THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Hailan Holdings Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hailan Holdings Limited
海藍控股有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 2278)

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE FORMATION OF JOINT VENTURE AND ACQUISITION AGREEMENTS OF LAND USE RIGHTS

A letter from the Board is set out on pages 5 to 18 of this circular.

26 May 2021

CONTENTS

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

"Accountants' Report of the JV Company"	the accountants' report as set out in Appendix II to this circular
"Accountants' Report of the Target Company"	the accountants' report as set out in Appendix III to this circular
"Acquisition Agreements"	the First Acquisition Agreement, the Second Acquisition Agreement (as amended by the Supplemental Agreement) and the Third Acquisition Agreement
"Acquisitions"	the First Acquisition, the Second Acquisition and the Third Acquisition
"Articles"	the articles of association of the JV Company including any amendments thereto
"Board"	the board of Directors
"Company"	Hailan Holdings Limited (海藍控股有限公司), a company incorporated under the laws of the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2278)
"connected person(s)"	has the meaning ascribed under the Listing Rules
"Covid-19"	the novel coronavirus 2019
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Acquisitions
"First Acquisition"	the acquisition of 29.208% equity interest in the Target Company by the JV Company from Nanjing Sanlong Cement
"First Acquisition Agreement"	the agreement dated 25 September 2020 entered into among Nanjing Sanlong Cement, the JV Company and Sanya Zhongzekai in relation to the First Acquisition
"Group"	the Company and its subsidiaries

"Guangdong Jinzhong Hongpeng" or the "JV Company"	廣東金鐘鴻鵬置業有限公司(Guangdong Jinzhong Hongpeng Zhiye Co., Ltd.*), the joint venture company established in the PRC with limited liability on 22 August 2020 which is owned as to 72.61% by Hailan Shiye Guangzhou, an indirect non-wholly owned subsidiary of the Company, and as to 27.39% by Hengnan Wanwu immediately after completion of the Third Acquisition
"Hailan Jinzhong"	廣西海藍金鐘置業有限公司(Guangxi Hailan Jinzhong Properties Co., Ltd.*), a company established in the PRC with limited liability and is indirectly owned as to 51% by the Company
"Hailan Shiye Guangzhou" or "Purchaser"	海藍實業(廣州)有限公司 (Hailan Shiye (Guangzhou) Co., Ltd.*) a company established under the PRC law and a non-wholly owned subsidiary of the Company
"Hengnan Wanwu"	衡南萬物企業管理有限公司 (Hengnan Wanwu Enterprise Management Co., Ltd.*), a company established in the PRC with limited liability
"HKFRSs"	Hong Kong Financial Reporting Standards
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	a party independent of and not connected with the Company and its connected person(s)
"JV Agreement"	the joint venture agreement dated 25 September 2020 entered into between Hailan Shiye Guangzhou, Zhongtou Zhiye and Hengnan Wanwu relating to the terms between the shareholders of the JV Company
"JV Company"	Guangdong Jinzhong Hongpeng
"Latest Practicable Date"	26 May 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Nanjing Sanlong Cement"	南京三龍水泥有限責任公司 (Nanjing Sanlong Cement Co., Ltd.*), a company established under the PRC law

"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Purchaser"	Hailan Shiye Guangzhou
"Relevant Transactions"	the formation of the JV Company, the JV Agreement, the First Acquisition Agreement, the Second Acquisition and the Third Acquisition
"RMB"	Renminbi, the lawful currency of the PRC
"Sanya Zhongzekai"	三亞中澤凱實業有限公司 (Sanya Zhongzekai Shiye Co., Ltd.*), an indirect wholly-owned subsidiary of the Company through Zhong Ze (Hong Kong) Investment Limited (中澤(香港)投資有限公司)
"Second Acquisition"	the acquisition of 9.7% of equity interest in the Target Company by the Purchaser from Nanjing Sanlong Cement
"Second Acquisition Agreement"	the agreement dated 5 November 2020 entered into among Nanjing Sanlong Cement, the Purchaser, Sanya Zhongzekai and the JV Company in relation to the Second Acquisition
"Share(s)"	the share(s) of the Company
"Shareholder(s)"	holder(s) of the Shares
"sq.m."	square metre(s)
"Supplemental Agreement"	the supplemental agreement to the Second Acquisition Agreement entered into between Nanjing Sanlong Cement, Hailan Shiye Guangzhou, Sanya Zhongzekai and the JV Company on 1 December 2020
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	儋州雙聯房地產開發有限公司 (Danzhou Shuanglian Real Estate Development Co., Ltd.*) which is owned as to 9.7% by the Purchaser, 1.092% by Nanjing Sanlong Cement, 29.208% by the JV Company and 60% by Sanya Zhongzekai immediately after completion of the Second Acquisition Agreement
"Third Acquisition"	the acquisition of 34.24% of equity interest in the JV Company by the Purchaser from Zhongtou Zhiye

"Third Acquisition Agreement"	the agreement dated 5 November 2020 entered into among the Purchaser and Zhongtou Zhiye in relation to the Third Acquisition
"Valuation Report"	the valuation report prepared by the Valuer
"Valuer"	International Valuation Limited, an independent property valuer
"Zhongtou Zhiye"	中投置業(廣州)有限公司 (Zhongtou Zhiye (Guangzhou) Co., Ltd.*), a company established in the PRC with limited liability, a connected person of the Company at the subsidiary level and one of the shareholders of the JV Company
"%"	per cent

* *For identification purposes only*

Hailan Holdings Limited
海藍控股有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 2278)

Executive Directors:
Ms. Zhou Li *(Chairman)*
Mr. Chen Xiang
Ms. Fan Wenyi

Independent non-executive Directors:
Mr. Li Yong
Dr. Zhao Guoqing
Mr. Deng Shaochao

Registered office:
Windward 3, Regatta Office Park
PO Box 1350
Grand Cayman KY-1108
Cayman Islands

Head office and principal place of business in the PRC:
2/F, No. 1 Building Hampton by Hilton
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Room 1603, 16/F,
China Building,
29 Queen's Road Central
Central, Hong Kong

26 May 2021

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE FORMATION OF JOINT VENTURE AND ACQUISITION AGREEMENTS OF LAND USE RIGHTS

INTRODUCTION

References are made to the announcements of the Company dated 25 September 2020, 5 November 2020 and 1 December 2020 in relation to the formation of the JV Company, the JV Agreement and the Acquisitions under the Acquisition Agreements.

THE FORMATION OF THE JV COMPANY

On 22 August 2020, Hailan Shiye Guangzhou (an indirect non-wholly owned subsidiary of the Company), Zhongtou Zhiye and Hengnan Wanwu entered into the Articles, pursuant to which the parties agreed to establish the JV Company for the purpose of engaging in, among others, real estate development. The JV Company was owned as to 38.37% by Hailan Shiye Guangzhou, 34.24% by Zhongtou Zhiye and 27.39% by Hengnan Wanwu immediately prior to the completion of the Third Acquisition. The principal terms of the Articles are as follows:

The Articles

Date:	22 August 2020
Parties:	(i) Hailan Shiye Guangzhou; (ii) Zhongtou Zhiye; and (iii) Hengnan Wanwu.
Scope of business of the JV Company:	real estate development, real estate agency services, leasing of real estate properties, investment and asset management in the real estate industry, and renovation and regulate their respective rights and obligations in the JV Company
Capital contribution (as amended on 31 March 2021):	The registered capital of the JV Company shall be RMB30 million which shall be contributed by the parties in cash in the following proportion: (i) RMB11.511 million, representing 38.37% of the registered capital of the JV Company, to be contributed by Hailan Shiye Guangzhou; (ii) RMB10.272 million, representing 34.24% of the registered capital of the JV Company, to be contributed by Zhongtou Zhiye; and (iii) RMB8.217 million, representing 27.39% of the registered capital of the JV Company, to be contributed by Hengnan Wanwu. Such amounts will be contributed in cash by 31 December 2050.

Restriction on transfer and pre-emptive rights:	If the transfer of equity interest is to a party who is not an existing shareholder, the transfer is subject to the approval of more than half of the other shareholders. If the other shareholders do not reply within 30 days after receiving the notice on intention to transfer to a party who is not an existing shareholder, the other shareholders would be deemed to agree to such transfer. If the transfer has been agreed by more than half of the other shareholders, the other shareholders would have pre-emptive rights to purchase the shares being transferred.
Board of directors:	Although the JV Agreement stipulates that the board of directors of the JV Company shall consist of three directors, the current Articles stipulate that the JV Company shall have one director. Upon completion of the Third Acquisition, Zhongtou Zhiye no longer has the rights to appoint one director to the board of the JV Company. Upon adjustment to the rights of Hailan Shiye Guangzhou and Hengnan Wanwu under the JV Agreement, Hailan Shiye Guangzhou would have the rights to appoint one additional director and Hengnan Wanwu would still have the rights to appoint one director. As at the Latest Practicable Date, only one director of the JV Company was appointed by Hailan Shiye Guangzhou.
Board of supervisors:	One supervisor

THE JV AGREEMENT

On 25 September 2020, Hailan Shiye Guangzhou, Zhongtou Zhiye and Hengnan Wanwu entered into the JV Agreement, pursuant to which the parties thereto agreed to the terms which govern the relationships between the shareholders of the JV Company. The principal terms of the JV Agreement are as follows:

Date:	25 September 2020
Parties:	(i) Hailan Shiye Guangzhou; (ii) Zhongtou Zhiye; and (iii) Hengnan Wanwu.
Capital contribution:	The registered capital of the JV Company shall be RMB30 million which shall be contributed by the parties in cash in the following proportion: (i) RMB11.511 million, representing 38.37% of the registered capital of the JV Company, to be contributed by Hailan Shiye Guangzhou;

(ii) RMB10.272 million, representing 34.24% of the registered capital of the JV Company, to be contributed by Zhongtou Zhiye; and

(iii) RMB8.217 million, representing 27.39% of the registered capital of the JV Company, to be contributed by Hengnan Wanwu.

The parties agree that the initial contribution of RMB5 million will be paid within 30 days of the signing of the JV Agreement in accordance with the following proportion:

(i) RMB1.9185 million to be contributed by Hailan Shiye Guangzhou;

(ii) RMB1.7120 million to be contributed by Zhongtou Zhiye; and

(iii) RMB1.3695 million to be contributed by Hengnan Wanwu.

The parties agree that the second contribution of RMB5 million will be paid within one year of the settlement of the initial contribution in accordance with the following proportion:

(i) RMB1.9185 million to be contributed by Hailan Shiye Guangzhou;

(ii) RMB1.7120 million to be contributed by Zhongtou Zhiye; and

(iii) RMB1.3695 million to be contributed by Hengnan Wanwu.

The remaining registered capital shall be contributed by the parties within 5 years of entering into the JV Agreement.

As for the First Acquisition, the parties agree that they will contribute the first payment of the consideration in the amount of RMB195.215 million to the joint account within five days of the execution of the First Acquisition Agreement. The parties agree that the second payment of the consideration of RMB190 million will be contributed by way of a loan in accordance with the terms of the First Acquisition Agreement.

Board of directors: The board of directors of the JV Company shall comprise three directors. Each shareholder of the JV Company is entitled to nominate one director.

Except for certain resolutions as stated in the Articles, board resolutions will typically require at least two thirds of the directors for approval.

THE FIRST ACQUISITION AGREEMENT

On 25 September 2020, the JV Company as the purchaser, Nanjing Sanlong Cement and Sanya Zhongzekai (an indirect wholly-owned subsidiary of the Company) entered into the First Acquisition Agreement.

Date

25 September 2020

Parties

(1) Nanjing Sanlong Cement as the vendor;

(2) the JV Company as the purchaser; and

(3) Sanya Zhongzekai.

First Acquisition of the equity interest in the Target Company

Under the First Acquisition Agreement, the JV Company will acquire 29.208% of the equity interest in the Target Company for a consideration of RMB385,215,000. Upon completion, the Target Company is owned as to 29.208% by the JV Company, as to 10.792% by Nanjing Sanlong Cement and as to 60% by Sanya Zhongzekai.

Consideration

The consideration for 29.208% of the equity interest in the Target Company will be RMB385,215,000 which will be paid in the following manner:

(i) the first payment of the consideration in the amount of RMB195.215 million will be paid by the JV Company to the joint account of Nanjing Sanlong Cement and the JV Company within five days of the execution of the First Acquisition Agreement; and

(ii) the second payment of the consideration in the amount of RMB190 million will be paid by way of a loan to be borrowed by the JV Company from Nanjing Sanlong Cement at the interest rate of 8% per annum for a term of one year and six months in accordance with the terms of the loan agreement to be entered into between Nanjing Sanlong Cement and the JV Company.

The JV Company has agreed to provide 15% of the equity interest to be acquired as security for Nanjing Sanlong Cement. The JV Company will also pay for any tax as a result of the First Acquisition.

Completion

The completion of the First Acquisition took place on 25 September 2020.

Basis of determination of the consideration

The consideration is calculated based on the size of the parcel of land owned by the Target Company not yet developed which is then multiplied by the price of the land at RMB2.2 million per mu and 29.208% of the equity interest in the Target Company. As at the date of the First Acquisition Agreement, the size of land not yet developed and owned by the Target Company is approximately 599.4855 mu.

The consideration was determined and arrived at after arm's length negotiation between the JV Company and Nanjing Sanlong Cement, having taken into account the offer prices of comparable properties in nearby locations. The proportion of the consideration to be contributed by the Group to the JV Company will be settled in cash and fully funded by the internal resources of the Group.

THE SECOND ACQUISITION AGREEMENT AS AMENDED BY THE SUPPLEMENTAL AGREEMENT

On 5 November 2020 and 1 December 2020, the Purchaser (an indirect non-wholly owned subsidiary of the Company), Nanjing Sanlong Cement, Sanya Zhongzekai (an indirect wholly-owned subsidiary of the Company) and the JV Company entered into the Second Acquisition Agreement and the Supplemental Agreement, respectively.

The principal terms of the Second Acquisition Agreement (as amended by the Supplemental Agreement) are set out as follows:

Date: 5 November 2020 (as amended on 1 December 2020)

Parties:
(1) Nanjing Sanlong Cement as the vendor;

(2) Hailan Shiye Guangzhou as the Purchaser;

(3) Sanya Zhongzekai; and

(4) the JV Company.

Second Acquisition in relation to the equity interest in the Target Company

Pursuant to the Second Acquisition Agreement (as amended by the Supplemental Agreement), the Purchaser will acquire 9.7% of the equity interest in the Target Company for a consideration of RMB105,410,000. Upon completion, the equity interest of the Target Company is owned as to 9.7% by the Purchaser, 1.092% by Nanjing Sanlong Cement, 29.208% by the JV Company and 60% by Sanya Zhongzekai.

Consideration

The consideration for 9.7% of the equity interest in the Target Company will be RMB105,410,000 (as amended by the Supplemental Agreement), which will be paid by the Purchaser to Nanjing Sanlong Cement within five working days of the execution of the Second Acquisition Agreement.

Basis of determination of the consideration

The consideration is calculated based on the size of the land owned by the Target Company not yet developed which is then multiplied by the price of the land at approximately RMB2.2 million per mu and 9.7% of the equity interest in the Target Company, as well as a discount for selling a smaller stake in the Target Company. Due to the delay in completion of the relevant industrial and commercial registration of the transfer of 9.7% equity interest in the Target Company to Hailan Shiye Guangzhou, and the related transaction taxes required to be paid by Hailan Shiye Guangzhou, Nanjing Sanlong Cement agreed to reduce the consideration for the Second Acquisition from RMB116,300,000 to RMB105,410,000. As at the date of the Second Acquisition Agreement, the size of land not yet developed and owned by the Target Company was approximately 599.4855 mu.

The consideration was determined and arrived at after arm's length negotiation between Nanjing Sanlong Cement and Hailan Shiye Guangzhou, having taken into account the offer prices of comparable properties in nearby locations. The proportion of the consideration to be contributed by the Group to Hailan Shiye Guangzhou will be settled in cash and be fully funded by the internal resources of the Group.

Completion

The completion of the Second Acquisition took place on 20 November 2020.

THE THIRD ACQUISITION AGREEMENT

On 5 November 2020, the Purchaser and Zhongtou Zhiye entered into the Third Acquisition Agreement.

The principal terms of the Third Acquisition Agreement are set out as follows:

Date: 5 November 2020

Parties: (1) Zhongtou Zhiye as the vendor; and

(2) Hailan Shiye Guangzhou as the Purchaser.

Third Acquisition in relation to the equity interest in the JV Company

Pursuant to the Third Acquisition Agreement, the Purchaser will acquire 34.24% of the equity interest in the JV Company and a debt of RMB67,526,416 for a consideration of RMB75,526,416. Upon completion, the JV Company is owned as to 72.61% by the Purchaser and 27.39% by Hengnan Wanwu.

Consideration

The consideration for 34.24% of the equity interest in the JV Company and the debt of RMB67,526,416 will be RMB75,526,416, which will be paid by the Purchaser to Zhongtou Zhiye within five working days of the execution of the Third Acquisition Agreement.

Basis of determination of the consideration

The consideration is calculated based on the size of the land owned by the Target Company not yet developed which is then multiplied by the price of the land at approximately RMB2.2 million per mu, 29.208% of the equity interest in the Target Company and 34.24% of the equity interest in the JV Company as well as the amount already contributed by Zhongtou Zhiye. As at the date of the Third Acquisition Agreement, the size of land not yet developed and owned by the Target Company is approximately 599.4855 mu.

The consideration was determined and arrived at after arm's length negotiation between Zhongtou Zhiye and Hailan Shiye Guangzhou, having taken into account the offer prices of comparable properties in nearby locations. The proportion of the consideration to be contributed by the Group to Hailan Shiye Guangzhou will be settled in cash and fully funded by the internal resources of the Group.

Completion

The completion of the Third Acquisition took place on 5 November 2020.

INFORMATION ON THE TARGET COMPANY AND THE PROPERTY

The Target Company is a company established in the PRC with limited liability. The Target Company is principally engaged in property development, sales and rental of developed properties.

Immediately prior to the completion of the First Acquisition, the Target Company was owned as to 40% by Nanjing Sanlong Cement and as to 60% by Sanya Zhongzekai.

Immediately prior to the completion of the Second Acquisition, the Target Company was owned as to 29.208% by the JV Company, as to 10.792% by Nanjing Sanlong Cement and as to 60% by Sanya Zhongzekai.

Immediately after completion of the First Acquisition and the Second Acquisition, the equity interest of the Target Company is owned as to 9.7% by the Purchaser, as to 1.092% by Nanjing Sanlong Cement, as to 29.208% by the JV Company and as to 60% by Sanya Zhongzekai.

On 20 November 2020, Nanjing Sanlong Cement transferred its 1.092% equity interest in the Target Company to Ms. Zhao Xia (趙霞女士) who is an Independent Third Party.

Upon completion of the Acquisitions (i.e. the First Acquisition, the Second Acquisition and the Third Acquisition), the Group's effective interest in the Target Company is increased by 20.09% to 80.09%.

The main asset held by the Target Company are the land use rights in relation to the parcel of land situated at Danzhou in Hainan Province, the PRC. According to the Valuation Report prepared by the Valuer, which is set out in Appendix VI to this circular, the market value of the land use rights as at 31 December 2020 was approximately RMB1.32 billion. The Company's PRC legal adviser which provides legal opinion on the legal title to the property is Hainan Bangwei Law Firm (海南邦威律師事務所).

