member of the Hong Kong Institute of Surveyors. The valuations were arrived at by reference to market evidence of transaction prices for similar properties in the same location and condition.

As at 31 December 2014, 2015 and 2016, the fair values of the property were determined based on the direct comparison approach by making reference to comparable sales transactions available on the relevant markets.

In estimating the fair value of the property, the highest and best use of the property is its current use. The investment property is situated in the PRC under medium term lease.

The fair values of investment property as disclosed below were determined (in particular, the valuation techniques and input used), as well as the fair value hierarchy in which the fair value measurements were categorised (Levels 1 to 3) based on the degree to which significant inputs used in the fair value measurement was observable.

There were no transfers into or out of Level 3 during the Relevant Periods.

Information about fair value measurements using significant unobservable input

The following table showed the valuation techniques used in the determination of fair value for investment property and unobservable inputs used in the valuation model.

Date of valuation	Fair value HK\$	Fair value hierarchy	Valuation techniques	Unobservable inputs	Range of significant inputs	Relationship of inputs fair value
At 31 December 2014	8,366,000	Level 3	Direct comparison	Unit sale rate per square metre	Ranging from RMB40,000 to RMB52,000 per square metre	The higher the unit sale rate per square metre, the higher the fair value
As 31 December 2015	7,997,000	Level 3	Direct comparison	Unit sale rate per square metre	Ranging from RMB39,000 to RMB55,000 per square metre	The higher the unit sale rate per square metre, the higher the fair value
As 31 December 2016	7,503,000	Level 3	Direct comparison	Unit sale rate per square metre	Ranging from RMB44,000 to RMB50,000 per square metre	The higher the unit sale rate per square metre, the higher the fair value

16. OTHER INTANGIBLE ASSETS

	Patents <i>HKS'000</i>
COST	
At 1 January 2014 and 31 December 2014	79
Exchange adjustments	<u>(4)</u>
At 31 December 2015	75
Exchange adjustments	<u>(5)</u>
At 31 December 2016	<u>70</u>
ACCUMULATED AMORTISATION	
At 1 January 2014	9
Changed for the year	<u>16</u>
At 31 December 2014	25
Changed for the year	16
Exchange adjustments	<u>(2)</u>
At 31 December 2015	39
Changed for the year	14
Exchange adjustments	<u>(3)</u>
At 31 December 2016	<u>50</u>
CARRYING VALUES	
At 31 December 2014	<u><u>54</u></u>
At 31 December 2015	<u><u>36</u></u>
At 31 December 2016	<u><u>20</u></u>

The other intangible assets are amortised on straight-line basis over 5 years.

17. AMOUNTS DUE FROM/TO A RELATED COMPANY/FELLOW SUBSIDIARIES/ULTIMATE HOLDING COMPANY/IMMEDIATE HOLDING COMPANY

Related company is a company in which, Mr. Liu Zaiwang, a director of ultimate holding company and his spouse have 100% beneficial interest over the related company.

Amount due from a related company

	At 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Trade receivables	–	–	403
Retentions receivable	19	–	33
	<u>19</u>	<u>–</u>	<u>33</u>
	<u><u>19</u></u>	<u><u>–</u></u>	<u><u>436</u></u>

The Target Group allows a credit period of 30 days to its trade receivables due from a related company. As at 31 December 2016, the trade receivables due from a related company were aged over 90 days based on invoice date and past due over 90 days at 31 December 2016 for which the Target Group has not provided for impairment loss as these balances were subsequently settled. The Target Group did not hold any collateral over these balances.

Retentions receivable from a related company

	At 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Retentions receivable which:			
– will be recovered within twelve months	–	–	33
– will be recovered more than twelve months after the end of the reporting period	19	–	–
	<u>19</u>	<u>–</u>	<u>33</u>
	<u><u>19</u></u>	<u><u>–</u></u>	<u><u>33</u></u>

Amounts due from fellow subsidiaries

	At 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Trade receivables	–	95	–
Other receivables	–	9,642	9,613
	<u>–</u>	<u>9,737</u>	<u>9,613</u>
	<u><u>–</u></u>	<u><u>9,737</u></u>	<u><u>9,613</u></u>

The Target Group allows a credit period of 30 days to its trade receivables due from fellow subsidiaries. As at 31 December 2015, the trade receivables due from fellow subsidiaries were aged over 90 days based on invoice date and past due over 90 days at 31 December 2015 for which the Target Group has not provided for impairment loss as these balances were subsequently settled. The Target Group did not hold any collateral over these balances.

As at 31 December 2015 and 31 December 2016, the other receivables included HK\$1,928,000 of licence fee prepayment for trademark and the remaining balances were unsecured, interest free and repayable on demand.

Amount due from ultimate holding company

	At 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	–	–	182
Retentions receivable	–	–	30
	<u>–</u>	<u>–</u>	<u>30</u>
	<u>–</u>	<u>–</u>	<u>212</u>

The Target Group allows a credit period of 30 days to its trade receivables due from ultimate holding company. As at 31 December 2016, the trade receivables due from ultimate holding company were aged over 90 days based on invoice date and past due over 90 days at 31 December 2016 for which the Target Group has not provided for impairment loss as these balances were subsequently settled. The Target Group did not hold any collateral over these balances.

As at 31 December 2016, the retentions receivables due from ultimate holding company will be recovered within twelve months.

Amounts due to fellow subsidiaries

	At 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	–	–	2,942
Retentions payable	–	–	1,039
Other payables	9,440	–	29
	<u>9,440</u>	<u>–</u>	<u>4,010</u>

The fellow subsidiaries allow a credit period of 30 days to the Target Group.

The trade payables to the fellow subsidiaries were aged within 30 days based on the invoice date.

As at 31 December 2016, the retentions payable to a fellow subsidiary of HK\$1,039,000 was expected to be paid after one year.

As at 31 December 2014, the other payables were unsecured, interest free and repayable on demand.

As at 31 December 2016, the other payables represented advances received for contract works from a fellow subsidiary.

Amount due to immediate holding company

As at 31 December 2014, the amount of HK\$38,029,000 was unsecured, carried fixed interest rate at 1% over Hong Kong Interbank Offered Rate per annum and repayable within one year. The remaining balance was unsecured, interest free and repayable on demand.

As at 31 December 2015, amount due to immediate holding company was unsecured, interest free and repayable on demand.

Amount due to ultimate holding company

	At 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	25,549	–	–
Other payable	5,831	15,821	–
	<u>31,380</u>	<u>15,821</u>	<u>–</u>

The ultimate holding company allows a credit period of 30 days to the Target Group.