Set out below is the audited financial information of the Target Company for the year ended 31 December 2019 and 31 December 2020 as extracted from the accountants' report of the Target Company set out in Appendix III to this circular:

	For the year ended 31 December	
	2019	**2020**
	(RMB'000)	*(RMB'000)*
Loss before taxation and extraordinary items	9,479	6,600
Loss after taxation and extraordinary items	7,127	5,230

Note: The values between loss before/after taxation and extraordinary items of the Target Company for the two years ended 31 December 2020 as disclosed in the announcement of the Company dated 5 November 2020 (the "**Second Announcement**") and the ones in this circular are different because the values provided in the Second Announcement were prepared in accordance with PRC accounting standard by auditors qualified in the PRC whilst loss before/after taxation and extraordinary items as disclosed in this circular were provided by the reporting accountants of the Company and in accordance with HKFRSs. As the accounts of the Target Company are being consolidated into the Company's accounts, the values provided by the PRC accountants are obsolete and the values provided by the reporting accountants of the Company on the other hand are consistent with the audited accounts of the Company for the two years ended 31 December 2020.

The audited net asset value of the Target Company as at 31 December 2020, as extracted from the accountants' report set out in Appendix III, is approximately RMB282,726,000.

The audited total asset value and the audited total liabilities of the Target Company as at 31 December 2020, as extracted from the accountants' report set out in Appendix III, is approximately RMB1,145,490,000 and RMB862,764,000, respectively.

Upon completion of the Acquisitions, the Target Company has remained to be an indirect non-wholly owned subsidiary of the Company, its financial results will continue to be consolidated in the accounts of the Company.

INFORMATION ON THE JV COMPANY

Guangdong Jinzhong Hongpeng is a company established in the PRC with limited liability on 22 August 2020. Immediately prior to the completion of the Third Acquisition, it is owned as to 38.37% by Hailan Shiye Guangzhou, an indirect non-wholly owned subsidiary of the Company, as to 34.24% by Zhongtou Zhiye and as to 27.39% by Hengnan Wanwu. It is principally engaged in real estate development, real estate agency services, leasing of real estate properties, investment and asset management in the real estate industry, and renovation and regulate their respective rights and obligations in the JV Company.

Upon completion of the First Acquisition and the Second Acquisition, the main asset held by the JV Company is 29.208% of the equity interest of the Target Company.

Upon completion of the Third Acquisition, the JV Company is owned as to 72.61% by the Purchaser and 27.39% by Hengnan Wanwu.

Set out below is the audited financial information of the JV Company for the period from 22 August 2020 (date of incorporation) to 31 December 2020 as extracted from the accountants' report of the JV Company set out in Appendix II to this circular:

	For the period from date of incorporation to 31 December 2020 *(RMB'000)*
Loss before taxation and extraordinary items	6,459
Loss after taxation and extraordinary items	6,459

The audited net liabilities of the JV Company as at 31 December 2020, as extracted from the accountants' report of the JV Company set out in Appendix II, is approximately RMB6,459,000.

The audited total asset value and the audited total liabilities of the JV Company as at 31 December 2020, as extracted from the accountants' report set out in Appendix II, is approximately RMB386,118,000 and RMB392,577,000, respectively.

As the JV Company is a substantial shareholder of the Target Company, a non-wholly owned subsidiary of the Company, and that Zhongtou Zhiye controls more than 30% of the voting interest in the JV Company, the JV Company is a connected person at the subsidiary level of the Company.

Upon completion of the Third Acquisition, the JV Company has become an indirect non-wholly owned subsidiary of the Company, its financial results will be consolidated into the accounts of the Company.

INFORMATION ON THE PARTIES TO THE ACQUISITION AGREEMENTS

Information on the Group

The Group is principally engaged in investment holding, properties development and sales and rental of developed properties.

Information on Hailan Shiye Guangzhou, the Purchaser

Hailan Shiye Guangzhou is an indirect non-wholly owned subsidiary of the Company. It is principally engaged in leasing of properties, real estate development and real estate agency services. Its equity interest is owned as to 65% by Hailan Haoyue Holdings (Shenzhen) Co., Ltd.* (海藍浩越控股(深圳)有限公司) ("**Hailan Haoyue**") and as to 35% by Guangdong Henghong Zhiye Co., Ltd.* (廣東恒鴻置業有限公司) ("**Guangdong Henghong**"). Hailan Haoyue is an indirect wholly-owned subsidiary of the Company. Guangdong Henghong's ultimate beneficial owners include Mr. Zhou Yongwu (周永武先生) and Mr. Zhou Xiaojun (周小俊先生).

Information on Nanjing Sanlong Cement

Nanjing Sanlong Cement, is company established in the PRC with limited liability and is owned as to 24.88% by Mr. Jia Zhaosheng (賈兆生先生) and 19 other individuals each holding less than 5% of equity interest in Nanjing Sanlong Cement. The other 19 individuals includes Mr. Zhou Tingping (周庭平先生), Mr. Shi Xiuquan (時修權先生), Mr. Liu Youlong (劉又龍先生), Mr. Chen Xueqing (陳學清先生), Mr. Liu Xiaojun (劉曉俊先生), Mr. Yang Dahai (楊達海先生), Mr. Zhang Ronggen (章榮根先生), Mr. Cui Yongfei (崔永飛先生), Mr. Ren Duanshun (任端順先生), Mr. Xu Jian (徐建先生), Mr. Li Xiaofei (李小飛先生), Ms. Zhao Xia (趙霞女士), Mr. Li Xuewen (李學文先生), Mr. Liu Hongxing (劉洪星先生), Mr. Wang Shengwei (王生偉先生), Mr. Yang Damin (楊達民先生), Mr. Wu Qihong (巫其洪先生), Mr. Yang Xianghe (楊祥和先生) and Mr. Gan Chengyong (甘成勇先生).

It is principally engaged in the sales of cement. As Nanjing Sanlong Cement is a substantial shareholder of the Target Company immediately prior to the Second Acquisition, and the Target Company is an indirect non-wholly owned subsidiary of the Company, Nanjing Sanlong Cement is a connected person of the Company at the subsidiary level.

Information on Sanya Zhongzekai

Sanya Zhongzekai is a company established in the PRC with limited liability. It is principally engaged in leasing of real estate properties, real estate development and real estate agency services. It is an indirect wholly-owned subsidiary of the Company through Zhong Ze (Hong Kong) Investment Limited (中澤(香港)投資有限公司) and Hailan Construction Holding (Nanjing) Company Limited (海藍建設控股(南京)有限公司).

Information on Zhongtou Zhiye

Zhongtou Zhiye is a company established in the PRC with limited liability and is owned as to 90% by Hunan Jinzhong Zhiye Investment Group Co., Ltd. (湖南金鐘置業投資集團有限公司) and 10% by Guangdong Henghong Zhiye Co., Ltd. (廣東恒鴻置業有限公司). It is principally engaged in property development, real estate agency and real estate consulting. It's ultimate beneficial owners include Mr. Zhong Shunyong (鐘訓勇先生), Mr. Yang Shunqiang (楊順強先生), Mr. Zhou Yongwu (周永武先生) and Mr. Zhou Xiaojun (周小俊先生). It is a substantial shareholder of Hailan Jinzhong, an indirect non-wholly owned subsidiary of the Company. Zhongtou Zhiye is a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules.

Information on Hengnan Wanwu

Hengnan Wanwu is a company established in the PRC with limited liability and is owned as to 50% by Mr. He Haiying (何海英先生) and 50% by Mr. Yang Guisheng (陽桂生先生). It is principally engaged in business consulting, financial consulting, management consulting, and investments in engineering and construction projects. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Hengnan Wanwu, and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected person(s).

FINANCIAL EFFECTS OF THE ACQUISITIONS

Earnings

Upon completion of the Acquisitions, the Target Company will continue to be and the JV Company will become an indirect non-wholly owned subsidiary of the Company and the Target Company's financial results will continue to be consolidated in the accounts of the Company and the JV Company's financial results will be consolidated in the accounts of the Company.

The Target Company and the JV Company will contribute operating income to the Group, and therefore enhance the revenue stream and broaden the earnings base of the Group going forward.

Assets and liabilities

Immediately after completion of the Acquisitions, the total liabilities of the Group are expected to increase by RMB190 million in relation to third party borrowing for the purpose of acquisition and RMB54.0 million in relation to amount due to Hengnan Wanwu by the JV Company and the total assets and the total equity of the Group will decrease by approximately RMB300 million in relation to the amount of cash paid for acquiring the non-controlling interests of the Target Company and the JV Company at market value which is accounted for in the reserves. For further details on the financial effects of the Acquisitions, please refer to the section entitled "2. Indebtedness Statement — Bank and Other borrowings" as set out in Appendix I and the accountants' report of the JV Company as set out in Appendix II to this circular.

REASONS FOR THE FORMATION OF JV COMPANY AND ACQUISITIONS UNDER THE ACQUISITION AGREEMENTS

The purpose of the formation of the JV Company under the Articles, the JV Agreement and the Acquisitions under the Acquisition Agreements are to engage in, among others, real estate development, which will be beneficial to the Company to benefit from the increased investment in the Target Company. For the Third Acquisition, after the JV Company was established, Zhongtou Zhiye reprioritized its investments and its management decided to dispose of its stake in the JV Company as it already has interest in similar projects. The Company believes that the transactions under the Articles, the JV Agreement and the Acquisition Agreements will allow the Group to benefit from the land use rights of the Target Company in the Hainan Province.

In addition, due to the favourable tax policy in Hainan Province and the prime location of the land being developed by the Target Company as the site being developed is located in close proximity to the shoreline, the Company expects that the residential properties after development will increase the value of the properties in the surrounding area of the development site which will further increase the revenue and profits for the Company.

The terms of the Articles, the JV Agreement and the Acquisition Agreements were negotiated on an arm's length basis between the parties to the Acquisition Agreements. The Company believes that the transactions contemplated under the Articles, the JV Agreement and the Acquisition Agreements are beneficial to the Company and the Shareholders as a whole.

The Directors, including the independent non-executive Directors, having considered the terms and conditions of the Articles, the JV Agreement and the Acquisition Agreements, are of the view that the terms and conditions are fair and reasonable, the transactions are on normal commercial terms or better, and in the interests of the Company and the Shareholders as a whole, and would recommend the Shareholders to vote in favour of the resolution to approve the Relevant Transactions if the Company were to convene an extraordinary general meeting to approve the Relevant Transactions.

IMPLICATIONS UNDER THE LISTING RULES

As the highest of all the relevant percentage ratios for the transactions contemplated under the formation of the JV Company, the JV Agreement and the Acquisition Agreements when aggregated together is more than 25% but less than 100%, the Relevant Transactions constitute major transactions for the Company under Chapter 14 of Listing Rules and are subject to the announcement, reporting and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As Nanjing Sanlong Cement and the JV Company are connected persons of the Company at the subsidiary level, the Second Acquisition is a connected transaction. As Zhongtou Zhiye and the JV Company are connected persons of the Company at the subsidiary level, the formation of the JV Company, the JV Agreement, the First Acquisition and the Third Acquisition are also connected transactions.

Furthermore, the Board has approved the Relevant Transactions and the Directors (including the independent non-executive Directors) are of the view that the terms of the Relevant Transactions are fair and reasonable and the Relevant Transactions are on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. No Director has a material interest in the formation of the JV Company and the Acquisition Agreements which require any of them to abstain from voting on the Board resolutions in relation to the formation of the JV company and the Acquisition Agreements and the transactions contemplated thereunder. Therefore, pursuant to Rule 14A.101 of the Listing Rules, the Relevant Transactions are exempt from the circular, independent financial advice and shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company has obtained written approval for the Relevant Transactions in accordance with Rule 14.44 of the Listing Rules from Zhong Jia (International) Investment Construction Company Limited, which is beneficially interested in 224,325,000 shares of the Company, representing 74.78% of the entire issued share capital of the Company as at the date of this announcement. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has any material interest in the Relevant Transactions and is required to abstain from voting if the Company is to convene an extraordinary general meeting for the approval of the Relevant Transactions. As such, no extraordinary general meeting will be convened for the purpose of approving the Relevant Transactions.

Pursuant to Rule 14.41(a) of the Listing Rules, this circular is required to be despatched to the Shareholders within 15 Business Days after the publication of this announcement. As disclosed in the announcement of the Company dated 1 April 2021, the Stock Exchange granted a waiver from strict compliance with Rule 14.41(a) of the Listing Rules on the condition that this circular would be despatched to the Shareholders on or before 28 May 2021.

GENERAL

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

By Order of the Board
Hailan Holdings Limited
Zhou Li
Chairperson

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three years ended 31 December 2018, 2019 and 2020 are disclosed in the following annual reports of the Company for the years ended 31 December 2018, 2019 and 2020 respectively, which have been published and available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.hailanholdings.com):

— The annual report 2018 of the Company for the year ended 31 December 2018 which was published on 8 October 2019 (available at: https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1008/ltn20191008785.pdf), please refer to pages 129 to 283 in particular.

— The annual report 2019 of the Company for the year ended 31 December 2019 which was published on 27 April 2020 (available at: https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042702971.pdf), please refer to pages 110 to 235 in particular.

— The annual report 2020 of the Company for the year ended 31 December 2020 which was published on 27 April 2021 (available at: https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042702098.pdf), please refer to pages 107 to 239 in particular.

The said financial statements are hereby incorporated by reference in, and form an integral part of, this circular.

2. INDEBTEDNESS STATEMENT

Bank and other borrowings

As at the close of business on 31 March 2021, being the latest practicable date for the purpose of preparing this indebtedness statement, the Enlarged Group had outstanding bank and other borrowings of approximately RMB1,868.0 million, details of which are set out as follows:

	RMB'000
Bank borrowings:	
Secured and with guarantee	1,068,660
Other borrowings:	
Third party — Secured and without guarantee	190,000
Third parties and related parties — Unsecured and without guarantee	609,375
	799,375
Total bank and other borrowings	1,868,035

All the bank borrowings were interest bearing and were secured by properties under development, completed properties held for sale, a property project and a deposit, and also guaranteed by subsidiaries of the Company, an intermediate holding company of a non-controlling shareholder, a non-controlling shareholder, directors of the subsidiaries of the Company and an ultimate controlling shareholder.

All the other borrowings were interest bearing. The secured other borrowings were secured by certain equity interest in a subsidiary of the Company.

Interest payables on bank and other borrowings

As at the close of business on 31 March 2021, the Enlarged Group had interest payables on the bank and other borrowings of approximately RMB9.3 million.

Amounts due to related parties

As at the close of business on 31 March 2021, the Enlarged Group had outstanding amounts due to related parties of approximately RMB320.5 million, which are unsecured and unguaranteed.

Amounts due to non-controlling shareholders

As at the close of business on 31 March 2021, the Enlarged Group had outstanding amounts due to non-controlling shareholders of approximately RMB262.6 million, which are unsecured and unguaranteed.

Amount due to a former non-controlling shareholder

As at the close of business on 31 March 2021, the Enlarged Group had outstanding amount due to a former non-controlling shareholder of approximately RMB53.4 million, which is unsecured and unguaranteed.

Consideration payables for acquisition of a subsidiary

As at the close of business on 31 March 2021, the Enlarged Group had consideration payables of approximately RMB56.9 million and respective interest payables of approximately RMB1.0 million, which are unsecured and unguaranteed.

Lease liabilities

The Group measures the lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates. At the close of business on 31 March 2021, the Enlarged Group had current lease liabilities amounting to approximately RMB796,000.

Commitment

As at the close of business on 31 March 2021, the Enlarged Group had the capital commitment contracted but not provided for in the consolidated financial statements in respect of properties under development of approximately RMB1,692.6 million.

Contingent liabilities

The Enlarged Group provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Enlarged Group's properties. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Enlarged Group is responsible to repay the outstanding mortgage loans together with any accrued interest and penalties owed by the defaulted purchasers to the banks. The Enlarged Group's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the bank receiving the required evidence of mortgage over the relevant property in favour of the bank and the full settlement of mortgage loans by the buyers. The Enlarged Group can take over the ownerships of the related properties and sell the properties to recover any amounts paid by the Enlarged Group to the bank upon default on mortgage repayments by purchasers.

As at 31 March 2021, the maximum amount of guarantees given to banks for mortgage facilities granted to the purchasers of the Enlarged Group's properties were approximately RMB923.2 million.

The Group may be involved in lawsuits and other proceedings in its ordinary course of business from time to time. The Group believes that no liabilities resulting from these proceedings will have a material and adverse effect on our business, financial condition or operating results. Save as disclosed in this circular, the Group had no other material contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities within the Group, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade and other payables and contract liabilities) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities at the close of business on 31 March 2021.

3. 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 or outlook of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL

The Directors, after due and careful consideration are of the opinion that, taking into account the financial resources available to the Enlarged Group including the internally generated funds, the present available bank facilities and the impact of the Relevant Transactions, the Enlarged Group will have sufficient working capital for its requirements at least twelve (12) months from the date of publication of this circular.

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In the first half of 2020, despite the overall economy in the PRC was hindered by the Covid-19 pandemic, with the PRC Government's rapid response to the pandemic, in respect of the monetary environment, the relatively sufficient money supply provided more favourable monetary support for economic development due to thrice-lowered reserve requirement ratio

(RRR) by the People's Bank of China as well as the reduced pressure on different markets and enterprises as a result of twice-lowered mortgage interest rate. In respect of policy trends, the overall real estate market regulation policy would provide continuity and stability. At the end of the year, the position of the PRC Government's policy of "housing properties for accommodation, not speculation" (房住不炒) was clearly emphasised during the conference of the Ministry of Housing and Urban-Rural Development, the Politburo's meeting and the Central Economic Work Conference. The Central People's Government would also pay more attention to preventing and resolving financial risks in the future, especially the "three red lines" (三道紅線) regarding the fund monitoring and financing management rules for real estate enterprises in August 2020, which is conducive to the healthy expansion of companies, such as the Group, whose interest-bearing debt threshold is in a safe range. In respect of regional development, in the second quarter of 2020, the effective control of Covid-19 in the PRC and the free trade policy and supportive policy implemented in Hainan Province, which were beneficial to the development of Hainan Province, resulted in a significant increase in the number of tourists visiting and a surge of sales volume of real estates in Hainan Province.

Looking ahead, the global economy will remain unstable under the Sino-US trade disputes. In 2020, however, China is expected to become the only economy that achieves positive growth among the world's major economies in 2020 with strong development momentum. In terms of national strategy, the Group will continue its development projects in Sanya and Danzhou, Hainan Province. By virtue of the premium climate and environment as well as the PRC Government's policies of the Hainan Island, which support development of local businesses, the Directors remain optimistic about the long-term development of real estate operations in Hainan Province. The Directors believe that the location of the Group's valued assets, excellent track record of property management and property construction execution in Hainan Province and the highly supportive industry development policies in Hainan Province will help sustain the Group's business growth and development in Hainan Province in the future.

The following is the text of a report received from the Company's reporting accountants, Mazars CPA Limited, Certified Public Accountants, for the purpose of incorporation in this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF GUANGDONG JINZHONG HONGPENG ZHIYE CO., LTD. TO THE DIRECTORS OF HAILAN HOLDINGS LIMITED

The Board of Directors
Hailan Holdings Limited

Introduction

We report on the historical financial information of 廣東金鐘鴻鵬置業有限公司 (Guangdong Jinzhong Hongpeng Zhiye Co., Ltd.*) (the "JV Company") set out on pages II-4 to II-26, which comprises the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 22 August 2020 (date of incorporation) to 31 December 2020 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages II-4 to II-26 forms an integral part of this report, which has been prepared for inclusion in the circular of Hailan Holdings Limited (the "Company") dated 26 May 2021 (the "Circular") in connection with the following transactions and acquisitions (collectively the "Relevant Transactions"):

(i) formation of the JV Company which is owned as to 38.37% (before the acquisition of 34.24% as mentioned below) by 海藍實業(廣州)有限公司 (Hailan Shiye (Guangzhou) Co., Ltd.*), a non-wholly owned subsidiary of the Company ("Hailan Shiye Guangzhou");

(ii) the acquisition of 29.208% equity interest in 儋州雙聯房地產開發有限公司 (Danzhou Shuanglian Real Estate Development Co., Ltd.*) (the "Target Company") by the JV Company from 南京三龍水泥有限公司 (Nanjing Sanlong Cement Co., Ltd.*) ("Nanjing Sanlong Cement");

(iii) the acquisition of 9.7% of equity interest in the Target Company by Hailan Shiye Guangzhou from Nanjing Sanlong Cement; and

(iv) the acquisition of 34.24% of equity interest in the JV Company by Hailan Shiye Guangzhou from 中投置業(廣州)有限公司 (Zhongtou Zhiye (Guangzhou) Co., Ltd.*).

* *For identification only*

Director's responsibility for the Historical Financial Information

The director of the JV Company (the "JV Director") is responsible for the preparation of the 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 JV Director determines is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depended on our 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, we considered internal control relevant to the JV Company's preparation of the 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 JV Company's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the JV Director, 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 JV Company's financial position as at 31 December 2020 and of the JV Company's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

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

Adjustments to the Underlying Financial Statements

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements (as defined below) have been made.

Dividends

No dividends have been paid nor declared by the JV Company in respect of the Track Record Period.

Preparation of audit of financial statements

The financial statements of the JV Company for the Track Record Period (the "Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the JV Director in accordance with the accounting policies that conform with Hong Kong Financial Reporting Standards issued by the HKICPA and were audited by Mazars CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

Subsequent financial statements

No audited financial statements of the JV Company have been prepared in respect of any period subsequent to 31 December 2020.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 26 May 2021

A. THE HISTORICAL FINANCIAL INFORMATION OF THE JV COMPANY

Preparation of the Historical Financial Information

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

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**Period from 22 August 2020 (date of incorporation) to 31 December 2020** *RMB'000*
Revenue	*6*	—
Other income	*7*	7
Share of results of an associate		(1,099)
Administrative expenses		(5)
Finance costs	*8*	(5,362)
Loss before taxation	*8*	(6,459)
Income tax expenses	*9*	—
Loss for the period		(6,459)
Other comprehensive income for the period		—
Total comprehensive loss for the period		(6,459)

STATEMENT OF FINANCIAL POSITION

	Notes	At 31 December 2020 *RMB'000*
Non-current asset		
Interest in an associate	*12*	384,116
Current assets		
Amount due from an associate	*13*	1,990
Bank balances		12
		2,002
Current liabilities		
Amount due to the immediate holding company	*13*	143,198
Amount due to a shareholder	*13*	54,017
Other payable		5,362
Other borrowings	*14*	95,000
		297,577
Net current liabilities		(295,575)
Total assets less current liabilities		88,541
Non-current liability		
Other borrowings	*14*	95,000
NET LIABILITIES		(6,459)
Capital and reserves		
Share capital	*15(b)*	—
Accumulated losses		(6,459)
CAPITAL DEFICIENCY		(6,459)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
	(Note 15(b))		
Loss and total comprehensive loss for the period	—	(6,459)	(6,459)
At 31 December 2020	—	(6,459)	(6,459)

STATEMENT OF CASH FLOWS

	Notes	Period from 22 August 2020 (date of incorporation) to 31 December 2020 *RMB'000*
Cash flows used in operating activities		
Loss before taxation		(6,459)
Share of results of an associate		1,099
Interest income		(7)
Interest on other borrowings		5,362
Net cash used in operating activities		(5)
Cash flows used in investing activities		
Interest received		7
Advance to an associate		(1,990)
Acquisition of interest in an associate		(195,215)
Net cash used in investing activities		(197,198)
Cash flows from financing activities		
Advance from the immediate holding company	*18*	143,198
Advance from a shareholder	*18*	54,017
Net cash from financing activities		197,215
Net increase in cash and cash equivalents and cash and cash equivalents at end of the period, represented by bank balances		12
Major of non-cash transaction		
Acquisition of interest in an associate through other borrowings		190,000

B. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE JV COMPANY

1. CORPORATE INFORMATION

Guangdong Jinzhong Hongpeng Zhiye Co., Ltd. (the ''JV Company'') was established as a limited liability company incorporated on 22 August 2020 in the People's Republic of China (the ''PRC''). In the opinion of the director of the JV Company (the ''JV Director''), the immediate holding company and ultimate holding company of the JV Company is Hailan Shiye (Guangzhou) Co., Ltd. and Zhong Jia (International) Investment Construction Company Limited, which are incorporated in the PRC and the British Virgin Islands respectively. The address of its registered office is located at Room 1819, Building 6, Jinse Lingyu Square, No. 1 Foping 3rd Road, Nanhai Qu, Foshan, the PRC.

The principal activity of the JV Company is investment holding.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (''HKFRSs''), which includes all HKFRSs, Hong Kong Accounting Standards (''HKASs'') and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the ''HKICPA''), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the ''Listing Rules'').

All HKFRSs effective for the accounting period commencing from the Track Record Period, together with the relevant transitional provisions, have been early adopted by the JV Company in the preparation of the Historical Financial Information throughout the Track Record Period.

A summary of the principal accounting policies adopted by the JV Company in the preparation of the Historical Financial Information is set out below.

Going concern

The Historical Financial Information has been prepared in conformity with the principles applicable to a going concern basis. At the end of the reporting period, the JV Company recorded net current liabilities and capital deficiency of RMB295,575,000 and RMB6,459,000 respectively. The applicability of these principles is dependent upon continued availability of adequate finance or attaining profitable operations in the future in view of the excess of current liabilities over current assets and capital deficiency. The intermediate holding company, Hailan

Holdings Limited, has confirmed in writing its intention to make available adequate funds to the JV Company as and when required to maintain the JV Company as a going concern.

Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is historical cost convention.

Associate

An associate is an entity over which the JV Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The JV Company's investment in an associate is accounted for under the equity method of accounting, except when the investment or a portion thereof is classified as held for sale. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the JV Company's share of the investee's net assets and any impairment loss relating to the investment. Except to the extent that the JV Company has incurred legal or constructive obligations or made payments on behalf of the investee, the JV Company discontinues recognising its share of further losses when the JV Company's share of losses of the investee equals or exceeds the carrying amount of its interest in the investee, which includes any long term interests that, in substance, form part of the JV Company's net investment in the investee.

Goodwill arising on an acquisition of an associate is measured as the excess of the cost of investment over the JV Company's share of the net fair value of the identifiable assets and liabilities of the acquired associates. Such goodwill is included in interest in an associate. On the other hand, any excess of the JV's share of its net fair value of identifiable assets and liabilities over the cost of investment is recognised immediately in profit or loss as an income.

Unrealised profits and losses resulting from transactions between the JV Company and its associate are eliminated to the extent of the JV Company's interest in the investees, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the JV Company becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the JV Company's contractual rights to future cash flows from the financial asset expire or (ii) the JV Company transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

Classification and measurement

Financial assets are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income; (iii) equity investment measured at fair value through other comprehensive income; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the JV Company's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the JV Company changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The JV Company's financial assets at amortised cost include bank balances and amount due from an associate.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the JV Company becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The JV Company's financial liabilities include amounts due to the immediate holding company and a shareholder, other payable and other borrowings. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets and other items under HKFRS 9

The JV Company recognises loss allowances for expected credit loss ("ECL") on financial assets that are measured at amortised cost issued to which the impairment requirements apply in accordance with HKFRS 9. Except for the specific treatments as detailed below, at each reporting date, the JV Company measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the JV Company measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

(i) past due information

(ii) nature of instrument

(iii) nature of collateral

(iv) industry of debtors

(v) geographical location of debtors

(vi) external credit risk ratings

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The JV Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the JV Company may not receive the outstanding contractual amounts in full if the financial instrument that meets any of the following criteria.

(i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the JV Company, in full (without taking into account any collaterals held by the JV Company); or

(ii) there is a breach of financial covenants by the counterparty.

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

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the JV Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the JV Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account in the assessment:

- the debtor's failure to make payments of principal or interest on the due dates;
- an actual or expected significant deterioration in the financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the JV Company.

Irrespective of the outcome of the above assessment, the JV Company presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, the JV Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(i) it has a low risk of default;

(ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Credit-impaired financial asset

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

(a) significant financial difficulty of the issuer or the borrower.

(b) a breach of contract, such as a default or past due event.

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The JV Company writes off a financial asset when the JV Company has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The JV Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the JV Company's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Cash equivalents

For the purpose of the statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the JV Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

Impairment of non-financial assets

At the end of each reporting period, the JV Company reviews internal and external sources of information to assess whether there is objective evidence of impairment or impairment reversal in its interest in an associate. If any such objective evidence exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less cost of disposal and value in use.

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. Impairment losses are recognised as an expense immediately.

Reversal of impairment loss is recognised as income in profit or loss immediately.

Segment reporting

Operating segments are identified from the financial information provided to the JV Company's chief operating decision-makers for the purpose of allocating resources to, and assessing the performance of, the JV Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Related parties

A related party is a person or entity that is related to the JV Company.

(a) A person or a close member of that person's family is related to the JV Company if that person:

    (i) has control or joint control over the JV Company;

    (ii) has significant influence over the JV Company; or

    (iii) is a member of the key management personnel of the JV Company or of the parent of the JV Company.

(b) An entity is related to the JV Company if any of the following conditions applies:

(i) The entity and the JV Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the JV Company or an entity related to the JV Company. If the JV Company is itself such a plan, the sponsoring employers are also related to the JV Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the JV Company or to the parent of the JV Company.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the JV Company's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Loss allowance for ECL

The JV Company's management estimates the loss allowance for amount due from an associate by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the JV Company's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of amount due from an associate. Details of the key assumption and inputs used in estimating ECL are set out in Note 17 to the Historical Financial Information.

Impairment on interest in an associate

The JV Company assesses annually if interest in an associate has suffered any impairment in accordance with HKAS 36 in determining whether is impaired. Details of the approach are stated in the accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of this entity would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

4. FUTURE CHANGES IN HKFRSs

At the date of authorisation of this report, the HKICPA has issued the following new/ revised HKFRSs that are not yet effective for the current period, which the JV Company has not early adopted.

Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform — Phase 2 [1]
Amendments to HKAS 16	Proceeds before Intended Use [2]
Amendments to HKAS 37	Cost of Fulfilling a Contract [2]
Amendments to HKFRS 3	Reference to the Conceptual Framework [2]

Annual Improvements to HKFRSs	2018–2020 Cycle [2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current [3]
Amendments to HKAS 1	Disclosure of Accounting Policies [3]
Amendments to HKAS 8	Definition of Accounting Estimates [3]
HKFRS 17	Insurance Contracts [3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [4]

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for annual periods beginning on or after 1 January 2022
[3] Effective for annual periods beginning on or after 1 January 2023
[4] The effective date to be determined

The JV Director does not anticipate that the adoption of these new/revised HKFRSs in future periods will have any material impact on the JV Company's results and financial position.

5. SEGMENT INFORMATION

No segmental information for the period from 22 August 2020 (date of incorporation) to 31 December 2020 is presented as the JV Company is engaged in investment holding.

6. REVENUE

The JV Company did not generate any revenue under HKFRS 15 during the Track Record Period.

7. OTHER INCOME

	Period from 22 August 2020 (date of incorporation) to 31 December 2020
	RMB'000
Interest income	7

8. LOSS BEFORE TAXATION

This is arrived at after charging:

	Period from 22 August 2020 (date of incorporation) to 31 December 2020
	RMB'000
Finance costs:	
Interest on other borrowings	5,362

9. INCOME TAX EXPENSES

The statutory PRC Corporate Income Tax ("CIT") for the JV Company is 25%. No CIT has been provided for the period from 22 August 2020 (date of incorporation) to 31 December 2020 as the JV Company had no assessable profits arising in or derived from the PRC for the Track Record Period.

Reconciliation of income tax expenses

	Period from 22 August 2020 (date of incorporation) to 31 December 2020
	RMB'000
Loss before taxation	(6,459)
Calculated at CIT rate of 25%	(1,615)
Tax effect of non-taxable income	(2)
Tax effect of non-deductible expenses	1,617
Income tax expenses	—

10. DIRECTOR'S REMUNERATION

The aggregate amounts of emoluments paid and payable to the JV Director for the Track Record Period are as follows:

Period from 22 August 2020 (date of incorporation) to 31 December 2020	Fee	Salaries, allowances and other benefits in kind	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Zhou Xiaojun (appointed on 22 August 2020)	—	—	—	—	—

During the Track Record Period, there was no arrangement under which the JV Director waived or agreed to waive any emolument. In addition, no remuneration was paid by the JV Company to JV Director as an inducement to join or upon joining the JV Company.

11. FIVE HIGHEST PAID INDIVIDUALS

There was no employee in the JV Company except the JV Director during the Track Record Period.

12. INTEREST IN AN ASSOCIATE

	2020
	RMB'000
Unlisted shares, at cost	385,215
Share of results	(1,099)
	384,116

Particulars of the associate at 31 December 2020 are as follows:

Name of company	Place of incorporation/ registration and business	Particulars of issued and paid up capital	Percentage of attributable equity interest directly held by the JV Company	Principal activity
Danzhou Shuanglian Real Estate Development Co., Ltd. ("Target Company")	The PRC	RMB412,500,000	29.208%	Property development

On 25 September 2020, the JV Company entered into an acquisition agreement (the "Acquisition Agreement") to acquire 29.208% equity interest in the Target Company for a consideration of RMB385,215,000. The Target Company is engaged in property development, sale and rental of developed properties which incorporated and conducts its business in the PRC.

The associate is accounted for using the equity method in the Historical Financial Information.

Relationship with the associate

The Target Company is principally engaged in properties development, sale and rental of developed properties in Hainan Province, the PRC. The investment in the associate allows the JV Company to benefit from the owning land use rights and other assets of the Target Company in Hainan Province.

Financial information of individually material associate

Summarised financial information of the material associate of the JV Company is set out below, which represents amounts shown in the Target Company's financial statements prepared in accordance with HKFRSs and adjusted by the JV Company for equity accounting purposes including any differences in accounting policies and fair value adjustments.

	RMB'000
At 31 December 2020	
Gross amount	
Non-current assets	91,515
Current assets	2,173,041
Current liabilities	(564,024)
Non-current liabilities	(563,013)
Net assets	1,137,519

	RMB'000
Reconciliation of summarised financial information	
Gross amount of net assets	1,137,519
Less: Gross amount of net assets of Phase I of the property project of the Target Company *(note)*	(71,018)
	1,066,501
JV Company's ownership interests	29.208%
The JV Company's share of equity of Target Company	311,503
Goodwill	72,613
Carrying amount of interests	384,116

	RMB'000
For the period from 25 September 2020 (date of acquisition) to 31 December 2020	
Gross amount	
Revenue	—
Loss from operations	(3,567)
Other comprehensive income	—
Total comprehensive loss for the period	(3,567)
Less: Total comprehensive income for the period attributable to the owner of Phase I of the property project of the Target Company *(note)*	(194)
Total comprehensive loss for the period	(3,761)
Share by JV Company	(1,099)

Note:

The property project of the Target Company is divided into Phase I and Phase II. At the time of the acquisition of Target Company, Phase I of the property project is an autonomous and operationally distinct business division under the direction of Nanjing Sanlong Cement while Phase II of the property project with an area of approximately 569 mu was a piece of undeveloped land. Based on the Acquisition Agreement, Nanjing Sanlong Cement continued to manage and undertake fully the risk and reward of Phase I of the property project until its disposal. Notwithstanding the fact that the JV Company held 29.208% of the Target Company, the economic interest of the JV Company is 29.208% interest of Phase II of the property project. On 18 November 2020, Nanjing Sanlong Cement disposed its interests in the Target Company to an individual and the Phase I of the property project is then under the direction of that individual.

13. DUE FROM (TO) AN ASSOCIATE/THE IMMEDIATE HOLDING COMPANY/A SHAREHOLDER

The amounts due are unsecured, interest-free and have no fixed repayment term.

14. OTHER BORROWINGS

	2020
	RMB'000
Other borrowings — Third party	
— Secured	190,000

The other borrowings is secured by 15% equity interest in the associate of the JV Company, interest bearing at 8% per annum and repayable between 2021 to 2022.

	2020
	RMB'000
The maturity of the other borrowings and analysis of the amount due based on scheduled payment dates set out in the loan agreement is as follows:	
Within one year	95,000
In the second year	95,000
	190,000
Portion classified as current liabilities	(95,000)
Non-current portion	95,000

The JV Director estimates the fair value of the JV Company's borrowings at 31 December 2020 approximate to its carrying amount.

Further details of the JV Company's management of liquidity risk are set out in Note 17 to the Historical Financial Information.

15. SHARE CAPITAL AND DIVIDENDS

(a) DIVIDENDS

No dividends were paid nor declared to the shareholders of the JV Company during the Track Record Period.

(b) SHARE CAPITAL

As at 31 December 2020, the registered capital of the JV Company is RMB50,000,000 but not yet paid.

On 31 March 2021, the registered capital decreased from RMB50,000,000 to RMB30,000,000.

Up to the date of this report, no capital injection was made by the shareholders.

16. CAPITAL MANAGEMENT

The JV Company's primary objectives when managing capital is to safeguard the JV Company's ability to continue as a going concern in order to provide returns for shareholders.

The JV Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and securities afforded by a sound capital position, and makes adjustments to the capital structure and the advances from the immediate holding company and a shareholder in light of changes in economic conditions.

There was no externally imposed capital requirement on the JV Company in 2020.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The JV Company's principal financial instruments comprise bank balances, amount due from an associate, amount due to the immediate holding company, amount due to a shareholder and other borrowings. The main purpose of these financial instruments is to raise and maintain finance for the JV Company's operation. The JV Company has various other financial instruments such as other receivables and other payables, which arise directly from its business activities.

The main risks arising from the JV Company's financial instruments are credit risk and liquidity risk. The JV Company's exposure to these risks and the financial risk management policies and practices used by the JV Company to manage these risks are described below.

Credit risk

The carrying amount of financial assets on the statement of financial position represents the JV Company's maximum exposure to credit risk on these financial assets.

Amount due from an associate

The JV Company performs ECL assessment on amount due from an associate based on lifetime ECL.

In estimating the ECL and in determining whether there is a significant increase in credit risk since initial recognition, the JV Company has taken into account the financial position of the associate by reference to its management account, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the associate operates, in estimating the probability of default, as well as the loss upon default. The management of the JV Company considers the ECL of the amount due from an associate to be insignificant after taking into account the financial position and credit quality of the associate.

There was no change in the estimation techniques or significant assumptions made during the Track Record Period.

Liquidity risk

The JV Company's management reviews the liquidity position of the JV Company on an ongoing basis, including review of the expected cash inflows and outflows in order to monitor the JV Company's liquidity requirements in the short and longer terms.