The trade payables to the ultimate holding company were aged over 90 days based on the invoice date. As at 31 December 2014 and 2015, the other payables were unsecured, interest free and repayable on demand.

18. TRADE AND OTHER RECEIVABLES, BILLS RECEIVABLE AND RETENTIONS RECEIVABLE

Trade and other receivables, bills receivable and retentions receivable at the end of each reporting period comprised receivables from third parties as follows:

Trade and other receivables

	At 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	121,376	49,948	184,492
Unbilled receivables <i>(Note)</i>	71,353	592,817	611,921
Prepayments and deposits	105,020	82,978	60,503
Other receivables	1,417	1,721	875
	<u>299,166</u>	<u>727,464</u>	<u>857,791</u>

Note: Unbilled receivables represents the remaining balances of contract receivables to be billed for completed portion of construction contracts according to the contract terms.

The Target Group allows an average credit period of 30 to 90 days to their trade customers. The following was an aged analysis of trade receivables presented based on invoice date at the end of each reporting period.

	At 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
1–30 days	6,152	2,147	86,893
31–60 days	24,228	5,688	35,126
61–90 days	42,334	18,170	22,549
Over 90 days	48,662	23,943	39,924
	<u>121,376</u>	<u>49,948</u>	<u>184,492</u>

Before accepting any new customer, the Target Group assesses the potential customer's credit quality and defines credit limits by customers. Recoverability of the existing customers is reviewed by the Target Group regularly.

As at 31 December 2014, 2015 and 2016, included in the Target Group's trade receivable balances were receivables with aggregate carrying amount of HK\$121,376,000, HK\$47,801,000 and HK\$97,599,000, respectively, which were past due at the end of each reporting period for which the Target Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts were still considered recoverable. Accordingly, the directors of the Target Company believed that no impairment was required. The Target Group did not hold any collateral over these balances.

Ageing of trade receivables which were past due but not impaired:

	At 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Overdue			
1–30 days	24,228	5,688	35,126
31–60 days	42,334	18,170	22,549
61–90 days	–	8,311	2,500
Over 90 days	48,662	15,632	37,424
	<u>115,224</u>	<u>47,801</u>	<u>97,599</u>

Other receivables

As at 31 December 2014, other receivables amounting to HK\$900,000 were pledged to secure bills payable and were therefore classified as current assets.

Bills receivable

Bills receivable was issued by banks with maturity within 60 days.

Retentions receivable

	At 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Retentions receivable which:			
– will be recovered within twelve months	21,584	30,106	47,728
– will be recovered more than twelve months after the end of the reporting period	<u>77,519</u>	<u>98,994</u>	<u>139,684</u>
	<u>99,103</u>	<u>129,100</u>	<u>187,412</u>

As at 31 December 2016, trade receivables and retentions receivable amounting to HK\$56,122,000 and HK\$11,139,000, respectively were pledged to a bank to secure the issuance of certain performance bonds.

19. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	At 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Contracts in progress at the end of each reporting period:			
Contract costs incurred plus recognised profits less recognised losses	2,499,535	3,536,615	4,959,732
Less: Progress billings	<u>(2,322,999)</u>	<u>(3,398,934)</u>	<u>(4,807,302)</u>
	<u>176,536</u>	<u>137,681</u>	<u>152,430</u>
Analysed for reporting purposes as:			
Amounts due from contract customers	214,622	175,674	201,563
Amounts due to contract customers	<u>(38,086)</u>	<u>(37,993)</u>	<u>(49,133)</u>
	<u>176,536</u>	<u>137,681</u>	<u>152,430</u>

The Target Group's retentions held by customers and advances received from customers for contract work are as follows:

	At 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Retentions receivable for contract work			
External customers included in retentions receivable and amounts due from a related company and ultimate holding company	99,122	129,100	187,475
Advances received for contract work			
External customers included in trade and other payables and amount due to a fellow subsidiary	17,555	202,246	252,567

20. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits carried interest at market rates which ranged from 0.39% to 3.08% per annum, at 2.00% per annum and from 0.15% to 3.05% per annum as at 31 December 2014, 2015 and 2016, respectively.

As at 31 December 2016, the bank balances included a sum of HK\$190,365,000 fixed bank deposit carried fixed interest rate at 1.10% per annum. The remaining balances carried interest at market rates which ranged at 0.39% per annum, from 0.30% to 0.35% per annum and from 0.30% to 0.35% per annum as at 31 December 2014, 2015 and 2016, respectively.

Pledged bank deposits represented deposits pledged to secure bills payable and were therefore classified as current assets.

As at 31 December 2014, 2015 and 2016, the Target Group's pledged bank deposits amounting to HK\$32,648,000, HK\$52,330,000 and HK\$71,356,000, respectively, and bank balances amounting to HK\$18,588,000, HK\$242,828,000 and HK\$496,983,000, respectively, were denominated in RMB which was not freely convertible into other currencies.

21. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

Trade and other payables

Trade and other payables at the end of the reporting period comprised amounts outstanding for trade purposes and daily operating costs. The average credit period taken for trade purchase is 30 to 90 days.

	At 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Contract creditors and suppliers	127,039	531,798	860,557
Retentions payable	78,858	77,429	81,485
	205,897	609,227	942,042
Deposits received	17,555	202,246	252,538
Other tax payable	26,685	43,604	44,550
Other payables	19,910	13,250	14,234
Total	270,047	868,327	1,253,364

The aged analysis of contract creditors and suppliers was stated based on invoice date as follows:

	At 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
1–30 days	76,223	444,231	649,189
31–60 days	8,893	15,610	144,621
61–90 days	21,597	–	44,261
Over 90 days	20,326	71,957	22,486
	<u>127,039</u>	<u>531,798</u>	<u>860,557</u>

As at 31 December 2014, 2015 and 2016, the Target Group's retentions payable of HK\$73,076,000, HK\$62,870,000 and HK\$64,255,000, respectively, were expected to be paid after one year.

Bills payable

As at 31 December 2014, 2015 and 2016, bills payable were secured by other receivables and pledged bank deposits set out in notes 18 and 20, respectively and were repayable as follows:

	At 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
1–30 days	20,597	42,795	49,301
31–60 days	9,928	43,653	33,615
61–90 days	11,864	30,042	30,159
Over 90 days	57,655	74,691	92,836
	<u>100,044</u>	<u>191,181</u>	<u>205,911</u>

22. BANK BORROWINGS

	At 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
The carrying amount of unsecured bank borrowings based on scheduled repayment date repayable within one year (shown under current liabilities)	<u>253</u>	<u>23,872</u>	<u>–</u>
Fixed-rate borrowings	253	–	–
Variable-rate borrowings	<u>–</u>	<u>23,872</u>	<u>–</u>
	<u>253</u>	<u>23,872</u>	<u>–</u>

As at 31 December 2014, the Target Group had fixed-rate borrowings which bore interest at 7.20% per annum. As at 31 December 2015, the Target Group had variable-rate borrowings which bore interest at 10% over the RMB Benchmark Interest Rates for Loans of Financial Institutions per annum and interest rate was repriced at 1 January each year. As at 31 December 2014, 2015 and 2016, the average effective interest rate (which was also equal to contracted interest rate) on the Target Group's bank loans was 7.20%, 5.58% and nil per annum, respectively.

The ranges of effective interest rates (which were also equal to contracted interest rates) on the Target Group's borrowings were as follows:

	At 31 December		
	2014	2015	2016
Fixed-rate borrowings	7.20%	–	–
Variable-rate borrowings	–	5.34% to 5.89%	–

23. DEFERRED TAXATION

The following were the major deferred tax liabilities recognised and movements thereon during the Relevant Periods:

	<i>HK\$'000</i>
At 1 January 2014	932
Exchange adjustments	(2)
Charged to profit or loss (<i>Note 9</i>)	25
	<hr/>
At 31 December 2014	955
Exchange adjustments	(58)
Charged to profit or loss (<i>Note 9</i>)	44
	<hr/>
At 31 December 2015	941
Exchange adjustments	(59)
Charged to profit or loss (<i>Note 9</i>)	24
	<hr/>
At 31 December 2016	906
	<hr/> <hr/>

Deferred taxation represented the temporary differences between the carrying amounts of the investment property situated in the PRC and the corresponding tax bases.

At 31 December 2014, 2015 and 2016, the Target Group's unused estimated tax losses of HK\$14,298,000, nil and nil, respectively, were available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses as at 31 December 2014 due to unpredictability of future profit streams. The unrecognised tax losses as at 31 December 2014 will expire in 2019.

24. PAID-UP CAPITAL

	Paid-up capital <i>HK\$'000</i>
Registered Capital	
At 1 January 2014	106,700
Capital injection	30,000
	<hr/>
At 31 December 2014, 2015 and 2016	136,700
	<hr/> <hr/>

25. OPERATING LEASE COMMITMENTS**The Target Group as lessee**

The Target Group leased various office premises in the PRC under cancellable operating leases agreements. The Target Group was required to give a two-month notice for the termination of these agreements. The operating lease payment was charged to the consolidated statements of profit or loss during the Relevant Periods as set out in note 10.

Leases for rented office premises were negotiated for a period of 2 to 6 years with fixed rental.

The Target Group as lessor

Property rental income earned during the years ended 31 December 2014, 2015 and 2016 was HK\$207,000, HK\$410,000 and HK\$731,000, respectively. The Target Group's investment property with a carrying amount of HK\$8,366,000, HK\$7,997,000 and HK\$7,503,000 as at 31 December 2014, 2015 and 2016, respectively was held for rental purposes. The property held has been leased to a tenant for two years. The lease was cancellable and the tenant was required to give a two-month notice for the termination of the agreement.

26. CAPITAL COMMITMENTS

	At 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Historical Financial Information	–	21	432
	<u> </u>	<u> </u>	<u> </u>

27. CAPITAL RISK MANAGEMENT

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

The capital structure of the Target Group consists of net debt, which includes amounts due to fellow subsidiaries, immediate holding company, ultimate holding company and bank borrowings, net of cash and cash equivalents and pledged bank deposits and equity attributable to the owners of the Target Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Target Company review the capital structure on a continuous basis. As part of this review, the directors of the Target Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Target Group will balance its overall capital structure through payment of dividends, issue of new shares as well as issue of new debts or redemption of existing debts.

28. FINANCIAL INSTRUMENTS

Categories of financial instruments

	At 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	368,065	1,114,747	1,584,836
Financial liabilities			
Amortised cost	444,441	898,749	1,210,718

Financial risk management objectives and policies

The Target Group's financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and cash flow interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk**Currency risk*

The Target Group entities collect most of the revenue and incur most of the expenditures in their respective functional currencies. The directors of the Target Company consider that the Target Group's exposure to foreign currency exchange risk is insignificant as the majority of the Target Group's transactions are denominated in the functional currency of each individual group entity.

The Target Group currently does not have a foreign currency hedging policy. However, the management of the Target Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Target Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	Assets			Liabilities		
	At 31 December			At 31 December		
	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
HK\$ against RMB	6	6	6	–	1,794	–

Sensitivity analysis

The following table details the Target Group's sensitivity to a 5% increase and decrease in HK\$ against RMB. 5% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis of the Target Group's exposure to foreign currency risk at the end of the reporting period has been determined based on the change taking place at the beginning of the reporting period and held constant throughout each reporting period.

The sensitivity analysis of the Target Group's exposure to foreign currency risk at the end of the reporting period includes only outstanding foreign currency denominated monetary items.

A negative number below indicates a decrease in post-tax profit for the current year where a 5% strengthening of HK\$ against RMB. For a 5% weakening of HK\$ against RMB, there would be an equal and opposite impact on the post-tax profit for the year as set out below:

	Decrease in post-tax profit		
	Year ended 31 December		
	2014	2015	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$ against RMB	–	(76)	–

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the Relevant Periods.

Cash flow interest rate risk

The Target Group's cash flow interest rate risk relates primarily to variable-rate pledged bank deposits, bank balances and bank borrowings (see note 20 for details of the pledged bank deposits and bank balances and note 22 for details of bank borrowings). The Target Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

The Target Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of each reporting period. For variable-rate pledged bank deposits, bank balances and bank borrowings, the analysis is prepared assuming the pledged bank deposits, bank balances and bank borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 10 basis points increase or decrease in variable-rate pledged bank deposits and bank balances represents management's assessment of the reasonably possible change in interest rates. If interest rate increases/decreases by the aforesaid basis point, and all other variables were held constant, the Target Group's post-tax profit for the each of three years ended 31 December 2014, 2015 and 2016 would increase/decrease by HK\$43,000, HK\$250,000 and HK\$321,000, respectively. A 50 basis points increase or decrease in variable-rate bank borrowings represents management's assessment of the reasonably possible change in interest rates. If interest rate increases/decreases by the aforesaid basis point, and all other variables were held constant, the Target Group's post-tax profit for each of the three years ended 31 December 2014, 2015 and 2016 would decrease/increase by nil, HK\$101,000 and nil, respectively.