Details of maturity analysis for financial liabilities are summarised as follows:

As at 31 December 2020

	Carrying amount	Contractual cash flow	Within 1 year	1–2 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due to the immediate holding company	143,198	143,198	143,198	—
Amount due to a shareholder	54,017	54,017	54,017	—
Other payable	5,362	5,362	5,362	—
Other borrowings	190,000	204,124	107,857	96,267
As at 31 December 2020	392,577	406,701	310,434	96,267

Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2020.

18. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Details of the changes in the JV Company's liabilities from financing activities were as follows:

	Amount due to the immediate holding company	Amount due to a shareholder
	RMB'000	*RMB'000*
For the period from 22 August 2020 (date of incorporation) to 31 December 2020		
Advance from the immediate holding company	143,198	—
Advance from a shareholder	—	54,017
As at 31 December 2020	143,198	54,017

19. CONTINGENT LIABILITY

The JV Company, the immediate holding company and fellow subsidiaries of the JV Company and a director of the Target Company (collectively ‘‘the Guarantors’’) have provided a guarantee in respect of bank borrowings entered into by the Target Company. Pursuant to the terms of the guarantee, upon default in loan payments by the Target Company, the Guarantors are responsible to repay the outstanding loan together with any accrued interest and penalty owned by the Target Company to the bank. The Guarantors' guarantee period commences from the dates of grant of the bank borrowings and ends upon 2 years from due date of loan and the full settlement of bank borrowings by the Target Company. The maximum amount of guarantee given to bank for the borrowings granted to the Target Company at the end of the Track Record Period was RMB300,000,000. The JV Director considers that the likelihood of default in payments by the Target Company is remote and therefore the financial guarantee initially measured at fair value is immaterial and no provision has been made in connection with the guarantee.

20. EVENTS AFTER THE REPORTING PERIOD

There is no significant event taken place subsequent to 31 December 2020.

The following is the text of a report received from the Company's reporting accountants, Mazars CPA Limited, Certified Public Accountants, for the purpose of incorporation in this circular.

mazars
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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF DANZHOU SHUANGLIAN REAL ESTATE DEVELOPMENT CO., LTD. TO THE DIRECTORS OF HAILAN HOLDINGS LIMITED

The Board of Directors
Hailan Holdings Limited

Introduction

We report on the historical financial information of Danzhou Shuanglian Real Estate Development Co., Ltd. (the ''Target Company'') set out on pages III-4 to III-53, which comprises the statements of financial position as at 31 December 2018, 2019 and 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the years ended 31 December 2018, 2019 and 2020 (the ''Track Record 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 III-4 to III-53 forms an integral part of this report, which has been prepared for inclusion in the circular of Hailan Holdings Limited (the ''Company'') dated 26 May 2021 (the ''Circular'') in connection with the following transactions and acquisitions (collectively the ''Relevant Transactions''):

(i) formation of 廣東金鐘鴻鵬置業有限公司 (Guangdong Jinzhong Hongpeng Zhiye Co., Ltd.*) (the ''JV Company'') which is owned as to 38.37% (before the acquisition of 34.24% as mentioned below) by 海藍實業(廣州)有限公司 (Hailan Shiye (Guangzhou) Co., Ltd.*), a non-wholly owned subsidiary of the Company (''Hailan Shiye Guangzhou'');

(ii) the acquisition of 29.208% equity interest in the Target Company by the JV Company from 南京三龍水泥有限公司 (Nanjing Sanlong Cement Co., Ltd.*) (''Nanjing Sanlong Cement'');

(iii) the acquisition of 9.7% of equity interest in the Target Company by Hailan Shiye Guangzhou from Nanjing Sanlong Cement; and

(iv) the acquisition of 34.24% of equity interest in the JV Company by Hailan Shiye Guangzhou from 中投置業(廣州)有限公司 (Zhongtou Zhiye (Guangzhou) Co., Ltd.*).

* *For identification purpose only*

Directors' responsibility for the Historical Financial Information

The directors of the Target Company (the "Target Directors") are responsible for the preparation of the 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 Target Directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depended on our 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, we considered internal control relevant to the Target Company's preparation of the 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 Target Company's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Target Directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2018, 2019 and 2020 and of the Target Company's financial performance and cash flows for the Track Record Periods in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

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

Adjustments to the Underlying Financial Statements

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements (as defined below) have been made.

Dividends

No dividends have been paid nor declared by the Target Company in respect of the Track Record Periods.

Preparation of audit of financial statements

The financial statements of the Target Company for the Track Record Periods (the "Underlying Financial Statements"), on which the Historical Financial Information is based, were prepared by the Target Directors in accordance with the accounting policies that conform with Hong Kong Financial Reporting Standards issued by the HKICPA and were audited by Mazars CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

Subsequent financial statements

No audited financial statements of the Target Company have been prepared in respect of any period subsequent to 31 December 2020.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 26 May 2021

A. THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of the Historical Financial Information

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

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

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2018	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	61,275	774	1,215
Cost of sales		(56,607)	—	—
Gross profit		4,668	774	1,215
Other income	*7*	670	668	6
Changes in fair value of investment properties	*13*	—	(1,973)	(449)
Selling expenses		(3,170)	(739)	(605)
Provision for credit loss on other receivables	*8*	(5,294)	(131)	—
Administrative expenses		(46,798)	(8,078)	(6,767)
Loss before taxation	*8*	(49,924)	(9,479)	(6,600)
Income tax credits	*9*	11,054	2,352	1,370
Loss for the year		(38,870)	(7,127)	(5,230)
Other comprehensive income for the year		—	—	—
Total comprehensive loss for the year		(38,870)	(7,127)	(5,230)

STATEMENTS OF FINANCIAL POSITION

		At 31 December		
		2018	**2019**	**2020**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*12*	127	93	726
Investment properties	*13*	4,092	2,119	1,670
Deferred tax assets	*21*	19,643	21,995	23,365
		23,862	24,207	25,761
Current assets				
Properties under development	*15*	278,020	264,468	304,620
Completed properties held for sale	*16*	95,722	89,386	89,470
Trade and other receivables	*17*	22,032	2,571	323,127
Deposits paid for acquisition of land and properties	*14*	—	—	400,000
Restricted cash	*18*	307	—	—
Cash and cash equivalents	*18*	256	2,399	2,512
		396,337	358,824	1,119,729
Current liabilities				
Trade and other payables	*19*	125,116	95,075	142,764
Bank and other borrowings	*20*	—	—	420,000
		125,116	95,075	562,764
Net current assets		271,221	263,749	556,965
Total assets less current liabilities		295,083	287,956	582,726
Non-current liability				
Bank and other borrowings	*20*	—	—	300,000
NET ASSETS		295,083	287,956	282,726
Capital and reserves				
Share capital	*22(b)*	412,500	412,500	412,500
Accumulated losses		(117,417)	(125,544)	(129,774)
TOTAL EQUITY		295,083	287,956	282,726

STATEMENTS OF CHANGES IN EQUITY

	Share capital *RMB'000* *(Note 22(b))*	Accumulated losses *RMB'000*	Total equity *RMB'000*
At 1 January 2018	412,500	(78,547)	333,953
Loss and total comprehensive loss for the year	—	(38,870)	(38,870)
At 31 December 2018 and 1 January 2019	412,500	(117,417)	295,083
Loss and total comprehensive loss for the year	—	(7,127)	(7,127)
At 31 December 2019 and 1 January 2020	412,500	(124,544)	287,956
Loss and total comprehensive loss for the year	—	(5,230)	(5,230)
At 31 December 2020	412,500	(129,774)	282,726

STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2018	2019	2020
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Cash flows used in operating activities				
Cash used in operations	*27(a)*	(13,016)	(62,723)	(452,444)
Income tax paid		(13)	(3)	—
Net cash used in operating activities		(13,029)	(62,726)	(452,444)
Cash flows from (used in) investing activities				
Purchase of property, plant and equipment		(6)	—	(653)
Proceeds from disposal of property, plant and equipment		86	—	—
Interest received		6	8	6
Advance to a shareholder		—	—	(280,000)
Net cash from (used in) investing activities		86	8	(280,647)
Cash flows from financing activities				
New bank borrowings raised	*27(b)*	—	—	300,000
New other borrowings raised	*27(b)*	—	—	420,000
Repayment of loan from a former shareholder	*27(b)*	(1,854)	—	—
Advance from a former shareholder	*27(b)*	9,770	42,692	1,964
Advance from a shareholder	*27(b)*	—	—	1,990
Advance from a fellow subsidiary	*27(b)*	4,385	22,169	9,250
Net cash from financing activities		12,301	64,861	733,204
Net (decrease) increase in cash and cash equivalents		(642)	2,143	113
Cash and cash equivalents at beginning of the year		898	256	2,399
Cash and cash equivalents at end of the year, represented by bank balances and cash	*18(b)*	256	2,399	2,512

B. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

1. CORPORATE INFORMATION

Danzhou Shuanglian Real Estate Development Co., Ltd. (the "Target Company") is a limited liability company incorporated on 3 December 2009 in the People's Republic of China (the "PRC"). In the opinion of the directors of the Target Company ("Target Directors"), the immediate holding company and ultimate holding company of the Target Company is Sanya Zhongzekai Shiye Company Limited and Zhong Jia (International) Investment Construction Company Limited, which is incorporated in the PRC and the British Virgin Islands respectively. The address of its registered office is Binhai Avenue, Baimajing Town, Danzhou City, Hainan Province, the PRC. The principal place of business is located at project center, Fenghuang Coast, Zhongsanheng Road, Baimajing Town, Danzhou City, Hainan Province, the PRC.

The principal activities of the Target Company are properties development, sale and rental of developed properties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

All HKFRSs effective for the accounting period commencing from 1 January 2020, together with the relevant transitional provisions, have been adopted by the Target Company in the preparation of the Historical Financial Information throughout the Track Record Periods.

A summary of the principal accounting policies adopted by the Target Company in the preparation of the Historical Financial Information is set out below.

Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is historical cost convention, except for investment properties which have been measured at fair value as explained in the accounting policies set out below.

Fair value measurement

The Target Company measures its investment properties at fair value at the end of each reporting period. 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. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Target Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Vehicles	25%
Electronic devices	33.33%
Machines, furniture, office equipment and others	20%

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected to arise from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. The fair value reflects, among other things, rental income from current leases and other assumptions that market participants would use when pricing investment property under current market conditions and is adjusted for separately recognised assets or liabilities to avoid double-counting assets or liabilities.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

Completed properties held for sale and properties under development would be transferred to investment properties when, and only when, there is a change in use, evidenced by the following criteria: (a) the properties meet the definition of investment properties; (b) the Target Company has prepared a business plan that reflects the future rental income generated by the property and this is supported with evidence that there is demand for rental space; (c) the Target Company can demonstrate that it has the resources, including the necessary financing or capital, to hold and manage the investment property; (d) the change in use is legally permissible; (e) if the property must be further developed for the change in use, the development has commenced and (f) change in use is approved by the board of directors.

Properties under development

Properties under development are stated at the lower of cost and net realisable value ("NRV") and comprise land use rights, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing cost. NRV represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond the normal operating cycle. On completion, the properties are transferred to completed properties held for sale or investment properties if appropriate.

The land held for future development represents parcels of land owned by the Target Company for the purpose of development of properties for sale. The land is initially stated at lower of cost and NRV and is not depreciated.

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and NRV. Cost is determined by an apportionment of the total development costs for that development project, attributable to unsold properties. The NRV is determined by reference to the estimated selling prices of properties sold in the ordinary course of business less selling expenses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset, including property, plant and equipment, is required, the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset or a cash-generating units exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Target Company becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Target Company's contractual rights to future cash flows from the financial asset expire or (ii) the Target Company transfers the financial asset and either (a) it transfers substantially all the risks and rewards of ownership of the financial asset, or (b) it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

Classification and measurement

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income ("Mandatory FVOCI"); (iii) equity investment measured at fair value through other comprehensive income; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on the Target Company's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Target Company changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

The Target Company's financial assets at amortised cost include trade and other receivables, restricted cash and cash and cash equivalents.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when the Target Company becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are directly attributable to the issue of the financial liabilities.

The Target Company's financial liabilities include trade and other payables and bank and other borrowings. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial guarantee contracts

Financial guarantee contracts issued by the Target Company are those contracts that require a payment to be made to reimburse the holder of the contract for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

Subsequently, the financial guarantee is measured at the higher of (i) the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with HKFRS 15 and (ii) the amount of the loss allowance determined in accordance with the expected credit losses ("ECL") model under HKFRS 9, unless the financial guarantee is measured at FVPL or arises from a transfer of a financial asset.

Impairment of financial assets and other items under HKFRS 9

The Target Company recognises loss allowances for ECL on financial assets that are measured at amortised cost issued to which the impairment requirements apply in accordance with HKFRS 9. Except for the specific treatments as detailed below, at each reporting date, the Target Company measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, the Target Company measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

For a financial guarantee contract, the entity is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity expects to receive from the holder, the debtor or any other party. If the asset is fully guaranteed, the estimation of cash shortfalls for a financial guarantee contract would be consistent with the estimations of cash shortfalls for the asset subject to the guarantee.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

(i) past due information

(ii) nature of instrument

(iii) nature of collateral

(iv) industry of debtors

(v) geographical location of debtors

(vi) external credit risk ratings

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument's credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

The Target Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that the Target Company may not receive the outstanding contractual amounts in full if the financial instrument that meets any of the following criteria.

(i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company); or

(ii) there is a breach of financial covenants by the counterparty.

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

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account in the assessment:

- the debtor's failure to make payments of principal or interest on the due dates;
- an actual or expected significant deterioration in the financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor's ability to meet its obligation to the Target Company.

Irrespective of the outcome of the above assessment, the Target Company presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

For financial guarantee contracts, the date that the Target Company becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. For financial guarantee contracts, the Target Company considers the changes in the risk that the specified debtor will default on the contract.

Notwithstanding the foregoing, the Target Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

(i) it has a low risk of default;

(ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and

(iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

As detailed in Note 24 to the Historical Financial Information, cash and cash equivalents, amounts due from a former shareholder and a shareholder are determined to have low credit risk.

Simplified approach of ECL

For trade receivables without a significant financing components or otherwise for which the Target Company applies the practical expedient not to account for the significant financing components, the Target Company applies a simplified approach in calculating ECL. The Target Company recognises a loss allowance based on lifetime ECL at each reporting date and has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Credit-impaired financial asset

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

(a) significant financial difficulty of the issuer or the borrower.

(b) a breach of contract, such as a default or past due event.

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

The Target Company writes off a financial asset when the Target Company has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. The Target Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under the Target Company's procedures for recovery of amounts due, taking into account legal advice if appropriate. Any subsequent recovery is recognised in profit or loss.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

Revenue recognition

Rental income under operating leases is recognised when the properties are let out and on the straight-line basis over the lease term.

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Revenue from contracts with customers within HKFRS 15

Nature of goods

The nature of the goods provided by the Target Company is sales of properties.

Identification of performance obligations

At contract inception, the Target Company assesses the goods promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good (or a bundle of goods) that is distinct; or

(b) a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer.

A good that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good either on its own or together with other resources that are readily available to the customer (i.e. the good is capable of being distinct); and

(b) the Target Company's promise to transfer the good to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) the Target Company satisfies a performance obligation by transferring a promised good (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Target Company transfers control of a good over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;

(b) the Target Company's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Target Company satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Target Company considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sale of properties is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave, and the cost of nonmonetary benefits are accrued in the year in which the associated services are rendered by employees.

Defined contribution plans

The employees of the Target Company are required to participate in a central pension scheme operated by the local municipal government. The Target Company is required to contribute certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Leases

The Target Company assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessor

The Target Company classifies each of its leases as either a finance lease or an operating lease at the inception date of the lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset. All other leases are classified as operating leases.

The Target Company accounts for each lease component within a lease contract as a lease separately from non-lease components of the contract. The Target Company allocates the consideration in the contract to each lease component on a relative stand-alone price basis.

As lessor — operating lease

The Target Company applies the derecognition and impairment requirements in HKFRS 9 to the operating lease receivables.

A modification to an operating lease is accounted for as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currency translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Segment reporting

Operating segments are identified from the financial information provided to the Target Company's chief operating decision makers for the purpose of allocating resources to, and assessing the performance of, the Target Company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Related parties

A related party is a person or entity that is related to the Target Company.

(a) A person or a close member of that person's family is related to the Target Company if that person:

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of the parent of the Target Company.

(b) An entity is related to the Target Company if any of the following conditions applies:

(i) The entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company. If the Target Company is itself such a plan, the sponsoring employers are also related to the Target Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Target Company's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

Fair value of investment properties

The investment properties of the Target Company are measured at fair value, which were valued based on the appraised market value by the Target Directors. Such valuation is made based on certain assumptions, which are subject to uncertainties and might materially differ from actual results. In making the estimation, reasonable consideration has been given to the underlying assumptions that are mainly based on market conditions existing at the end of the reporting period i.e. by reference to market evidence of transaction prices and monthly rental for similar properties in the surrounding areas.

The carrying amount of investment properties as at 31 December 2018, 2019 and 2020 amounted to RMB4,092,000, RMB2,119,000 and RMB1,670,000 respectively. Further details, including the key assumptions used for fair value measurement, are stated in Note 13 to the Historical Financial Information.

Net realisable value of properties under development and completed properties held for sale

Properties under development and completed properties held for sale are stated at the lower of cost and NRV. Based on the Target Company's recent experience and the nature of the subject property, the Target Company makes estimates of the selling price, the costs of completion in case for properties under development, and the costs to be incurred in selling the properties.

Total budgeted costs for properties under development comprise costs for land use rights, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing cost. In estimating the total budgeted costs, management makes reference to information such as (i) current offers from contractors and suppliers; (ii) recent offers agreed with contractors and suppliers; and (iii) professional estimation on construction and material costs.

If there is an increase in costs to completion or a decrease in net sales value, write-down of completed properties held for sale and properties under development to net realisable value may be resulted. Such provision requires the use of judgment and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is made will be adjusted accordingly.

Given the volatility of the PRC property market and the distinctive nature of individual properties, the actual outcomes in terms of costs and revenue may be higher or lower than estimated at the end of the reporting period. Any increase or decrease in the provision would affect profit or loss in future years.

Deferred tax assets

Deferred tax assets are recognised for certain temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2018, 2019 and 2020 were RMB18,316,000, RMB20,143,000 and RMB21,329,000 respectively. Further details are contained in Note 21 to the Historical Financial Information.

Loss allowance for ECL

The Target Company's management estimates the loss allowance for trade and other receivables by using various inputs and assumptions including risk of a default and expected loss rate. The estimation involves high degree of uncertainty which is based on the Target Company's historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables. Details of the key assumption and inputs used in estimating ECL are set out in Note 24 to the Historical Financial Information.

Allocation of construction cost on properties under development

When developing properties, the Target Company typically divides the development projects into phases. Costs directly related to the development of a phase are recorded as the cost of such phase. Costs that are common to several phases are allocated to each phase based on the saleable floor area of each phase as a percentage of the total saleable floor area of the entire project.

Critical accounting judgements

Classification of operating lease — Target Company as lessor

The Target Company has entered into commercial property leases for properties in its investment property portfolio. The Target Company has determined, based on an evaluation of the terms and conditions of the leases, that it retains all the significant risks and rewards of ownership of these properties which are leased out as operating leases.

Lease terms of contracts with extension and termination options — as lessor

Lease terms are determined as the non-cancellable period of a lease, including periods covered by an option to extend if the lessee is reasonably certain to exercise the extension option, and periods covered by an option to terminate if the lessee is reasonably certain not to exercise the termination option.