Credit risk

The Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual trade receivable and other receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Target Company consider that the Target Group's credit risk is significantly reduced. The Target Group does not have significant concentration of credit risk on trade receivable as trade receivables consist of a large number of customers.

The policy of allowances for doubtful debts of the Target Group is based on the evaluation and estimation of collectability and ageing analysis of the outstanding debts. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flows expected to receive discounted using the original effective interest rate and the carrying value. If the financial conditions of customers of the Target Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. The management closely monitors the subsequent settlement of the counterparties. In this regard, the directors of the Target Company consider that the credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Target Company monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

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

The table included both interest and principal cash flows. To the extent that interest flows were floating rate, the undiscounted amount was derived from contracted interest rate curve at the end of each reporting period.

	Weighted average effective interest rate %	Less than 4 months or on demand HK\$'000	Between 4 to 6 months HK\$'000	Between 7 to 12 months HK\$'000	Between 1 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
As at 31 December 2014							
<i>Non-derivative financial liabilities</i>							
Trade and other payables	N/A	179,361	–	–	73,076	252,437	252,437
Bills payable	N/A	42,389	57,655	–	–	100,044	100,044
Amount due to a fellow subsidiary	N/A	9,440	–	–	–	9,440	9,440
Amount due to immediate holding company	1.84	10,728	–	40,827	–	51,555	50,887
Amount due to ultimate holding company	N/A	31,380	–	–	–	31,380	31,380
Bank borrowings (<i>Note</i>)	7.20	253	–	–	–	253	253
		<u>273,551</u>	<u>57,655</u>	<u>40,827</u>	<u>73,076</u>	<u>445,109</u>	<u>444,441</u>

	Weighted average effective interest rate %	Less than 4 months or on demand HK\$'000	Between 4 to 6 months HK\$'000	Between 7 to 12 months HK\$'000	Between 1 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
As at 31 December 2015							
<i>Non-derivative financial liabilities</i>							
Trade and other payables	N/A	603,211	–	–	62,870	666,081	666,081
Bills payable	N/A	116,490	74,691	–	–	191,181	191,181
Amount due to immediate holding company	N/A	1,794	–	–	–	1,794	1,794
Amount due to ultimate holding company	N/A	15,821	–	–	–	15,821	15,821
Bank borrowings (<i>Note</i>)	5.58	23,872	–	–	–	23,872	23,872
		<u>761,188</u>	<u>74,691</u>	<u>–</u>	<u>62,870</u>	<u>898,749</u>	<u>898,749</u>

	Weighted average effective interest rate %	Less than 4 months or on demand HK\$'000	Between 4 to 6 months HK\$'000	Between 7 to 12 months HK\$'000	Between 1 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
As at 31 December 2016							
<i>Non-derivative financial liabilities</i>							
Trade and other payables	N/A	936,571	–	–	64,255	1,000,826	1,000,826
Bills payable	N/A	113,075	92,836	–	–	205,911	205,911
Amount due to a fellow subsidiary	N/A	2,942	–	–	1,039	3,981	3,981
		<u>1,052,588</u>	<u>92,836</u>	<u>–</u>	<u>65,294</u>	<u>1,210,718</u>	<u>1,210,718</u>

Note: As at 31 December 2014 and 2015, the Target Group's bank loans with a repayment on demand clause were included in the 'Less than 4 months or on demand' time band in the above maturity analysis. As at 31 December 2014 and 31 December 2015, the aggregate undiscounted principal amounts of these bank loans amounted to HK\$253,000 and HK\$23,872,000, respectively. Taking into account the Target Group's financial position, the directors of the Target Company believe that it is not probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. On this basis, the aggregate principal and interest cash flows repayable in 'Less than 4 months or on demand' time band as at 31 December 2014 will amount to HK\$261,000. Whereas, the aggregate principal and interest cash flows repayable in 'Less than 4 months or on demand' time band, 'Between 4 to 6 months' time band and 'Between 7 to 12 months' time band as at 31 December 2015 will amount to HK\$295,000; HK\$15,138,000 and HK\$8,987,000, respectively.

29. PERFORMANCE BONDS AND ADVANCE PAYMENT BONDS

As at 31 December 2014, 2015 and 2016, the Target Group has issued performance bonds, advance payment bonds and tender bonds in respect of supply and installation contracts through the banks amounting to a total of HK\$7,558,000, HK\$18,821,000, and HK\$55,045,000, respectively.

As at 31 December 2016, certain performance bonds were secured by trade receivables and retentions receivable set out in note 18.

30. RETIREMENT BENEFIT PLAN

The employees of the Target Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Target Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits.

The only obligation of the Target Group with respect to the retirement benefit scheme is to make the specified contributions.

During the Relevant Periods, the Target Group has made contributions to the retirement benefit scheme as follows:

	Year ended 31 December		
	2014	2015	2016
	HK\$'000	HK\$'000	HK\$'000
Contributions paid and payable	7,124	5,210	4,032
Less: Capitalised to contract costs	(3,363)	(3,170)	(2,409)
	<u>3,761</u>	<u>2,040</u>	<u>1,623</u>

31. RELATED PARTY TRANSACTIONS

Apart from the amounts due from/to a related company, fellow subsidiaries, ultimate holding company and immediate holding company as set out in note 17, the Target Group entered into the following significant transactions with its related companies and group companies:

Relationship	Transaction	Year ended 31 December		
		2014	2015	2016
		HK\$'000	HK\$'000	HK\$'000
Ultimate holding company	Interest income	–	–	585
	Revenue from fitting-out works	189	250	204
Immediate holding company	Interest expenses	678	231	–
		<u>–</u>	<u>–</u>	<u>–</u>
A non-controlling shareholder of the Target Company	Interest expenses	–	91	–
		<u>–</u>	<u>91</u>	<u>–</u>
Fellow subsidiaries	Purchase of timber products	1,462	–	21,886
	Interest expenses	–	2,439	–
	Licence fee expenses from trademark	–	148	1,928
	Revenue from fitting-out works	870	1,149	160
		<u>1,462</u>	<u>2,587</u>	<u>21,886</u>
A related company*	Revenue from fitting-out works	369	–	6,948
		<u>369</u>	<u>–</u>	<u>6,948</u>

* The related company is a company in which, Mr. Liu Zaiwang, a director of ultimate holding company and his spouse have 100% beneficial interest over the related company.

In addition,

- (a) as at 31 December 2014, 2015 and 2016, the ultimate holding company had outstanding performance bonds, advance payment bonds and tender bonds amounting to HK\$65,838,000, HK\$35,963,000 and HK\$40,991,000, respectively issued in favour of customers of the Target Group through a bank.
- (b) as at 31 December 2014, a fellow subsidiary had an outstanding performance bond amounting to HK\$4,523,000 issued in favour of customers of the Target Group through a bank. The bond was released during the year ended 31 December 2015.
- (c) as at 31 December 2014, 2015 and 2016, the Target Group's banking facilities were guaranteed by Jangho Co.. The Target Group did not pay any charges for the guarantee granted.
- (d) as at 31 December 2015 and 2016, the Target Group's banking facilities were also guaranteed by Mr. Liu Zaiwang and his spouse. The Target Group did not pay any charges for the guarantee granted.

Compensation of key management personnel

The remuneration of key management personnel of the Target Group during the Relevant Periods was as follows:

	Year ended 31 December		
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Salaries and short-term benefits	1,439	1,305	1,887
Post-employment benefits	140	146	219
	1,579	1,451	2,106
	1,579	1,451	2,106

The remuneration of key management personnel is determined by the directors of the Target Company having regard to the performance of individuals and the Target Group.

32. PARTICULARS OF SUBSIDIARIES OF THE TARGET COMPANY

During the Relevant Periods and as at the date of this report, the Target Company has direct equity interests in the following subsidiaries:

Name of subsidiaries	Place and date of establishment	Registered capital	Equity interest attributable to the Target Group as at			the date of this report	Principal activities	Notes
			31 December 2014	2015	2016			
大連承達創建裝飾工程有限公司 (“Sundart Dalian”)	The PRC 30 July 2012	RMB1,000,000	100%	100%	100%	100%	Interior fitting-out works in the PRC	(a)
上海承達企業發展有限公司	The PRC 25 July 2016	RMB10,000,000	N/A	N/A	100%	100%	Interior fitting-out works in the PRC	(b)

Notes:

- (a) The statutory financial statements of Sundart Dalian for the year ended 31 December 2014 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 北京東易君安會計師事務所有限公司, certified public accountants registered in the PRC. No statutory audited financial statements have been prepared for the years ended 31 December 2015 and 2016 as there are no statutory audit requirements.
- (b) The statutory financial statements of 上海承達企業發展有限公司 for the period from 25 July 2016 (date of establishment) to 31 December 2016 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 華普天健會計師事務所(特殊普通合夥), certified public accountants registered in the PRC.
- (c) The statutory financial statements of the Target Company for the year ended 31 December 2014, 2015 and 2016 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 北京東易君安會計師事務所有限公司 and 華普天健會計師事務所(特殊普通合夥), certified public accountants registered in the PRC, respectively.

33. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group, the Target Company or any of the companies now comprising the Target Group have been prepared in respect of any period subsequent to 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis on the Target Group for the years ended 31 December 2014, 2015 and 2016.

BUSINESS OVERVIEW

The Target Company is a limited liability company established in the PRC on 19 September 2003 and is currently owned as to 75% by Jangho HK and as to 25% by Jangho Co.. The total registered capital of the Target Company as at the Latest Practicable Date was HK\$136.7 million. The Target Company, by itself and through its wholly-owned subsidiaries, Sundart Dalian and Sundart Shanghai, is principally engaged in the fitting-out business in the PRC, focusing on high-end residential properties and hotels.

FINANCIAL OVERVIEW

For the years ended 31 December 2014, 2015 and 2016, the revenue of the Target Group was HK\$1,112.3 million, HK\$1,426.9 million and HK\$1,820.3 million, respectively. Such increase was primarily due to the increase in the fitting-out projects undertaken by the Target Company for commercial buildings and shopping malls in 2015 and for residential properties and commercial buildings in 2016, which was in turn led by (i) the development of the brand and reputation of the Target Company in the PRC; (ii) the broadening of its customer base; and (iii) the growth in the property market and the tourism market in the PRC, creating more opportunities for the fitting-out business.

For the years ended 31 December 2014, 2015 and 2016, the gross profit of the Target Group was HK\$74.1 million, HK\$124.5 million and HK\$190.3 million, respectively. The increase in gross profit by HK\$50.4 million from 2014 to 2015 was mainly attributable to (i) the increase in revenue; and (ii) the increase in the gross profit margin from 6.7% for the year ended 31 December 2014 to 8.7% for the year ended 31 December 2015 due to the additional costs incurred for the year ended 31 December 2014 for building the showrooms. The increase in gross profit by HK\$65.8 million from 2015 to 2016 was mainly attributable to (i) the increase in revenue; and (ii) the increase in gross profit margin from 8.7% for the year ended 31 December 2015 to 10.5% for the year ended 31 December 2016 as a result of (i) a large amount of fitting-out works orders from numerous individual property owners in respect of a residential project with high profit margin; and (ii) cost savings resulted from the massive works orders and standard design of the fitting-out works provided in such project. Apart from the above, having a project life cycle of about three years for the Target Group in general was also a factor causing the fluctuations in the gross profit margin for the past three years.

For the years ended 31 December 2014, 2015 and 2016, the selling expenses of the Target Group amounted to HK\$58,000, HK\$2.0 million and HK\$1.0 million, respectively. The fluctuations in the selling expenses during the three years were due to the business expansion of the Target Company which was associated with the increase in tendering expenses, consultancy fee and sample fee. More consultancy fee was incurred for project tendering for the year ended 31 December 2015.

For the years ended 31 December 2014, 2015 and 2016, the administrative expenses of the Target Group amounted to HK\$69.2 million, HK\$66.0 million and HK\$59.7 million. The decrease in administrative expenses was primarily driven by the decrease in staff cost as a result of the streamlining and optimising the employees base in 2015 and 2016 after the extensive recruitment of employees in

2014. For the year ended 31 December 2015, such impact was partially offset by the increase in expenses for uniforms, safety tools and printing and stationery for business promotion and tendering purposes.