The Target Company has lease contracts that include extension and termination options. In assessing whether the lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Target Company applies judgement and considers all relevant facts and circumstances that create an economic incentive to extend or terminate the leases.

After the commencement date, the Target Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the lessee and affects whether the lessee is reasonably certain to exercise an extension option or not to exercise a termination option.

Classification between investment properties and properties held for sale

The Target Company develops properties held for sale and properties held to earn rentals and/or for capital appreciation. Judgement is made by management on determining whether a property is designated as an investment property or a property held for sale. The Target Company considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development included in current assets if the properties are intended for sale after completion, whereas, the properties are accounted for as investment properties under construction included in non-current assets if the properties are intended to be held to earn rentals and/or for capital appreciation. Upon completion of the properties, the properties held for sale are transferred to completed properties held for sale and are stated at the lower of cost and NRV, while the properties held to earn rentals and/or for capital appreciation are transferred to completed investment properties and are subject to revaluation at the end of each reporting period.

4. FUTURE CHANGES IN HKFRSs

As at the date of authorisation of this report, the HKICPA has issued the following new/revised HKFRSs that are not yet effective, which the Target Company has not early adopted.

Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform — Phase 2[1]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021[2]
Amendments to HKAS 16	Proceeds before Intended Use[3]
Amendments to HKAS 37	Cost of Fulfilling a Contract[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[3]
Annual Improvements to HKFRSs	2018–2020 Cycle[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current[4]
Amendments to HKAS 1	Disclosure of Accounting Policies[4]
Amendments to HKAS 8	Definition of Accounting Estimates[4]
HKFRS 17	Insurance Contracts[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]

[1] Effective for annual periods beginning on or after 1 January 2021
[2] Effective for annual periods beginning on or after 1 April 2021
[3] Effective for annual periods beginning on or after 1 January 2022
[4] Effective for annual periods beginning on or after 1 January 2023
[5] The effective date to be determined

The Target Directors anticipate that the application of these new standards and amendments will have no material impact on the Target Company's results and financial position in the future.

5. SEGMENT INFORMATION

Reportable segments

The management of the Target Company has determined the reportable segments based on the reports that are used to make strategic decisions and are reviewed by the chief operating decision-makers. The Target Directors are identified collectively as the chief operating decision-makers. Since the Target Company was only engaged in one reportable segment (i.e. properties development in the PRC) during the Track Record Periods, no segment information has been presented.

There was no sale to a single customer which accounted for 10% or more of the Target Company's revenue during the Track Record Periods.

Geographical information

Based on the locations of operations, all Target Company's revenue was generated in the PRC during the Track Record Periods.

All Target Company's non-current assets were physically based in the PRC during the Track Record Periods.

6. REVENUE

The principal activities of the Target Company are development, sales and lease of properties in the PRC.

Revenue mainly represented income from sales and rental of properties, net of sales related taxes, and was after deduction of any trade discounts.

The amount of each significant category of revenue is as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Sales of properties	59,782	—	—
Rental income from investment properties	1,505	774	1,215
Loss on revaluation upon transfer of investment properties	(12)	—	—
	61,275	774	1,215
Other sources of revenue:			
Rental income from investment properties	1,505	774	1,215
Loss on revaluation upon transfer of investment properties	(12)	—	—
Under the scope of HKFRS 15, Revenue from contracts with customers:			
Recognised at a point of time	59,782	—	—
	61,275	774	1,215

7. OTHER INCOME

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Forfeiture of sales agents' deposits received	590	45	—
Gain on disposal of property, plant and equipment	74	—	—
Interest income	6	8	6
Others	—	615	—
	670	668	6

8. LOSS BEFORE TAXATION

This is arrived at after charging (crediting):

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Total staff costs (including directors' remuneration)			
Salaries, wages and other benefits	1,513	1,588	1,086
Contribution to defined contribution retirement plan	63	52	21
	1,576	1,640	1,107
Depreciation of property, plant and equipment	122	12	20
Auditors' remuneration	28	24	19
Legal and professional fees (including expenditures on legal proceedings) (included in administrative expenses)	30,529	316	178
Bad debts written-off	2,926	—	—
Cost of properties sold	56,607	—	—
(Gain) Loss on disposal of property, plant and equipment	(74)	22	—
Write-off of property, plant and equipment	8	—	—

9. INCOME TAX CREDITS

	Year ended 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Corporate income tax ("CIT")	—	—	—
Deferred income tax	(11,045)	(2,352)	(1,370)
	(11,045)	(2,352)	(1,370)

The statutory PRC CIT for the Target Company is 25% (2019 and 2018: 25%). No CIT has been provided for the Track Record Periods as the Target Company had no assessable profits arising in or derived from the PRC for the Track Record Periods.

Reconciliation of income tax credits

	Year ended 31 December		
	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Loss before taxation	(49,924)	(9,479)	(6,600)
Calculated at CIT rate of 25%	(12,481)	(2,370)	(1,650)
Tax effect of non-deductible expenses	1,427	18	280
Income tax credits	(11,054)	(2,352)	(1,370)

10. DIRECTORS' REMUNERATION

The aggregate amounts of emoluments paid and payable to the Target Directors for the Track Record Periods are as follows:

	Fee	Salaries, allowances and other benefits in kind	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2018					
Jia Zhaosheng *(note a)*	—	240	—	—	240
Zhao Xia *(note a)*	—	192	—	—	192
Fan Wenyi *(note a)*	—	—	—	—	—
Xie Weixiong *(note a)*	—	—	—	—	—
Wang Tao *(note a)*	—	—	—	—	—
	—	432	—	—	432

	Fee	Salaries, allowances and other benefits in kind	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019					
Jia Zhaosheng *(note a)*	—	240	—	—	240
Zhao Xia *(note a)*	—	192	—	—	192
Fan Wenyi *(note a)*	—	—	—	—	—
Xie Weixiong *(note a)*	—	—	—	—	—
Wang Tao *(note a)*	—	—	—	—	—
	—	432	—	—	432

	Fee	Salaries, allowances and other benefits in kind	Discretionary bonus	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2020					
Jia Zhaosheng *(note a)*	—	—	—	—	—
Zhao Xia *(note a)*	—	—	—	—	—
Fan Wenyi *(note a)*	—	—	—	—	—
Xie Weixiong *(note a)*	—	—	—	—	—
Wang Tao *(note a)*	—	—	—	—	—
Zhou Xiaojun *(note b)*	—	—	—	—	—
Yang Guisheng *(note b)*	—	—	—	—	—
Gao Pei *(note b)*	—	—	—	—	—
Zhou Xingsheng *(note b)*	—	—	—	—	—
Zhong Xunyong *(note c)*	—	—	—	—	—
Zhou Longfei *(note d)*	—	71	—	1	72
	—	71	—	1	72

Notes:

(a) resigned on 11 September 2020

(b) appointed on 11 September 2020

(c) appointed on 11 September 2020 and resigned on 20 November 2020

(d) appointed on 20 November 2020

During the Track Record Periods, there was no arrangement under which the Target Directors waived or agreed to waive any emolument. In addition, no remuneration was paid by the Target Company to any Target Director as an inducement to join or upon joining the Target Company.

11. FIVE HIGHEST PAID INDIVIDUALS

	Year ended 31 December		
	2018	**2019**	**2020**
Number of employees other than directors	3	3	5
Number of directors	2	2	Nil

The aggregate amounts of emoluments of the highest paid non-director individuals of the Target Company are as follows:

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and other benefits in kind	480	600	585
Discretionary bonus	—	—	—
Retirement benefit scheme contributions	—	—	4
	480	600	589

The number of the highest paid non-director individuals whose remuneration fell within the following bands was:

	Year ended 31 December		
	2018	**2019**	**2020**
Nil–HK$1,000,000 (equivalent to Nil to RMB892,857)	3	3	5

During the Track Record Periods, there was no arrangement under which any of these highest paid non-director individuals waived or agreed to waive any emoluments. In addition, no remuneration was paid by the Target Company to any of these highest paid non-director individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office.

12. PROPERTY, PLANT AND EQUIPMENT

	Vehicles	**Electronic devices**	**Machines, furniture, office equipment and others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reconciliation of carrying amount — year ended 31 December 2018				
At 1 January 2018	131	28	104	263
Additions	—	6	—	6
Disposals	(12)	—	—	(12)
Depreciation	(56)	(9)	(57)	(122)
Written off	(8)	—	—	(8)
At 31 December 2018	55	25	47	127
Reconciliation of carrying amount — year ended 31 December 2019				
At 1 January 2019	55	25	47	127
Disposals	(22)	—	—	(22)
Depreciation	(1)	(6)	(5)	(12)
At 31 December 2019	32	19	42	93
Reconciliation of carrying amount — year ended 31 December 2020				
At 1 January 2020	32	19	42	93
Additions	647	6	—	653
Depreciation	(11)	(6)	(3)	(20)
At 31 December 2020	668	19	39	726

	Vehicles	Electronic devices	Machines, furniture, office equipment and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018				
Cost	1,827	361	780	2,968
Accumulated depreciation	(1,772)	(336)	(733)	(2,841)
Net carrying amount	55	25	47	127
At 31 December 2019				
Cost	1,069	361	780	2,210
Accumulated depreciation	(1,037)	(342)	(738)	(2,117)
Net carrying amount	32	19	42	93
At 31 December 2020				
Cost	1,716	366	780	2,862
Accumulated depreciation	(1,048)	(347)	(741)	(2,136)
Net carrying amount	668	19	39	726

13. INVESTMENT PROPERTIES

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Fair value			
Carrying amount at 1 January	—	4,092	2,119
Transferred from completed properties held for sale	4,092	—	—
Changes in fair value of investment properties recognised in profit or loss	—	(1,973)	(449)
At 31 December	4,092	2,119	1,670

The investment properties represent the car parks held by the Target Company for rental purpose.

In 2018, the Target Company entered into car park lease agreements with customers. As a result of the actual change of use, the Target Company transferred certain completed properties held for sale into investment properties with a total fair value of RMB4,092,000. The total carrying amount of these car parks at the date of transfer was RMB4,104,000. A loss on revaluation upon transfer of RMB12,000 and the related deferred tax thereon of RMB3,000 had been recognised in profit or loss during the year ended 31 December 2018.

Unrealised loss of RMB1,973,000 and RMB449,000 relating to these investment properties held at the end of 2019 and 2020 respectively were recognised during 2019 and 2020.

Fair value measurement of investment properties

The following table shows the Target Company's investment properties measured at fair value in the statements of financial position on a recurring basis, categorised into three levels of a fair value hierarchy. The levels are based on the observability of significant inputs to the measurements, as follows:

— Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

— Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

— Level 3: unobservable inputs for the asset or liability.

	As at 31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment properties	—	—	1,670	1,670

	As at 31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment properties	—	—	2,119	2,119

	As at 31 December 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment properties	—	—	4,092	4,092

In 2018, the Target Company has transferred certain completed properties held for sale into Level 3 as there was an actual change of use of the car parks while there were no transfers between Level 1 and Level 2. During the years ended 31 December 2019 and 2020, there were no transfers between Level 1 and Level 2 and no transfer into and out of Level 3 fair value measurements.

The details of the movements of the recurring fair value measurements categorised as Level 3 of the fair value hierarchy during the Track Record Periods are as follows:

Movements in Level 3 fair value measurements

2020

Description	**Investment properties** *RMB'000*
At beginning of the year	2,119
Changes in fair value charged to profit or loss	(449)
At 31 December 2020	1,670
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(449)

2019

Description	Investment properties *RMB'000*
At beginning of the year	4,092
Changes in fair value charged to profit or loss	(1,973)
At 31 December 2019	2,119
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(1,973)

2018

Description	Investment properties *RMB'000*
At beginning of the year	—
Transfers from completed properties held for sale into Level 3 *(Note)*	4,104
Changes in fair value charged to profit or loss	(12)
At 31 December 2018	4,092
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(12)

Note:

The Target Company's policy is to recognise transfers into Level 3 as of the date of the event or change in circumstances that caused the transfer.

As at 31 December 2018, 2019 and 2020, the investment properties were valued by the management of the Target Company using income approach.

Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of the Target Company's investment properties is determined by using income approach with reference to current market rental, vacancy rate, growth rate of monthly rental, discount rate; and in accordance with the investment properties' highest and best use as determined by the management at the end of each reporting period.

Significant inputs used to determine fair value

	2018	**2019**	**2020**
Income approach			
Weighted average monthly rental per each car park space	RMB552	RMB273	RMB273
Growth rate of monthly rental per each car park space	N/A	0%–5%	0%–5%
Vacancy rate	N/A	30%–95%	30%–95%
Discount rate	N/A	6.6%	6.6%
Capitalisation rate	2.5%	N/A	N/A

The inputs are estimated by the management based on the risk profile of the properties being valued. Under income approach, the higher the rates of vacancy rate and discount rate and lower of the weighted average monthly rental and growth rate, the lower the fair value during 2019 and 2020. (2018: the higher the capitalisation rate and lower of weighted average monthly rental, the lower the fair value).

The investment properties are situated on lands in the PRC with lease terms 70 years, the remaining lease terms as at 31 December 2018, 2019 and 2020 are between 58–60 years.

14. DEPOSITS PAID FOR ACQUISITION OF LAND AND PROPERTIES

During 2020, RMB400 million was paid as deposits for acquisition of a parcel of land and the properties on the land parcel located in Danzhou, Hainan, the PRC. The acquisition was completed in January 2021, for the details refer to Note 28(i) to the Historical Financial Information.

15. PROPERTIES UNDER DEVELOPMENT

	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Expected to be completed:			
— More than 1 year	278,020	264,468	304,620

The properties under development, including land held for future development, were located in the PRC and are stated at lower of cost and NRV.

16. COMPLETED PROPERTIES HELD FOR SALE

All completed properties held for sale are located in the PRC on leasehold land with lease term of 40 years or more. The Target Directors estimate that the NRV of unsold properties based on estimation of future selling price less costs to be incurred in relation to the sale, with reference to the prevailing market data.

	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Completed properties	95,722	89,386	89,470
Less: Expected to be sold after 12 months	(95,722)	(89,386)	(89,470)
Expected to be sold within 12 months	—	—	—

17. TRADE AND OTHER RECEIVABLES

	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables — third parties *(note i)*	991	223	721
Other receivables — third parties *(note ii)*	6,166	5,720	6,475
Less: Loss allowance *(Note 17(b))*	(5,294)	(5,425)	(5,425)
	872	295	1,050
Amount due from a former shareholder *(note iii)*	19,481	—	—
Amount due from a co-operation partner *(note iv)*	—	—	40,000
Amount due from a shareholder *(note v)*	—	—	280,000
Advance payments to contractors *(note vi)*	106	—	—
Prepaid utilities expenses	462	113	286
Prepaid other taxes	120	1,940	1,070
	21,041	2,348	322,406
	22,032	2,571	323,127

Notes:

(i) Trade receivables comprise receivables due from customers in relation to rental income. The Target Company does not hold any collaterals over these balances. The details on the Target Company's credit policy are set out in Note 24 to the Historical Financial Information.

(ii) Other receivables due from third parties are unsecured, interest-free and repayable on demand. The amount is expected to be recovered within 12 months.

(iii) Amount due from a former shareholder, Nanjing Sanlong Cement Co., Ltd., was unsecured, interest-free and repayable on demand. The greatest balance during 2018 was RMB19,481,000. The balance was fully settled in 2019.

(iv) It represented a deposit paid for acquisition of land and properties on behalf of a co-operation partner in relation to the transaction as set out in Note 28(i) to the Historical Financial Information, which is unsecured, interest-free and repayable on demand.

(v) Amount due from a shareholder was unsecured, interest-free and repayable on demand. The greatest balance during 2020 was RMB280,000,000.

(vi) Advance payments to contractors are made in accordance with the payment terms as agreed in the construction contracts signed with building contractors. They are to be transferred to properties under development with regard to stage of completion for relevant construction.

(a) Ageing analysis of trade receivables

As of the end of each of the reporting period, the ageing analysis of gross trade receivables based on the invoice date that trade receivables were recognised, is as follows:

	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	991	223	721

The ageing analysis of gross trade receivables as at 31 December 2018, 2019 and 2020 which were past due but not impaired was as follows:

	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	991	223	721

The management considers the ECL of trade receivables to be insignificant during the Track Record Periods. The Target Company does not hold any collateral over trade receivables during the Track Record Periods.

(b) Loss allowance on other receivables

	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	—	5,294	5,425
Increase in allowance	5,294	131	—
At 31 December	5,294	5,425	5,425

The management considers the ECL of other receivables to be insignificant, except a loss allowance for the years ended 31 December 2018, 2019 and 2020 amounted to RMB5,294,000, RMB5,425,000 and RMB5,425,000 respectively was made on the balance due from counterparties which the management considered as credit impaired. The Target Company does not hold any collateral over other receivables during the Track Record Periods.

18. RESTRICTED CASH/CASH AND CASH EQUIVALENTS

(a) Restricted Cash

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Pledged for:			
Financial guarantee provided	307	—	—

The Target Company is required to place certain amounts of deposits in the banks to secure the provision of financing guarantee services to its customers in accordance with the financing guarantee agreements signed with the banks. The balances are refundable when the obligations of the financing guarantee agreements are released.

The balances bear interest at floating daily bank deposit rates.

(b) Cash and cash equivalents

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand			
Cash on hand	5	1	3
Cash at bank	251	2,398	2,509
	256	2,399	2,512

19. TRADE AND OTHER PAYABLES

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Trade payables — third parties *(note i)*	36,390	1,024	35,436
Amount due to the immediate holding company *(Note ii)*	18,069	18,069	18,069
Amount due to a fellow subsidiary *(Note ii)*	16,781	38,950	48,200
Amount due to a former shareholder *(Note ii)*	11,180	34,391	36,355
Amount due to a shareholder *(Note ii)*	—	—	1,990
Receipt in advance for rental income	—	75	—
Accrued payroll	176	445	452
Accrued legal fees	30,187	—	—
Other payables and accruals	6,353	588	862
Temporary receipts from customers *(Note iii)*	1,659	290	205
Tender deposits receipts from contractors	2,947	—	—
Other taxes payables	1,374	1,243	1,195
	88,726	94,051	107,328
	125,116	95,075	142,764

(i) Trade payables mainly represent amounts due to contractors. Payment to contractors is by instalments according to progress and agreed milestones. The Target Company normally retains 5% as retention payment.

As of the end of each of the reporting period, the ageing analysis of trade payables based on the date the trade payables were recognised, is as follows:

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	—	—	34,515
Over 12 months	36,390	1,024	921
	36,390	1,024	35,436

(ii) The amounts due are unsecured, interest-free and repayable on demand.

(iii) The amount represents the temporary receipts from the customers for processing a certificate of property ownership of the completed properties. The balances are interest-free and will be paid to the government authorities when the certificates are prepared.

20. BANK AND OTHER BORROWINGS

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Bank borrowings			
Secured *(Note i)*	—	—	300,000
Other borrowings			
Related party, unsecured *(Note ii)*	—	—	420,000
	—	—	720,000

The maturity of the bank borrowings and analysis of the amount due based on scheduled payment dates set out in the loan agreement are as follows:

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
In the second year	—	—	10,000
In the third to fifth years, inclusive	—	—	290,000
Non-current portion	—	—	300,000

The maturity of the other borrowings is as follows:

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Within one year — current portion	—	—	420,000

The total bank and other borrowings are analysed as follows:

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Current portion	—	—	420,000
Non-current portion	—	—	300,000
Total bank and other borrowings	—	—	720,000

Notes:

(i) The bank borrowings was secured by property under development with carrying amount of RMB158,385,000 as at 31 December 2020, interest bearing at 7% per annum, repayable between 2022 to 2025 and guaranteed by the immediate holding company, a fellow subsidiary, a shareholder, the JV Company and personal guaranteed by a director of the Target Company.