For the years ended 31 December 2014, 2015 and 2016, the Target Group recorded a net profit of HK\$3.3 million, HK\$51.0 million and HK\$113.0 million, respectively. The increase in net profit was primarily attributable to the increase in revenue and gross profit during the years ended 31 December 2014, 2015 and 2016 given the reasons as discussed above.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Target Group's daily operation and capital expenditures are mainly funded by internally generated funds and shareholders' fund. The Target Group intended to utilise its excess resources given that it has consistently generated healthy net cash from operations during the two years ended 31 December 2016. As at 31 December 2014, 2015 and 2016, the net current assets of the Target Group amounted to HK\$165.2 million, HK\$206.3 million and HK\$303.5 million, respectively, and the total equity of the Target Group amounted to HK\$182.9 million, HK\$221.0 million and HK\$315.1 million, respectively.

As at 31 December 2014, 2015 and 2016, the Target Group had cash and cash equivalents of HK\$18.6 million, HK\$242.8 million and HK\$497.0 million, respectively, and bank borrowings of HK\$0.3 million, HK\$23.9 million and nil, respectively. The gearing ratio of the Target Group, which is equal to total borrowings (inclusive of the amounts due to immediate holding company and ultimate holding company) over total equity, as at 31 December 2014, 2015 and 2016 was 31.2%, 18.8% and nil, respectively. The decrease in gearing ratios was mainly attributable to the surplus cash generated from operating activities for repayment of borrowings in 2015 and 2016.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, 2015 and 2016, the Target Group employed a total of 568, 443 and 449 employees, respectively, for its operations. The Target Group has remuneration policies that align with market practice and remunerates its employees based on the responsibilities of their roles and performance, market requirements and the performance of the Target Group. In addition to monthly salaries, the Target Group also provides benefits including discretionary bonus, social insurance and housing provident funds to its staff.

SIGNIFICANT ACQUISITIONS AND DISPOSALS

There was no significant acquisition or disposal during the years ended 31 December 2014, 2015 and 2016.

CHARGE ON ASSETS

As at 31 December 2014, 2015 and 2016, the Target Group had pledged (i) trade receivables of nil, nil and HK\$56.1 million respectively; (ii) other receivables of HK\$0.9 million, nil and nil, respectively, (iii) retentions receivable of nil, nil and HK\$11.1 million, respectively; and (iv) bank deposits of HK\$32.6 million, HK\$52.3 million and HK\$71.4 million, respectively, to secure certain performance bonds and all bills payable for its operations.

FOREIGN EXCHANGE EXPOSURE

During the years ended 31 December 2014, 2015 and 2016, substantially all transactions of the Target Group were denominated in RMB, and most of the bank deposits were denominated in RMB to minimise foreign exchange exposure. The directors of the Target Company considered that the foreign exchange exposure of the Target Group was minimal, and therefore, the Target Group had not implemented any formal hedging policies to deal with such exposures.

CONTINGENT LIABILITIES

As at 31 December 2014, 2015 and 2016, the Target Group did not have material contingent liabilities.

CAPITAL COMMITMENTS

The capital commitment of the Target Group as at 31 December 2014, 2015 and 2016 was nil, HK\$21,000 and HK\$432,000, respectively, which related to the capital expenditure in respect of the acquisition of property, plant and equipment.

FUTURE PLANS

The Target Group has no plans for material investments for the year ending 31 December 2017.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP**(A) BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

In connection with the proposed major and connected transaction in relation to the proposed acquisition of the entire equity interest in Sundart Engineering & Contracting (Beijing) Limited (the “Target Company”) and its subsidiaries (together with the Target Company hereinafter referred to as the “Target Group”) (the “Acquisition”) by SUNDART HOLDINGS LIMITED 承達集團有限公司 (the “Company”) and its subsidiaries (together with the Company hereinafter referred to as the “Group”) (together with the Target Group hereinafter referred to as the “Enlarged Group”) the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group has been prepared to illustrate the effect of the Acquisition on the Group’s financial position as at 31 December 2016 as if the Acquisition had taken place on 31 December 2016.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared based on (i) the information on the audited consolidated statement of assets and liabilities of the Group as at 31 December 2016 which has been extracted from the published annual report of the Group for the year ended 31 December 2016; and (ii) the information on the audited consolidated statement of assets and liabilities of the Target Group as at 31 December 2016, which has been extracted from the accountants’ report set out in Appendix II to this circular.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group has been prepared by the directors of the Company in accordance with paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and is solely for the purpose to illustrate the assets and liabilities of the Enlarged Group as if the Acquisition had taken place on 31 December 2016.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group is prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described below in the accompanying notes that are (i) directly attributable to the Acquisition; and (ii) factually supportable.

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group has been prepared by the directors of the Company based on certain assumptions and estimates and for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the assets and liabilities of the Enlarged Group had the Acquisition been completed as at 31 December 2016 or at any future dates.

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

	The Group's assets and liabilities as at 31 December 2016 HK\$'000 Note (1)	The Target Group's assets and liabilities as at 31 December 2016 HK\$'000 Note (2)	Pro forma adjustments			Unaudited pro forma consolidated assets and liabilities of the Enlarged Group HK\$'000
			Dividend paid HK\$'000 Note (3)	Consideration for the Acquisition HK\$'000 Note (4)	Acquisition costs HK\$'000 Note (5)	
Non-current assets						
Property, plant and equipment	15,638	4,970				20,608
Investment property	–	7,503				7,503
Goodwill	1,510	–				1,510
Other intangible assets	–	20				20
Available-for-sale investments	136,854	–				136,854
Interests in associates	116,793	–				116,793
	<u>270,795</u>	<u>12,493</u>				<u>283,288</u>
Current assets						
Inventories	21,972	–				21,972
Amounts due from related companies	823	436				1,259
Amounts due from fellow subsidiaries	3,981	9,613			(5,909)	7,685
Amount due from ultimate holding company	–	212				212
Trade and other receivables	531,738	857,791				1,389,529
Bills receivable	2,799	–				2,799
Amounts due from customers for contract work	725,890	201,563				927,453
Retentions receivable	354,907	187,412				542,319
Tax recoverable	1,085	–				1,085
Pledged bank deposits	–	71,356				71,356
Bank balances and cash	1,192,560	496,989	(100,000)	(520,000)	(3,500)	1,066,049
	<u>2,835,755</u>	<u>1,825,372</u>				<u>4,031,718</u>
Total assets	<u>3,106,550</u>	<u>1,837,865</u>				<u>4,315,006</u>

	The Group's assets and liabilities as at 31 December 2016 HK\$'000 Note (1)	The Target Group's assets and liabilities as at 31 December 2016 HK\$'000 Note (2)	Pro forma adjustments				Unaudited pro forma consolidated assets and liabilities of the Enlarged Group HK\$'000
			Consideration		Acquisition costs HK\$'000 Note (5)	Elimination of current accounts HK\$'000 Note (6)	
			Dividend paid HK\$'000 Note (3)	for the Acquisition HK\$'000 Note (4)			
Current liabilities							
Trade and other payables	938,237	1,253,364				2,191,601	
Bills payable	–	205,911				205,911	
Amounts due to fellow subsidiaries	4,205	4,010			(5,909)	2,306	
Amount due to ultimate holding company	371	–				371	
Amounts due to customers for contract work	15,429	49,133				64,562	
Tax payable	52,357	9,465				61,822	
	<u>1,010,599</u>	<u>1,521,883</u>				<u>2,526,573</u>	
Non-current liability							
Deferred tax liabilities	–	906				906	
Total liabilities	<u><u>1,010,599</u></u>	<u><u>1,522,789</u></u>				<u><u>2,527,479</u></u>	

(C) NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (1) The amounts are extracted from the consolidated statement of financial position of the Group as at 31 December 2016 included in the published annual report of the Company for the year ended 31 December 2016.
- (2) The amounts are extracted from the accountants' report of the Target Group as set out in Appendix II to this circular.
- (3) The adjustment represents the proposed declaration and distribution of dividend of HK\$100,000,000 to be paid by the Target Company prior to the completion of the Acquisition as if the Acquisition has been taken place as at 31 December 2016. Such dividend is considered directly attributable to the Acquisition as it has been taken into account in determining the consideration of the Acquisition in accordance with the Equity Transfer Agreement.
- (4) Prior to the completion of the Acquisition, the Target Company and the Company were under common control of Jangho Group Co., Ltd., the ultimate holding company of the Target Company and the Company. Upon completion of the Acquisition, the assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Group using merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants. Accordingly, the assets and the liabilities of the Target Group are consolidated using the existing book values from the controlling party's perspective.

The adjustment represents the Group utilised its bank balances and cash amounted to HK\$520,000,000 to settle the consideration of the Acquisition as if the Acquisition has taken place at 31 December 2016.
- (5) The adjustment represents the payment of the total acquisition costs directly attributable to the Acquisition amounting to approximately HK\$3,500,000 as estimated by the directors of the Company.
- (6) The adjustment represents the elimination of the inter-group balances between the Group and the Target Group.
- (7) No adjustments have been made to reflect any trading results or other transactions of the Group or the Target Group entered into subsequent to 31 December 2016.

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

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****To the Directors of SUNDART HOLDINGS LIMITED 承達集團有限公司**

We have completed our assurance engagement to report on the compilation of pro forma financial information of SUNDART HOLDINGS LIMITED 承達集團有限公司 (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma statement of assets and liabilities as at 31 December 2016 and related notes as set out on pages IV-1 to IV-3 of the circular issued by the Company dated 30 June 2017 (the "Circular"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on pages IV-1 to IV-3 of the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of Sundart Engineering & Contracting (Beijing) Limited and its subsidiaries on the Group's financial position as at 31 December 2016 as if the transaction had taken place at 31 December 2016. As part of this process, information about the Group's consolidated financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2016, on which an auditor's report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

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

Our Independence and Quality Control

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



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德勤百年慶 開創新紀元

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

Reporting Accountants’ Responsibilities

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

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

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

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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

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

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

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 June 2017

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests and short positions of the Directors and the chief executive in the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meanings of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers had been notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Nature of interests/ capacity	Number of shares held	Approximately percentage of shareholding
Mr. Liu (<i>Note</i>)	Interest in controlled corporation	1,500,000,000	69.50%

Note: Jangho Co. was approximately 27.35% beneficially owned by Beijing Jiangheyuan (a company which was 85% and 15% beneficially owned by Mr. Liu and his spouse, Ms. Fu, respectively) and approximately 25.07% beneficially owned by Mr. Liu and therefore, Mr. Liu was deemed to be interested in the Shares indirectly held by Jangho Co. through Jangho HK and Reach Glory under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

(b) Interests of substantial shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors and the chief executive of the Company, the persons (other than a Director or chief executive of the Company) or entities who had an interest or a short position in the Shares and the underlying Shares (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Long positions in the Shares and underlying Shares

Name of substantial shareholders	Nature of interests/ capacity	Number of shares held	Approximate percentage of shareholding (note 1)
Reach Glory	Beneficial owner	1,500,000,000	69.50%
Jangho HK (note 2)	Interest in controlled corporation	1,500,000,000	69.50%
Jangho Co. (note 3)	Interest in controlled corporation	1,500,000,000	69.50%
Beijing Jiangheyuan (note 4)	Interest in controlled corporation	1,500,000,000	69.50%
Ms. Fu (note 5)	Interest of spouse	1,500,000,000	69.50%

Notes:

1. On the basis of 2,158,210,000 Shares in issue as at 31 December 2016.
2. Reach Glory was beneficially wholly-owned by Jangho HK and therefore Jangho HK was deemed to be interested in the Shares held by Reach Glory under the SFO.
3. Jangho HK was beneficially wholly-owned by Jangho Co. and therefore Jangho Co. was deemed to be interested in the Shares held by Jangho HK through Reach Glory under the SFO.
4. Ms. Fu, the spouse of Mr. Liu, was the sole director of Beijing Jiangheyuan. The board of directors of Jangho Co. was controlled by Beijing Jiangheyuan and therefore Beijing Jiangheyuan was deemed to be interested in the Shares held by Jangho Co. through Jangho HK and Reach Glory under the SFO.
5. Ms. Fu is the spouse of Mr. Liu and was therefore deemed to be interested in the Shares held by Mr. Liu under the SFO.

Save as disclosed herein, so far as is known to the Directors or the chief executive of the Company, as at the Latest Practicable Date, no other person (other than Directors or the chief executive of the Company) had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or any options in respect of such share capital.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which is not determinable by the Company within one year without payment of any compensation (other than statutory compensation).