(ii) The amount due was unsecured, interest bearing at 1% per annum and repayable on demand. The related company is controlled by Mr. Yeung Man, the ultimate controlling shareholder of the Target Company.

The Target Directors estimate the fair value of the Target Company's borrowings at 31 December 2020 approximate to its carrying amount.

Further details of the Target Company's management of liquidity risk are set out in Note 24 to the Historical Financial Information.

21. DEFERRED TAX ASSETS

The components of deferred tax assets recognised in the statements of financial position and the movements during the Track Record Periods are as follows:

	Other temporary differences	**Revaluation of investment properties**	**Unused tax losses**	**Total**
	RMB'000	*RMB'000*	*RMB'000* *(Note)*	*RMB'000*
At 1 January 2018	—	—	8,589	8,589
Credited to profit or loss	1,324	3	9,727	11,054
At 31 December 2018	1,324	3	18,316	19,643
Credited to profit or loss	32	493	1,827	2,352
At 31 December 2019	1,356	496	20,143	21,995
Credited to profit or loss	72	112	1,186	1,370
At 31 December 2020	1,428	608	21,329	23,365

Note:

In recognising and measuring of deferred tax assets in respect of the Target Company which suffered losses in current or preceding period, management considered the projected future taxable income of the Target Company. Accordingly, the Target Company has recognised deferred tax assets as at 31 December 2018, 2019 and 2020 amounted to RMB18,316,000, RMB20,143,000 and RMB21,329,000 respectively as the Target Company estimates that it has properties development projects which are probable to generate sufficient future taxable profits to support its utilisation.

22. SHARE CAPITAL AND DIVIDENDS

(a) DIVIDENDS

No dividends were paid nor declared to the shareholders of the Target Company during the Track Record Periods.

(b) SHARE CAPITAL

	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*
Registered and fully paid:			
At beginning and end of the reporting periods			
412,500,000 shares	412,500	412,500	412,500

23. CAPITAL MANAGEMENT

The Target Company's primary objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern in order to fund its property development projects, provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and securities afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

There were no externally imposed capital requirements on the Target Company in 2018, 2019 and 2020.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments comprise bank balances and bank borrowings. The main purpose of these financial instruments is to raise and maintain finance for the Target Company's operations. The Target Company has various other financial instruments such as trade and other receivables, restricted cash and trade and other payables, which arise directly from its business activities.

The main risks arising from the Target Company's financial instruments are credit risk and liquidity risk. The Target Company's exposure to these risks and the financial risk management policies and practices used by the Target Company to manage these risks are described below.

Credit risk

The carrying amount of financial assets on the statements of financial position represents the Target Company's maximum exposure to credit risk on these financial assets.

Trade receivables

The Target Company closely monitors the collection payments from customers in accordance with payment schedule agreed with customers and follow up action is taken to recover overdue debts, if any. The Target Company's trade receivables relate to a certain number of diversified customers, there is no significant concentration of credit risk.

The Target Company applies a simplified approach in calculating ECL for trade receivables and recognises a loss allowance based on lifetime ECL at each reporting date. In estimating the ECL, the Target Company has taken into account the historical actual credit loss experience over the past three years and available press information, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of these financial assets, as well as the loss upon default in each case. The Target Directors consider the ECL of these financial assets to be insignificant after taking into account the credit quality and repayment history of the counterparties.

The management considers the ECL of trade receivable to be insignificant so that no significant impairment loss was recognised during the Track Record Periods.

Further quantitative data in respect of the Target Company's exposure to credit risk arising from trade receivables are disclosed in Note 17(a) to the Historical Financial Information.

Restricted cash and bank balances

Substantially the Target Company's pledged bank deposits and bank balances were deposited in creditworthy banks and licensed financial institutions in the PRC, which management considers they are without significant credit risks.

Financial guarantee contracts issued

As at 31 December 2018 and 2019, the Target Company's maximum exposure to credit risk which will cause a financial loss to the Target Company due to financial guarantees provided by the Target Company is arising from the amount of contingent liabilities in relation to financial guarantees issued by the Target Company as disclosed in Note 26(a) to the Historical Financial Information. The management considers the credit risk exposure to financial guarantees provided to property purchasers is limited because the mortgage loan granted to the property buyers are secured by the properties and the market prices of the properties are higher than the guaranteed amounts.

Other receivables — third parties

The management determines that certain other receivables from third parties are credit-impaired after taken into account the age of these balances and the past settlement history of these parties. An impairment loss in aggregate of RMB5,294,000, RMB5,425,000 and RMB5,425,000 as at 31 December 2018, 2019 and 2020 respectively was made in respect of these balances as a result of the ECL assessment conducted by the management of the Target Company. The movements of accumulated impairment losses on these balances are detailed in Note 17(b) to the Historical Financial Information.

The Target Company considers that the remaining other receivables from third parties as at 31 December 2018, 2019 and 2020 have low credit risk based on these parties' strong capacity to meet its contractual cash flow obligations in the near term and low risk of default. In estimating the ECL and whether these balances are credit-impaired, the Target Company has taken into account the financial position of respective parties by reference to, among others, their management accounts, adjusted for forward-looking factors, in estimating the probability of default, as well as the loss upon default. The management of the Target Company considers the ECL of these balances to be insignificant so no loss allowance was recognised in this respect.

Amounts due from a former shareholder and a shareholder

The Target Company considers that the amounts due from a former shareholder and a shareholder have low credit risk based on the borrowers' strong capacity and available financial support from the intermediate holding company to meet their contractual cash flow obligations in the near term and low risk of default. Impairment on the amounts due from a former shareholder and a shareholder measured on 12-month ECL and reflects the short maturities of the exposures.

In estimating the ECL and in determining whether there is a significant increase in credit risk since initial recognition and whether the amounts due are credit-impaired, the Target Company has taken into account the financial capacity and/or the financial position of the counterparties by reference to, among others, their management accounts, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the counterparties operate, in estimating the probability of default of the amounts due, as well as the loss upon default in each case. The management of the Target Company considers the ECL of the amounts due to be insignificant after taking into account the financial position and credit quality of the counterparties.

Amounts due from a co-operation partner

The Target Company performs ECL assessment on amount due from a co-operation partner based on lifetime ECL.

In estimating the ECL and in determining whether there is a significant increase in credit risk since initial recognition, the Target Company has taken into account the financial capacity of the co-operation partner, adjusted for forward-looking factors that are specific to the debtors and general economic conditions of the industry in which the co-operation partner operates, in estimating the probability of default of the amounts due, as well as the loss upon default. The management of the Target Company considers the credit risk exposure to the amount due is limited based on the financial capacity of the co-operation partner.

There was no change in the estimation techniques or significant assumptions made during the Track Record Periods.

Liquidity risk

The Target Company's management reviews the liquidity position of the Target Company on an ongoing basis, including review of the expected cash inflows and outflows, sale/pre-sale results of respective property projects and the progress of the planned property development projects in order to monitor the Target Company's liquidity requirements in the short and longer terms.

Details of maturity analysis for financial liabilities are summarised as follows:

As at 31 December 2018

	Carrying amount	**Contractual cash flow**	**Within 1 year**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	36,390	36,390	36,390
Other payables (excluded receipt in advance for rental income, accrued payroll and other tax payables)	87,176	87,176	87,176
As at 31 December 2018	123,566	123,566	123,566

As at 31 December 2019

	Carrying amount	**Contractual cash flow**	**Within 1 year**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	1,024	1,024	1,024
Other payables (excluded receipt in advance for rental income, accrued payroll and other tax payables)	92,288	92,288	92,288
As at 31 December 2019	93,312	93,312	93,312

As at 31 December 2020

	Carrying amount	Contractual cash flow	Within 1 year	1–2 years	2–5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	35,436	35,436	35,436	—	—
Other payables (excluded receipt in advance for rental income, accrued payroll and other tax payables)	105,681	105,681	105,681	—	—
Bank and other borrowings	720,000	807,150	445,200	30,825	331,125
As at 31 December 2020	861,117	948,267	586,317	30,825	331,125

Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2018, 2019 and 2020.

25. CAPITAL EXPENDITURE COMMITMENTS

Capital commitments outstanding at 31 December 2018, 2019 and 2020 not provided for in the Historical Financial Information were as follows:

	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for	—	—	254,664

26. CONTINGENT LIABILITIES/GUARANTEES ISSUED

(a) Guarantees in respect of mortgage facilities

The Target Company provided guarantees in respect of mortgage facilities granted by certain banks in connection with the mortgage loans entered into by purchasers of the Target Company's properties during the Track Record Periods. Pursuant to the terms of the guarantees, if there is default of the mortgage payments by these purchasers, the Target Company is responsible to repay the outstanding mortgage loans together with any accrued interest and penalty owned by the defaulted purchasers to the banks. The Target Company's guarantee period commences from the dates of grant of the relevant mortgage loans and ends upon the earlier of the bank receiving the required evidence of mortgage over the relevant property in favour of the bank and the full settlement of mortgage loans by the buyer. The maximum amount of guarantees given to banks for mortgage facilities granted to the purchasers of the Target Company's properties was RMB19,250,000 and RMB19,250,000 as at 31 December 2018 and 2019 respectively. As at 31 December 2020, no guarantee was provided by the Target Company.

The Target Directors consider that it is not probable that the Target Company will sustain a significant loss under these guarantees as during the periods under guarantees, the Target Company can sell the properties to recover any amounts paid by the Target Company to the banks. The Target Directors also consider that the fair market value of the underlying properties is able to cover the outstanding mortgage loans guaranteed by the Target Company in the event the purchasers default payments to the banks. In addition, the Target Company has not encountered any incidents of default in payment of mortgage by the purchasers since 2017, the Target Directors consider that the likelihood of default of payments by the purchasers is minimal and therefore the financial guarantee measured at fair value is immaterial during the Track Record Periods.

The Target Company has not recognised any deferred income in respect of these guarantees during the Track Record Periods as its fair value is considered to be minimal by the Target Directors.

(b) Land use right

The Target Company received state-owned construction land use right decisions (the ''Danzhou Decisions'') issued by the Danzhou People's Government in May 2018, which state that on 30 December 2017, 13 February 2018 and 2 March 2018, total five land parcels in relation to a property development project of the Target Company, namely Danzhou Phoenix Aqua City (''Danzhou Phoenix Aqua City'') located on the section of Binhai Avenue, Southern Area, Baimajing Town (the land certificate number being Dan Guo Yong (2010) Nos. 710, 711, 712, 713 and 714), with a total site area of approximately 385,395.83 square meters (the ''Lands'') were confiscated without compensation for the reason that the Lands were not developed and constructed on schedule. The Target Company lodged legal proceedings against the Danzhou Decisions.

On 22 April 2019, the Higher People's Court of Hainan Province issued its administrative judgments on the Danzhou Decisions and revoked the Danzhou Decisions issued by Danzhou People's Government in relation to the confiscation of the Lands. The administrative judgments issued by the Higher People's Court of Hainan Province were final.

The construction work of Danzhou Phoenix Aqua City is commenced in October 2020.

27. OTHER CASH FLOW INFORMATION

(a) Reconciliation of loss before taxation to cash used in operations

	Year ended 31 December		
	2018	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Loss before taxation	(49,924)	(9,479)	(6,600)
Adjustments for:			
Change in fair value of investment properties	—	1,973	449
Loss on revaluation upon transfer of investment properties	12	—	—
Depreciation	122	12	20
(Gain) Loss on sales of property, plant and equipment	(74)	22	—
Bad debts written-off	2,926	—	—
Forfeiture of deposits	(590)	(45)	—
Write-off of property, plant and equipment	8	—	—
Interest income	(6)	(8)	(6)
Provision for credit loss on other receivables	5,294	131	—
Changes in working capital:			
Deposits paid for acquisition of land and properties	—	—	(400,000)
Properties under development	(2,420)	13,552	(40,152)
Completed properties held for sale	95,188	6,336	(84)
Trade and other receivables	7,226	(151)	(40,556)
Restricted cash	786	307	—
Trade and other payables	(71,564)	(75,373)	34,485
Cash used in operations	(13,016)	(62,723)	(452,444)

(b) Reconciliation of liabilities arising from financing activities

Details of the changes in the Target Company's liabilities from financing activities were as follows:

	Bank and other borrowings *RMB'000*	Loan from a former shareholder *RMB'000*	Amount due to a fellow subsidiary *RMB'000*	Amount due to a shareholder *RMB'000*	Amount due (from) to a former shareholder *RMB'000*	Total *RMB'000*
At 1 January 2018	—	1,854	12,396	—	(18,071)	(3,821)
Net cash flows:						
Advance from a former shareholder	—	—	—	—	9,770	9,770
Advance from a fellow subsidiary	—	—	4,385	—	—	4,385
Repayment of loan from a former shareholder	—	(1,854)	—	—	—	(1,854)
At 31 December 2018 and 1 January 2019	—	—	16,781	—	(8,301)	8,480
Net cash flows:						
Advance from a former shareholder	—	—	—	—	42,692	42,692
Advance from a fellow subsidiary	—	—	22,169	—	—	22,169
At 31 December 2019 and 1 January 2020	—	—	38,950	—	34,391	73,341
Net cash flows:						
New bank borrowings raised	300,000	—	—	—	—	300,000
New other borrowings raised	420,000	—	—	—	—	420,000
Advance from a former shareholder	—	—	—	—	1,964	1,964
Advance from a shareholder	—	—	—	1,990	—	1,990
Advance from a fellow subsidiary	—	—	9,250	—	—	9,250
At 31 December 2020	720,000	—	48,200	1,990	36,355	806,545

28. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the Track Record Periods, the Target Company has the following events after 31 December 2020.

(i) Acquisition of land parcel in Danzhou, the PRC

On 6 January 2021, the Target Company, Hailan Shiye Guangzhou, a shareholder of the Target Company and Hunan Jinzhong Property Investment Group Co., Ltd. ("Hunan Jinzhong") (collectively "the Transferees"), received a confirmation letter from Danzhou Huijian Auction Co., Ltd. to confirm that the Transferees have successfully won the bid for the auction for the land use right of a land situated at "Merry Home" Resettlement Area, Binhai New District, Danzhou, Hainan, the PRC, together with the properties on the land parcel at a consideration of RMB1,080,000,000.

The consideration of RMB1,080,000,000 will be contributed by the Transferees in the proportion of 50% for the Target Company, 35% for Hailan Shiye Guangzhou and 15% for Hunan Jinzhong.

As a result of successfully winning the bid for the auction, the asset transfer agreement is entered into by the Transferees and Management Committee of Binhai New District of Danzhou on 7 January 2021.

On 29 January 2021, a certificate of The People's Republic of China Real Property of the land for approximately 24,800 square meters was obtained.

(ii) Formation of joint venture

On 2 February 2021, the Target Company entered into a JV agreement (the "JV Agreement") with Hailan Shiye Guangzhou and Hunan Jinzhong, pursuant to which all parties agreed to establish a joint venture company in the PRC to principally engage in real estate development in the PRC in relation to the acquisition of the land parcel as mentioned in above (i).

Pursuant to the terms of the JV Agreement, the registered capital of the joint venture is RMB5,000,000. The Target Company, Hailan Shiye Guangzhou and Hunan Jinzhong will contribute RMB2,500,000, RMB1,750,000 and RMB750,000 respectively, representing 50%, 35% and 15% of the registered capital of the joint venture.

The arrangements of the JV Agreement is detailed in the Company's announcement dated 10 February 2021.

The following is the text of a report received from the Company's reporting accountants, Mazars CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. INTRODUCTION

The following is a summary of illustrative unaudited pro forma financial information of the Group, which consists of the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group at 31 December 2020 (the "**Unaudited Pro Forma Financial Information**") in connection with the following transactions and acquisitions (collectively the "**Relevant Transactions**") which have been completed during the financial year ended 31 December 2020:

(i) formation of 廣東金鐘鴻鵬置業有限公司 (Guangdong Jinzhong Hongpeng Zhiye Co., Ltd.*) (the "**JV Company**") which is owned as to 38.37% by 海藍實業(廣州)有限公司 (Hailan Shiye (Guangzhou) Co., Ltd.*), a non-wholly owned subsidiary of the Company in August 2020 ("**Hailan Shiye Guangzhou**");

(ii) the acquisition of 29.208% equity interest in 儋州雙聯房地產開發有限公司 (Danzhou Shuanglian Real Estate Development Co., Ltd.*) (the "**Target Company**") by the JV Company from 南京三龍水泥有限責任公司 (Nanjing Sanlong Cement Co., Ltd.*) ("**Nanjing Sanlong Cement**") at a consideration of RMB385.2 million in September 2020;

(iii) the acquisition of 9.7% of equity interest in the Target Company by Hailan Shiye Guangzhou from Nanjing Sanlong Cement at a consideration of RMB105.4 million in November 2020; and

(iv) the acquisition of 34.24% of equity interest in the JV Company by Hailan Shiye Guangzhou from 中投置業(廣州)有限公司 (Zhongtou Zhiye (Guangzhou) Co., Ltd.*) and a debt due from Guangdong Jinzhong Hongpeng of RMB67.5 million at a total consideration of RMB75.5 million in November 2020.

* *For identification purposes only*

The Unaudited Pro Forma Financial Information presented below is prepared based on the consolidated statement of financial position of the Group at 31 December 2020 as extracted from the consolidated financial statements of the Group for the year ended 31 December 2020 to illustrate the financial position of the Group at 31 December 2020 after the completion of the Relevant Transactions during the financial year ended 31 December 2020.

The Unaudited Pro Forma Financial Information has been prepared by the Directors in accordance with paragraph 4.29(1) of the Listing Rules, for the purposes of illustrating the effect of the Relevant Transactions.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the annual report of the Company for the year ended 31 December 2020 and other financial information included elsewhere in the Circular.

2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 31 December 2020 *RMB'000* *(Note 1)*
Non-current assets	
Property, plant and equipment	37,127
Right-of-use assets	957
Investment properties	105,155
Intangible assets	239
Interests in associates	109,020
Trade and other receivables	206,513
Deferred tax assets	34,969
Total non-current assets	493,980
Current assets	
Properties under development	4,625,077
Completed properties held for sale	374,873
Contract costs	55,161
Trade and other receivables	266,321
Deposits paid for acquisition of land and properties	680,000
Current tax assets	10,679
Financial assets at fair value through profit or loss	5,654
Restricted cash	304,042
Cash and cash equivalents	727,489
Total current assets	7,049,296

	The Group as at 31 December 2020
	RMB'000
	(Note 1)
Current liabilities	
Trade and other payables	1,556,320
Contract liabilities	1,684,632
Bank and other borrowings	703,154
Lease liabilities	1,049
Current tax liabilities	124,105
Total current liabilities	4,069,260
Non-current liabilities	
Bank and other borrowings	1,050,532
Deferred tax liabilities	509,526
Total non-current liabilities	1,560,058
Net assets	1,913,958

3. NOTE TO THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

1. The amounts are extracted from the consolidated statement of financial position of the Group at 31 December 2020 as set out in the annual report of the Company for the year ended 31 December 2020. The Relevant Transactions were completed during the financial year ended 31 December 2020 and all the impacts of the Relevant Transactions on the Group's financial position were included and reflected in the consolidated financial statements of the Group for the year ended 31 December 2020.

mazars
中审众环

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

To the Directors of Hailan Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hailan Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") prepared by the directors of the Company (the "**Directors**") for illustrative purpose only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities at 31 December 2020 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out in Appendix IV to the circular in connection with the following transactions and acquisitions (collectively the "**Relevant Transactions**") dated 26 May 2021 (the "**Circular**") issued by the Company:

(i) formation of 廣東金鐘鴻鵬置業有限公司 (Guangdong Jinzhong Hongpeng Zhiye Co., Ltd.*) (the "**JV Company**") which is owned as to 38.37% by 海藍實業(廣州)有限公司 (Hailan Shiye (Guangzhou) Co., Ltd.*), a non-wholly owned subsidiary of the Company ("**Hailan Shiye Guangzhou**");

(ii) the acquisition of 29.208% equity interest in 儋州雙聯房地產開發有限公司 (Danzhou Shuanglian Real Estate Development Co., Ltd.*) (the "**Target Company**") by the JV Company from 南京三龍水泥有限責任公司 (Nanjing Sanlong Cement Co., Ltd.*) ("**Nanjing Sanlong Cement**");

(iii) the acquisition of 9.7% of equity interest in the Target Company by Hailan Shiye Guangzhou from Nanjing Sanlong Cement; and

(iv) the acquisition of 34.24% of equity interest in the JV Company by Hailan Shiye Guangzhou from 中投置業(廣州)有限公司 (Zhongtou Zhiye (Guangzhou) Co., Ltd.*) and a debt due from Guangdong Jinzhong Hongpeng of RMB67.5 million.

* *For identification purposes only*

The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix IV to the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the Group's financial position at 31 December 2020 after the completion of the Relevant Transactions.

As part of this process, information about the Group's financial position at 31 December 2020 has been extracted by the Directors from the Company's consolidated financial statements for the year ended 31 December 2020, on which an audit report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

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

Reporting accountants' independence and quality control

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

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

Reporting accountants' responsibilities

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the completion of a significant event or transaction on the unadjusted financial information of the entity.

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

- the related unaudited pro forma adjustments, if any, give appropriate effect to those criteria; and

- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments, if any, to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

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

(c) the adjustments, if any, are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Mazars CPA Limited
Certified Public Accountants

Hong Kong, 26 May 2021

Set out below is the management discussion and analysis of the Target Company for the three financial years ended 31 December 2018, 2019 and 2020. The discussion and analysis relate to the results and financial position of the Target Company. You should read the discussion and analysis together with the respective financial information of the Target Company as of and for each of the three years ended 31 December 2018, 2019 and 2020 and the accompanying notes thereto, which is set forth in the Accountants' Report of the Target Company in Appendix III to this circular. The Accountants' Report of the Target Company has been prepared in accordance with HKFRS on such basis as is set forth in Note A to the financial information in the Accountants' Report of the Target Company.

1. BUSINESS REVIEW

The Target Company was established as a limited liability company under the laws of the PRC on 3 December 2009. Pursuant to the Land Use Rights Grant Contract No. (2010) 0315 dated 27 January 2010, the Target Company was granted with the land use rights of a parcel of land with an area of approximately 468,553.5 sq.m., which is separated into two phases of development. Phase I of the development covers an area of land of approximately 68,896.5 sq.m., the development of which was already completed. Phase II of the development covers an area of approximately 399,657.0 sq.m. and is the main underlying asset of the equity interest subject to the Acquisitions. Upon completion of the Acquisitions, the Company would actively prepare for the preliminary work of the property development project. With favourable policies for development on the Hainan Island, the Company expects that the increase in the equity interest in the Target Company and indirect ownership of the land use rights will increase the Group's benefits from the Phase II development project.

2. REVIEW OF FINANCIAL RESULTS

Revenue

During the three years ended 31 December 2018, 2019 and 2020, the Target Company had one reportable business segment, which was development, sale and lease of properties in the PRC. Revenue of the Target Company is mainly generated from the sale of properties and rental income from investment properties. Revenue decreased by approximately 98.7% from approximately RMB61.3 million for the year ended 31 December 2018 to approximately RMB0.8 million for the year ended 31 December 2019, primarily due to the delivery of properties to customers primarily took place in 2018, and increased by approximately 56.9% to approximately RMB1.2 million for the year ended 31 December 2020, primarily due to the increase in the area of properties being rented out as compared to the year ended 31 December 2020.

Cost of sales

The cost of sales mainly consisted of cost of property sales directly associated with the revenue from the sale of properties, which represented land acquisition costs and direct construction costs during the period of construction. It recorded approximately RMB56.6 million for the year ended 31 December 2018 and no costs for the year ended 31 December 2019 and 2020, respectively.

Gross profit

As a result of the foregoing, gross profit decreased from approximately RMB4.7 million for the year ended 31 December 2018 to approximately RMB0.8 million for the year ended 31 December 2019, and decreased to approximately RMB1.2 million for the year ended 31 December 2020.

Other income and gains

Other income and gains mainly representing the forfeiture of sales agent's deposits received and customers' deposits received in the two years ended 31 December 2018 and 2019.

Selling expenses

Selling expenses consisted primarily of salaries of sales staff and other advertising and general publicity expenses. It decreased from approximately RMB3.2 million for the year ended 31 December 2018 to approximately RMB0.7 million for the year ended 31 December 2019 primarily due to less advertising and general publicity expenses incurred, and remained at approximately RMB0.6 million for the year ended 31 December 2020.

Administrative expenses

Administrative expenses consisted primarily of staff costs, travel and entertainment expenses, legal and professional fees, office expenses, other taxes and surcharges, depreciation and others. Administrative expenses decreased from approximately RMB46.8 million for the year ended 31 December 2018 to approximately RMB8.1 million for the year ended 31 December 2019 primarily due to legal and professional fees was incurred in the year ended 31 December 2018, and administrative expenses decreased to approximately RMB6.8 million in 2020, primarily due to a decrease in staff expenses and depreciation cost.

Loss before tax

Due to the reasons discussed above, the Target Company incurred loss before tax of RMB38.9 million, RMB7.1 million and RMB5.2 million for each of the three years ended 31 December 2018, 2019 and 2020.

Income tax credits

Income tax credits or expense reflected the income tax paid and payable by the Target Company for the relevant year and the applicable income tax rate in the PRC was 25% for each year during the years ended 31 December 2018, 2019 and 2020. During the three years ended 31 December 2018, 2019 and 2020, the Target Company incurred income tax credits approximately RMB11.1 million, RMB7.1 million and RMB5.2 million, respectively.

Total comprehensive loss for the year

As a result of the foregoing, the Target Company had total comprehensive loss of approximately RMB38.9 million, RMB7.1 million and RMB5.2 million for the years ended 31 December 2018, 2019 and 2020, respectively.

3. LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The Target Company adopts a prudent funding and treasure policy. During the three years ended 31 December 2018, 2019 and 2020, the Target Company funded its business operations mainly through cash generated from its operations and through external financing primarily consisted of bank borrowings.

The Target Company's primary uses of cash are for payment of construction costs.

As at 31 December 2018, 2019 and 2020, the Target Company had cash and bank balances of approximately RMB0.3 million, RMB2.4 million and RMB2.5 million, respectively. All the cash and bank balances were denominated in RMB and cash at banks earns interest at floating rates based on daily bank deposit rates.

As at 31 December 2018, 2019 and 2020, the Target Company had net assets of approximately RMB295.1 million, RMB288.0 million and RMB282.7 million, respectively.

As at 31 December 2018, 2019 and 2020, the Target Company had outstanding interest-bearing borrowings of approximately nil, nil and RMB300.0 million, respectively. Its borrowings are all denominated in RMB with fixed interest rates at annual interest rates ranging from 7% and repayable between 2022 and 2025 and guaranteed by the immediate holding company, a fellow subsidiary, shareholders and a director of the Target Company. The borrowings are secured by its own properties under development and completed properties held for sale, details of which are shown in Note 20 to the Accountants' Report of the Target Company as set out in Appendix III to this circular.

Financial Risk Management

The Target Company is exposed to risks arising from its financial instruments such as interest rate risk, credit risk and liquidity risk.

Interest Rate Risk

The Target Company's exposure to risk for changes in market interest rates relates primarily to its interest-bearing other borrowings. The Target Company does not use derivative financial instruments to hedge interest rate risk, and obtains all borrowings with a fixed rate.

Credit Risk

The carrying amounts of cash and cash equivalents, trade receivables and financial assets included deposits and other receivables included in the statements of financial position represent the Target Company's maximum exposure to credit risk in relation to its financial assets as at 31 December 2018, 2019 and 2020.

As at 31 December 2018, 2019 and 2020, all cash and cash equivalents were deposited in high-credit-quality financial institutions without significant credit risk.

The Target Company classifies financial instruments on the basis of shared credit risk characteristics, such as instrument types and credit risk ratings for the purpose of determining significant increases in credit risk and calculation of impairment.

Liquidity Risk

The Target Company's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing other borrowings. Cash flows are closely monitored on an ongoing basis.

Gearing ratio

As at 31 December 2018, 2019 and 2020, the gearing ratio (which is measured by its total debt divided by its total equity; total debt includes interest-bearing bank borrowings) was approximately 42.4%, 33.0% and 305.2%, respectively.

Capital structure

Details of the capital structure of the Target Company are set out in Note 22 to the Accountants' Report of the Target Company as set out in Appendix III to this circular.

4. FUTURE PLANS FOR MATERIAL INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

The Target Company, Hailan Shiye Guangzhou, and Hailan Shiye Guangzhou and Hunan Jinzhong Property Investment Group Co., Ltd.* (湖南金鐘置業投資集團有限公司) ("**Hunan Jinzhong Property**") won the bid in respect of a parcel of land situated at Merry Home Resettlement Area, Binhai New District, Baimajing Town, Danzhou, Hainan Province, the PRC (中國海南省儋州市白馬井鎮濱海新區"幸福家園"安置區) (the "**Land Parcel**") at an auction at a consideration of RMB1,080 million. On 6 January 2021, the Target Company received a confirmation notification from the auction company in relation to the acquisition of the Land Parcel. On 7 January 2021, the Management Committee of Binhai New District of Danzhou (儋州濱海新區管理委員會) as the transferor and Danzhou Shuanglian, Hailan Shiye Guangzhou, and Hunan Jinzhong Property as the transferees entered into the asset transfer agreement in respect of the acquisition of the Land Parcel.

The Land Parcel will be used for property development by the Group. The Group intends to finance the consideration of the Land Parcel by internal resources and bank loans. Other than the acquisition of the Land Parcel, the Group does not currently have other future plans for material investment.

5. EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, 2019 and 2020, the Target Company had 52, 38, and 19 employees, respectively, and the total remunerations to employees were approximately RMB1.5 million, RMB1.6 million and RMB1.1 million, respectively. The remuneration of the employees generally includes salary and performance-based bonuses. According to the applicable PRC laws and regulations, the Target Company participates in various employee benefit plans of the municipal and provincial governments, including housing provident funds, pension, medical, maternity, occupational injury and unemployment benefit plans

6. PLEDGE ON ASSETS

As at 31 December 2018, the restricted cash in amount of approximately RMB0.3 million was required to be deposited in the banks to secure the provision of financing guarantee services to its customers in accordance with the financing guarantee agreements with the banks, while it recorded nil balance on the restricted cash as at 31 December 2019 and 2020. In addition, as at 31 December 2020, the carrying amount of properties under development in amount of approximately RMB304.6 million was pledged for bank borrowings, while it recorded nil on the bank borrowings as at 31 December 2018 and 2019. Further details of which are set out in Notes 18 and 20 to the Accountants' Report of the Target Company in Appendix III to this circular.

7. FOREIGN EXCHANGE EXPOSURE

The revenue and operating costs of the Target Company were principally denominated in RMB, and the exposure to the risk of foreign exchange rate fluctuations for the Target Company was minimal. As such, no financial instrument for hedging was employed by the Target Company.

8. MATERIAL ACQUISITIONS AND DISPOSALS

Subsequent to the three years ended 31 December 2020, the following acquisitions and/or disposals took place.

As mentioned above, the Target Company, Hailan Shiye Guangzhou, and Hunan Jinzhong Property won the bid in respect of the Land Parcel at an auction at a consideration of RMB1,080 million. On 6 January 2021, the Target Company received a confirmation notification from the auction company in relation to the acquisition of the Land Parcel. On 7 January 2021, the Management Committee of Binhai New District of Danzhou (儋州濱海新區管理委員會) as the transferor and Danzhou Shuanglian, Hailan Shiye Guangzhou, and Hunan Jinzhong Property as the transferees entered into the asset transfer agreement in respect of the acquisition of the Land Parcel.

Set out below is the management discussion and analysis of the JV Company for the financial period from 22 August 2020 (date of incorporation) to 31 December 2020. The discussion and analysis relate to the results and financial position of the JV Company. You should read the discussion and analysis together with the respective financial information of the JV Company as of and for the period ended 31 December 2020 and the accompanying notes thereto, which is set forth in the Accountants' Report of the JV Company in Appendix II to this circular. The Accountants' Report of the JV Company has been prepared in accordance with HKFRS on such basis as is set forth in Note B to the financial information in the Accountants' Report of the JV Company.

1. BUSINESS REVIEW

The JV Company, Guangdong Jinzhong Hongpeng Zhiye Co., Ltd., was established as a limited liability company incorporated on 22 August 2020 in the PRC.

The principal activity of the JV Company is investment holding.

2. REVIEW OF FINANCIAL RESULTS

Revenue

During the period from 22 August 2020 (date of incorporation) to 31 December 2020, the JV Company did not generate any revenue.

Other income and gains

Other income and gains mainly representing the bank interest income.

Administrative expenses

Administrative expenses consisted primarily of company incorporation expense, office expenses and others.

Finance costs

During the period from 22 August 2020 (date of incorporation) to 31 December 2020, the JV Company had incurred interest on other borrowing of approximately RMB5.4 million.

Loss before tax

Due to the reasons discussed above and share of results of an associate, the JV Company incurred loss before tax for the period ended 31 December 2020.

3. LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

The JV Company adopts a prudent funding and treasure policy. During the period from 22 August 2020 (date of incorporation) to 31 December 2020, the JV Company funded its business operations mainly through a shareholder, the immediate holding company of the JV Company and through external financing primarily consisted of other third party borrowing.

As at 31 December 2020, the JV Company had cash and bank balances of approximately RMB0.01 million. All the cash and bank balances were denominated in RMB and cash at banks earns interest at floating rates based on daily bank deposit rates. As at 31 December 2020, the JV Company had net liabilities of approximately RMB6.5 million.

As at 31 December 2020, the JV Company had outstanding interest-bearing borrowing of approximately RMB190 million. Its borrowings are all denominated in RMB with fixed interest rates at annual interest rates ranging from 8% and repayable between 2021 to 2022 and secured by the 15% equity interest in the associate of the JV Company, details of which are shown in Notes 14 to the Accountants' Report of the JV Company as set out in Appendix II to this circular.

Gearing ratio

As at 31 December 2020, the gearing ratio (which is measured by its total debt divided by its total equity; total debt includes interest-bearing bank borrowings) is not applicable to the JV Company as the JV Company had a net deficiency in equity.

Capital structure

Details of the capital structure of the JV Company are set out in Note 15 to the Accountants' Report of the JV Company as set out in Appendix II to this circular.

4. FUTURE PLANS FOR MATERIAL INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

As at the Latest Practicable Date, save as disclosed above, the JV Company did not have any future plan for material investments or acquisition of capital assets for the year ending 31 December 2021.

5. EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the JV Company had one director and nil remunerations was paid or payable.

6. PLEDGE ON ASSETS

As at 31 December 2020, no asset was pledged.

7. FOREIGN EXCHANGE EXPOSURE

The revenue and operating costs of the JV Company were principally denominated in RMB, and the exposure to the risk of foreign exchange rate fluctuations for the JV Company was minimal. As such, no financial instrument for hedging was employed by the JV Company.

The following is the text of a letter and a valuation certificate prepared for the purpose of incorporation in this circular received from International Valuation Limited, an independent valuer, in connection with its valuation as at 31 March 2021 of the property interest.

INTERNATIONAL VALUATION LIMITED
國際評估有限公司

Suite 1213, 12/F,
Houston Centre,
63 Mody Road,
Tsim Sha Tsui,
Kowloon
Hong Kong

26 May 2021

Hailan Holdings Limited
Room 2212, 22/F, The Center,
99 Queen's Road Central,
Central,
Hong Kong

Dear Sir/Madam,

Re: Valuation of a parcel of land situated at Binhai Avenue, Baimajing Town, Danzhou City, Hainan Province, The People's Republic of China (The "PRC")

1. INSTRUCTIONS AND VALUATION DATE

In accordance with your instruction for us to value the property interest in the PRC held by Hailan Holdings Limited (the "**Company**") and its subsidiaries (together the "**Group**"), we confirm that we have made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value of the property interest as at 31 March 2021.

2. BASIS OF VALUATION

Our valuation of the property interest represents its market value which in accordance with the HKIS Valuation Standards 2020 Edition issued by The Hong Kong Institute of Surveyors ("**HKIS**") is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

3. VALUATION METHODOLOGIES

We have valued the property interest on the basis of open market and vacant possession. Direct comparison method is adopted where comparison based on prices realized on actual sales or asking prices of comparable properties is made. Comparable properties of similar size, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market values.

4. VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the property interest on the open market in its existing state without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property interest.

We have assumed that all applicable zoning and use regulations and restrictions will be complied with unless non-conformity has been stated, defined, and considered in the valuation report.

No environment impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licences, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been, can be obtained or renewed for any use which the report covers.

Unless stated as otherwise, we have assumed that the property has been constructed, occupied and used in full compliance with, and without contravention of all laws, except only where otherwise stated. We have further assumed that, for any use of the property upon which this valuation is based, all required licenses, permit, certificate and authorizations have been obtained or to be obtained.

5. TITLE INVESTIGATION

We have been provided with copies of the title documents relating to the property in the PRC. Due to the restrictions of the land registration system in the PRC, we have not carried out any land title searches in the PRC. Moreover, we have not inspected the original documents to verify ownership or to ascertain any amendments which may not appear on the copies handed to us. We are also unable to ascertain the title of the property in the PRC and we have therefore relied on the advice given by the Company or the Company's legal advisor regarding the interest of the Group in the property.

In the course of our valuation, we have relied upon the legal opinion given by the Company's PRC legal advisor — Hainan Bangwei Law Firm (海南邦威律師事務所) in relation to the legal title to the property. All legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property set out in this report.

As the property is held under long term land use rights under six State-owned Land Use Right Certificates, we have assumed that the owner of the property interest has free and uninterrupted rights to use or transfer the property interest for the whole of the unexpired term of the respective land use rights after obtaining the Immovable Property Right Certificate. In our valuation, we have assumed that the property interest can be transferred, sublet or mortgaged on the open market without payment of any additional land premium to the relevant government authorities.

6. LIMITING CONDITIONS

We have not carried out an inspection because of the likelihood of spreading of the coronavirus disease. In accordance with the HKIS Valuation Standards 2020, we have relied on the information and the photos for the property provided by the Company. We are unable to report and comment on the property. We have assumed that the property is finished and maintained in reasonable conditions commensurate its age and use.

We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out to any of the services. All dimensions, measurements and areas are only approximations.

Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the property and we have assumed that the areas shown on the copies of documents handed to us are correct.