4. INTERESTS IN ASSETS AND CONTRACTS AND COMPETING INTERESTS

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Enlarged Group, and since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up), and none of the Directors was directly or indirectly interested in any assets which have been acquired or disposed of by or leased to (or are proposed to be acquired or disposed of by or leased to) any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors or their respective close associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualification of the experts who have given advice, letter or opinion contained in this circular:

Name	Qualifications
Asset Appraisal Limited	Independent valuer
Deloitte Touche Tohmatsu	Certified Public Accountants
Lego Corporate Finance Limited	a corporation licensed by the Securities and Futures Commission of Hong Kong to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Tian Yuan Law Firm	legal advisers of the Company as to PRC laws

As at the Latest Practicable Date, the experts identified above had no shareholding, direct or indirect, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, the experts identified above had no direct or indirect interest in any assets which have been, since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of the experts identified above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter(s) and/or references to its name in the form and context in which they are included.

7. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Enlarged Group was involved in any litigation or claim of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

8. MATERIAL CONTRACTS

The following contract (not being contracts in the ordinary course of business of the Enlarged Group) was entered into by member(s) of the Enlarged Group within the two years immediately preceding the date of this circular and including the Latest Practicable Date which is or may be material:

- (a) the Equity Transfer Agreement.

9. DOCUMENT AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during the normal business hours at the office of Pinsent Masons at 50th Floor, Central Plaza, 18 Harbour Road, Hong Kong from the date of this circular up to and including the date of the EGM (save for Saturday and public holidays):

- (a) the memorandum and articles of association of the Company;
- (b) the annual report of the Company for the two years ended 31 December 2015 and 2016;
- (c) the interim report of the Company for the six months ended 30 June 2016;
- (d) the contract referred to in the section headed “Material Contracts” in this appendix;
- (e) the accountants’ report on the Target Group, the text of which is set out in Appendix II to this circular;
- (f) the report on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;
- (g) the letters of consent from the experts referred to in the section headed “Qualification and Consent of Experts” above in this appendix;
- (h) the letter from the Board, the text of which is set out in pages 8 to 39 in this circular;
- (i) the letter from Independent Board Committee, the text of which is set out in pages 40 to 41 in this circular;
- (j) the letter of advice from Lego to the Independent Board Committee and the Independent Shareholders, the text of which is set out in pages 42 to 70 in this circular; and
- (k) this circular.

10. GENERAL

- (a) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.
- (b) The company secretary of the Company is Ms. Chui Muk Heung. Ms. Chui is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.
- (c) The registered office of the Company is situated at Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands, VG1110.

- (d) The headquarters and principal place of business of the Company is situated at 25/F, Millennium City 3, 370 Kwun Tong Road, Kowloon, Hong Kong.

- (e) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

NOTICE OF EGM



SUNDART HOLDINGS LIMITED

承達集團有限公司

(incorporated under the laws of British Virgin Islands with limited liability)

(Stock code: 1568)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the extraordinary general meeting (the “**EGM**”) of SUNDART HOLDINGS LIMITED 承達集團有限公司 (the “**Company**”) will be held at Room 03-05, 11/F, Millennium City 3, 370 Kwun Tong Road, Kowloon, Hong Kong on Tuesday, 25 July 2017 at 10:00 a.m. for the purpose considering and, if thought fit, passing the following resolution, which will be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT:**

- (a) the equity transfer agreement dated 17 May 2017 (the “**Equity Transfer Agreement**”) entered into between Jangho Curtain Wall Hongkong Limited (江河幕牆香港有限公司), 江河創建集團股份有限公司 (Jangho Group Co., Ltd.*) and Sundart Engineering Investments Limited (承達工程投資有限公司) in relation to the acquisition of the 100% equity interest in 北京承達創建裝飾工程有限公司 (Sundart Engineering & Contracting (Beijing) Limited*) and the terms of the amended and restated deed of non-competition (the “**Amended Deed**”) to be executed by Mr. Liu Zaiwang, Ms. Fu Haixia, 北京江河源控股有限公司 (Beijing Jiangheyuan Holdings Co., Ltd.*), 江河創建集團股份有限公司 (Jangho Group Co., Ltd.*), Jangho Curtain Wall Hongkong Limited (江河幕牆香港有限公司) and REACH GLORY INTERNATIONAL LIMITED in favour of the Company to amend and restate the deed of non-competition dated 8 December 2015 executed by Mr. Liu Zaiwang, Ms. Fu Haixia, 北京江河源控股有限公司 (Beijing Jiangheyuan Holdings Co., Ltd.*), 江河創建集團股份有限公司 (Jangho Group Co., Ltd.*), Jangho Curtain Wall Hongkong Limited (江河幕牆香港有限公司) and REACH GLORY INTERNATIONAL LIMITED in favour of the Company (a copy of each of the Equity Transfer Agreement and the Amended Deed is marked “A” and “B”, respectively, and produced to the EGM and signed by the chairman of the EGM for identification purpose) be and is hereby approved; and

* for identification purpose only

NOTICE OF EGM

- (b) any one director of the Company (the “**Directors(s)**”) be and is hereby authorised to, on behalf of the Company, do all such acts and sign, seal, execute and deliver all such documents and take all such actions as he may consider necessary or desirable for the purpose of or in connection with or to give effect to the Equity Transfer Agreement, the Amended Deed and the transactions contemplated thereunder. ”

By order of the Board
SUNDART HOLDINGS LIMITED
承達集團有限公司
NG Tak Kwan
Chief Executive Officer and Executive Director

Hong Kong, 30 June 2017

Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy needs not be a shareholder of the Company.
2. A form of proxy for the EGM is enclosed. In order to be valid, a form of proxy, together with the power of attorney or other authority (if any), under which the form is signed, or a certified copy of such power or authority, must be deposited at the Company’s branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. Completion and return of the form of proxy will not preclude shareholders of the Company from attending and voting in person at the meeting or any adjourned meeting or upon the poll concerned if the shareholders of the Company so wish. In such event, the instrument appointing the proxy shall be deemed to be revoked.
4. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. A shareholder of the Company entitled to more than one vote needs not, if he votes on a poll, use all his votes or cast all the votes he uses in the same way.
6. The resolution is to be voted by way of poll.
7. For determining the entitlement to attend and vote at the EGM, the transfer book and register of members will be closed from 20 July 2017 to 25 July 2017, both days inclusive, during which no share transfers can be registered. In order to qualify for attending and voting at the meeting, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 19 July 2017.

As at the date of this notice, the executive Directors are Mr. NG Tak Kwan, Mr. LEUNG Kai Ming, Mr. XIE Jianyu, Mr. NG Chi Hang and Mr. PONG Kam Keung; the non-executive Director is Mr. LIU Zaiwang; and the independent non-executive Directors are Mr. TAM Anthony Chun Hung, Mr. HUANG Pu and Mr. LI Zheng.