We have relied to a very considerable extent on the information provided by the Company and have accepted information therein on such matters as planning approvals, statutory notices, easements, tenure, occupation, tenancy details, floor area and the identification of the property.

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

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

The conclusion of value is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the valuation, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

This valuation is to be used for the purpose stated herein. Any use or reliance for any other purpose, by you or third parties, is invalid. No reference to our name or our valuation in whole or in part, in any document prepared by the Company and/or distribute to third parties may be made without written consent.

Neither the whole nor any part of this letter and the certified opinion of value attached nor any reference thereto shall be included in any document, circular or statement without prior consent of the form and context in which they will respectively appear. This letter and certified opinion of value are only for the use of the party to whom it is addressed and no responsibility shall be accepted to any third party for the whole or any part of its content.

We hereby certify that we have neither present nor prospective interest in the Company or the value reported.

7. REMARKS

Unless otherwise stated, all monetary amounts are in Renminbi (RMB). We enclose herewith our valuation certificate.

Yours faithfully
For and on behalf of
International Valuation Limited

Patrick Lee
Director (Real Estate)
BSc., MHKIS

Mr. Patrick Lee is a Corporate Member from the General Practice Division of the Hong Kong Institute of Surveyors. He has over 20 years post qualification experience in the valuation of properties in Hong Kong and the PRC.

VALUATION CERTIFICATE

Property interest held by the Group for future development in the PRC

Property	**Description and Tenure**	**Particular of Occupancy**	**Market Value in Existing State as at 31 March 2021** *RMB*
A parcel of land situated at Binhai Avenue Baimajing Town, Danzhou City, Hainan Province, The PRC	As advised by the Company, the property comprises a parcel of land with a site area of approximately 399,657.0 sq.m.. The property is situated at the east of Binhai Avenue and to the west of Zhongxin Avenue, around 5 minutes' drive from the People's Government of Baimaijing Town. Retail facilities and communal facilities such as schools, wet market, clinics, bus station and stadium are situated in close proximity to the property. The land use rights of the property is granted for a term of 70 years for residential use and 40 years for hotel and commercial uses. The plot ratio of the land is ≦ 1.5 which give rise to a total gross floor area of approximately 599,485.5 sq.m..	As advised by the Company, the construction of the property started since October 2020.	1,320,000,000

Notes:

1. Pursuant to a State-owned Land Use Right Grant Contract entered into between 儋州市國土環境資源局 (National Land and Environmental Resources Bureau of Danzhou City) and 儋州雙聯房地產開發有限公司 (Danzhou Shuanglian Real Estate Development Co., Ltd.) ("**Danzhou Shuanglian**") on 27 January 2010, a parcel of land with a site area of approximately 468,553.5 sq.m. was granted to Danzhou Shuanglian for a term of 70 years and the usage of the land is for hotel, commercial and residential uses. The plot ratio of the land is≦1.5. The property is a portion of the land.

2. The important clause stipulated in the above land grant contract is listed as below:

   — the date of commencement of the construction work should start before 30 August 2010 and be completed before 30 August 2012; and

   — upon the completion of the construction, the water supply, drainage, underground and elevated electrical and telecommunication pipelines will be handed over to the government without compensation.

3. Pursuant to the documents stated below and as advised by the Company, the Group has an equity interest of 98.908% in Danzhou Shuanglian immediately after completion of the Second Acquisition Agreement:

   a. the Articles dated 22 August 2020, relating to the formation of 廣東金鐘鴻鵬置業有限公司 (Guangdong Jinzhong Hongpeng Zhiye Co., Ltd.), the joint venture company (the "**JV Company**"), and entered into between 海藍實業 (廣州) 有限公司 (Hailan Shiye (Guangzhou) Co., Ltd.) ("**Hailan Shiye Guangzhou**") (a non-wholly owned subsidiary of the Company), 中投置業 (廣州) 有限公司 (Zhongtou Zhiye (Guangzhou) Co., Ltd.) ("**Zhongtou Zhiye**"), a connected person of the Company at the subsidiary level and one of the shareholders of the JV Company, and 衡南萬物企業管理有限公司 (Hengnan Wanwu Enterprise Management Co., Ltd.) ("**Hengnan Wanwu**"), a shareholder of the JV Company;

   b. a joint venture agreement dated 25 September 2020 and entered into between Hailan Shiye Guangzhou, Zhongtou Zhiye and Hengnan Wanwu;

   c. an acquisition agreement relating to the equity interest in Danzhou Shuanglian (the owner of the property) dated 25 September 2020 and made between the JV Company as the purchaser, 南京三龍水泥有限責任公司 (Nanjing Sanlong Cement Co., Ltd.) ("**Nanjing Sanlong Cement**") as the vendor and 三亞中澤凱實業有限公司 (Sanya Zhongzekai Shiye Co., Ltd.) ("**Sanya Zhongzekai**"), an indirect wholly-owned subsidiary of the Company through Zhong Ze (Hong Kong) Investment Limited (中澤 (香港) 投資有限公司);

   d. an acquisition agreement relating to the equity interest in Danzhou Shuanglian dated 5 November 2020 and made between Hailan Shiye Guangzhou as the purchaser, Nanjing Sanlong Cement as the vendor, Sanya Zhongzekai and the JV Company; and

   e. an acquisition agreement relating to the equity interest in the JV Company dated 5 November 2020 and made between Hailan Shiye Guangzhou as the purchaser and Zhongtou Zhiye as the vendor.

4. According to six State-owned Land Use Right Certificates — Dan Guo Yong (2010) Di Nos. 709, 710, 711, 712, 713 and 714, issued by 儋州市國土環境資源局 (National Land Environment and Resources Bureau of Danzhou City) on 28 June 2010, the land use rights of six parcels of land is held by Danzhou Shuanglian for a term of 40 years for hotel and commercial uses and 70 years for residential use. The six parcels of land have a total site area of approximately 468,553.4 sq.m.. As advised by the Company, the property is a portion of the aforesaid site area.

5. Pursuant to a Temporary Construction Works Planning Permit — No.2011–06–01 Hao issued by 儋州市住房和城鄉建設局 (Housing and Urban Rural Construction Bureau of Danzhou City) on 1 June 2010, the land construction unit is Danzhou Shuanglian and the floor area of the development of one parcel of land is 84,714.3 sq.m. and 18,612.7 sq.m. below ground.

6. Pursuant to a Construction Land Planning Permit — Di Zi Di No.2010–0905 Hao issued by 儋州市住房和城鄉建設局 (Housing and Urban Rural Construction Bureau of Danzhou City) on 21 September 2010, the land construction unit is Danzhou Shuanglian and the construction scale is 700,000 sq.m..

7. According to Business Licence dated 11 September 2020, Danzhou Shuanglian Properties Development Company Limited (儋州雙聯房地產開發有限公司) was established as a limited liability company with a registered capital of RMB412,500,000.

8. We have been provided with a legal opinion regarding the property issued by the Company's PRC legal advisor which are summarised below:

   (a) The land use right certificates are legal and effective;

   (b) Danzhou Shuanglian can transfer the land use rights of the property if the relevant government regulations have been fulfilled;

   (c) Danzhou Shuanglian can sublet the land use rights of the property if the property has been developed in accordance with the timeline and conditions stipulated in the land use right grant contract;

   (d) Danzhou Shuanglian has obtained the land use rights of the property by the way of land grant and can mortgage the land use rights of the property;

   (e) Danzhou Shuanglian has obtained the business license and the real estate developer qualification certificate to operate property development business;

   (f) Sanya Zhongzekai, the JV Company, Hailan Shiye Guangzhou and Zhao Xia have 60%, 29.208%, 9.7% and 1.092% equity interest in Danzhou Shuanglian respectively and are entitled to the profit sharing according to the equity ratio. The profit distribution plan and the solution for addressing the operating losses, if any, have to be formulated by the Board of Directors and then to be approved by the shareholders' meeting.

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 Group. 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 OF DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares and, in respect of equity derivatives, underlying Shares in, and debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or members of the Group (i) which were 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 have taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or, (iii) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

(a) Long positions in the Shares and underlying Shares

Name of Director	**Capacity**	**Number of Shares held**	**Approximate % of the issued shares capital of the Company as at the Latest Practicable Date**
Ms. Zhou Li	Interest of spouse	225,000,000 *(Note 1)*	75%

Notes:

1. 225,000,000 shares of the Company are held by Zhong Jia (International) Investment Construction Company Limited ("**Zhong Jia (International)**") and Zhong Ze (International) Investment Limited ("**Zhong Ze (International)**") as to 224,325,000 shares and 675,000 shares, respectively. Mr. Yeung beneficially owns 100% of the issued share capital of Zhong Jia (International) and Zhong Ze (International) and is deemed, or taken to be, interested in all the shares held by Zhong Jia (International) and Zhong Ze (International) for the purposes of the SFO. Mr. Yeung Man ("**Mr. Yeung**") and Ms. Zhou Li have declared that they are cohabiting as spouse. Accordingly, Ms. Zhou Li is deemed, or taken to be, interested in the Shares in which Mr. Yeung is interested for the purpose of the SFO.

2. As at the Latest Practicable Date, the total number of issued shares of the Company was 300,000,000.

(b) Long position in the shares of associated corporation

Long Position in Zhong Jia (International) and Zhong Ze (International)

Name of Director or Chief Executive	Name of associated corporation	Capacity	Position (Long/Short)	Number and class of securities held/ interested in	Approximately percentage of registered capital
Ms. Zhou Li	Zhong Jia (International)	Interest of spouse *(Note 1)*	Long	1 ordinary share	100%
	Zhong Ze (International)	Interest of spouse *(Note 1)*	Long	7,000 ordinary shares	100%

Note: Mr. Yeung owns 100% interest in Zhong Jia (International) and Zhong Ze (International). Mr. Yeung and Ms. Zhou Li have declared that they are cohabiting as spouse. Accordingly, Ms. Zhou Li is deemed, or taken to be, interested in the Shares of Zhong Jia (International) and Zhong Ze (International) in which Mr. Yeung is interested for the purpose of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executives of the Company or their respective associates had any interests or short positions in the shares or, in respect of equity derivatives, underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or members of the Group (i) which would have 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 have taken or deemed to have under such provisions of the SFO) or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Disclosure of interests of substantial shareholders

As at the Latest Practicable Date, the interests and short positions of Shareholders (not being Directors or the chief executives of the Company) in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of Shareholders	Capacity	Number and class of securities held/interest in	Approximate % of issued share capital of the Company as at the Latest Practicable Date
Zhong Jia (International)	Beneficial owner	224,325,000 Shares	74.78%
Mr. Yeung *(Note 1)*	Interest of a Controlled corporation	224,325,000 Shares	74.78%

Note: 224,325,000 shares of the Company are held by Zhong Jia (International). Mr. Yeung beneficially owns 100% of the issued share capital of Zhong Jia (International) and is deemed, or taken to be, interested in all the shares held by Zhong Jia (International) for the purposes of the SFO. Mr. Yeung is the sole director of Zhong Jia (International).

Save as disclosed above, as at the Latest Practicable Date, none of the substantial shareholder of the Company (not being Directors or the chief executives of the Company) has any interests or short positions in the Shares or underlying Shares (i) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or (ii) required to be entered in the register maintained by the Company pursuant to section 336 of the SFO.

3. DIRECTORS' INTERESTS

Interests in assets

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to acquired or disposed of by or leased to any members of the Group since 31 December 2020, the date to which the latest published audited financial statements of the Group were made up.

Interests in contracts

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which was significant in relation to the business of the Group.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or substantial Shareholders or any of their respective associates had an interest in a business which competes or may compete with the business of the Group or had any other conflict of interest which any such person has or may have with the Group.

5. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within two years immediately preceding the date of this circular:

- the asset transfer agreement dated 7 January 2021 entered into between the Management Committee of Binhai New District of Danzhou* (儋州濱海新區管理委員會) as the vendor, the Target Company, Hailan Shiye Guangzhou and Hunan Jinzhong Property Investment Group Co., Ltd.* (湖南金鐘置業投資集團有限公司) ("**Hunan Jinzhong Property**") as purchasers, pursuant to which the purchasers agreed to purchase, and the vendor agreed to sell, the land parcel situated at "Merry Home" Resettlement Area, Binhai New District, Baimajing Town, Danzhou, Hainan Province for a consideration of RMB1,080 million;

- the joint venture agreement dated 2 February 2021 entered into between the Target Company, Hailan Shiye Guangzhou and Hunan Jinzhong Property, which governs how the business of the joint venture company, is conducted;

- the Third Acquisition Agreement dated 5 November 2020 entered into between the Purchaser and Zhongtou Zhiye pursuant to which the Purchaser agreed to acquire 34.24% of the equity interest in the JV Company and a debt of RMB67,526,416 for a consideration of RMB75,526,416;

- the Second Acquisition Agreement dated 5 November 2020 (as amended and supplemented by the Supplemental Agreement dated 1 December 2020) entered into between the Purchaser, Nanjing Sanlong Cement, Sanya Zhongzekai and the JV Company, pursuant to which, the Purchaser agreed to acquire 9.7% of the equity interest in the Target Company for a consideration of RMB105,410,000;

- the First Acquisition Agreement dated 25 September 2020 entered into between the JV Company as the purchaser, Nanjing Sanlong Cement and Sanya Zhongzekai, pursuant to which the JV Company will acquire 29.208% of the equity interest in the Target Company for a consideration of RMB385,215,000;

- the JV Agreement dated 25 September 2020 entered into between the Purchaser, Zhongtou Zhiye and Hengnan Wanwu relating to the terms between the owners of the equity interest of the JV Company;

- the Articles dated 22 August 2020 entered into between Hailan Shiye Guangzhou, Zhongtou Zhiye and Hengnan Wanwu, pursuant to which the parties agreed to establish the JV Company for the purpose of engaging in, among others, real estate development. Upon establishment, the JV Company was owned as to 38.37% by Hailan Shiye Guangzhou, 34.24% by Zhongtou Zhiye and 27.39% by Hengnan Wanwu;

- the agreement dated 16 October 2020 entered into between 江西海藍鴻基房地產開發有限公司 (Jiangxi Hailan Hongji Real Estate Development Co., Ltd.*) ("**Jiangxi Hailan**") and 廣西濱海城市建設發展有限公司 (Guangxi Binhai Urban Construction Development Co., Ltd.*) ("**Vendor A**") in relation to Jiangxi Hailan's proposed acquisition from Vendor A 69% equity interest in 欽州市天茂置業有限公司 (Qinzhou Tianmao Properties Co., Ltd.*) ("**Qinzhou Tianmao**") and sale debt of RMB32,434,709.58 owed by Qinzhou Tianmao to Vendor A for a total consideration of RMB74,241,153.80;

- the agreement dated 16 October 2020 entered into between Jiangxi Hailan and 欽州市天欽投資有限公司 (Qinzhou Tianqin Investment Co., Ltd.*) ("**Vendor B**") in relation to Jiangxi Hailan's proposed acquisition from Vendor B 30% equity interest in Qinzhou Tianmao and sale debt of RMB9,322,250 owed by Qinzhou Tianmao to Vendor B, for a total consideration of RMB27,498,964.88;

- the cooperation agreement dated 30 June 2020 entered into between Guangxi Fuming City Investment Development Group Co., Ltd.* (廣西富鳴城市投資發展集團有限責任公司) and Guangxi Datong Real Estate Development Co., Ltd.* (廣西大通房地產開發有限公司) ("**Guangxi Datong**"), in relation to the capital increase in the Project Company and joint development of the Project Land Parcel. The Project Company will be owned as to 10% by Guangxi Fuming and as to 90% by Guangxi Datong. Guangxi Fuming will contribute RMB15 million being part of the appraised value of the land use rights of the Project Land Parcel and Guangxi Datong will pay a total sum of RMB335 million, being guarantee deposit for the cooperation and capital increase, in cash, in return for 90% equity interest in the Project Company;

- the project agreement dated 14 August 2020 entered into among Guangxi Hailan Jinzhong Real Estate Co., Ltd.* (廣西海藍金鐘房地產有限公司) ("**Jinzhong Real Estate**"), Guangxi Datong, Mr. Zeng Shaohong (曾少洪), Mr. Zhi Kesheng (支克勝), Guangzhou Shenhua Investment Consultancy Co., Ltd.* (廣州紳華投資諮詢有限公司) and Qinzhou Taihui Investment Co., Ltd.* (欽州泰匯投資有限公司) in relation to the investment in a project land parcel with a maximum contribution of RMB135,240,000;

- the articles of association dated 16 July 2020 in relation to the formation and management of Jinzhong Real Estate entered into by Hailan Industrial and Zhongtou Zhiye; and

- the share transfer agreements dated 9 October 2019 entered into by Lianyungang Longji Properties Co., Ltd.* (連雲港隆基置業有限公司) with each of Mr. Fang Jing ("**Mr. Fang**") and Mr. Yang Jinhe ("**Mr. Yang**") in relation to the acquisition of 8.75% interest in Sanya Huixin Trading from each of Mr. Fang and Mr. Yang for an aggregate consideration of RMB8,470,000.

6. LITIGATION AND CLAIMS

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

7. SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Enlarged Group which does not expire or is not determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

8. EXPERTS AND CONSENTS

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

Name	**Qualification**
International Valuation Limited	An independent professional valuer
Mazars CPA Limited	Certified Public Accountants
Hainan Bangwei Law Firm (海南邦威律師事務所)	PRC legal advisor

Each expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of the text of its letter and/or report and/or the references to its name in the form and context in which they appear herein.

As at the Latest Practicable Date, each expert did not have any direct or indirect interest in any assets which had since 31 December 2020 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, each expert was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. GENERAL

(a) The registered office of the Company is situated at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company in Hong Kong is at Room 2212, 22/F, The Center, 99 Queen's Road Central, Central, Hong Kong.

(b) The branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Ltd. at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong; and

(c) The company secretary of the Company is Mr. Yang Dong John, who is a fellow member of the Hong Kong Institute of Certified Public Accountants and a non-practicing member of the Chinese Institute of Certified Public Accountants.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays and public holidays) at the principal office of the Company in Hong Kong at Room 2212, 22/F, The Center, 99 Queen's Road Central, Central, Hong Kong for a period of 14 days from the date of this circular:

(a) the letter from the Board dated 26 May 2021, the text of which is set out on pages 5 to 18 of this circular;

(b) the Articles of the JV Company;

(c) the JV Agreement, the First Acquisition Agreement, the Second Acquisition Agreement, the Third Acquisition Agreement and the Supplemental Agreement;

(d) the annual reports of the Company for the three years ended 31 December 2018 and 2019;

(e) the Accountants' Report of the JV Company for the period from 22 August 2020 (date of incorporation) to 31 December 2020, the text of which is set out in Appendix II to this circular;

(f) the Accountants' Report of the Target Company for the three years ended 31 December 2018, 2019 and 2020, the text of which is set out in Appendix III to this circular;

(g) the unaudited pro forma financial information of the Enlarged Group for the year ended 31 December 2020, the text of which is set out in Appendix IV to this circular;

(h) the Valuation Report, the text of which is set out in Appendix VI to this circular;

(i) material contracts as referred to in the section headed "Material Contracts" in this Appendix;

(j) the written consents referred to in the section headed "Experts and Consents" in this Appendix;

(k) the memorandum and articles of association of the Company; and

(l) this circular.

12. MISCELLANEOUS

For easy of reference, the names of the PRC established companies or entities (if any) and the PRC laws and regulations (if any) have generally been included in this circular in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.

Except for the above, the English text of this circular shall prevail over the Chinese text in the event of inconsistency.