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If you have sold or transferred all your shares in Applied Development 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.



APPLIED DEVELOPMENT HOLDINGS LIMITED

實力建業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 519)

**MAJOR TRANSACTION IN RELATION TO
CAPITAL INJECTION INTO YANCHENG HERONG PROPERTY
DEVELOPMENT LIMITED*
AND
NOTICE OF SPECIAL GENERAL MEETING**

Unless the context otherwise requires, all capitalised terms used in this circular have the meanings set out in the section headed "Definitions" of this circular.

A letter from the Board is set out from pages 4 to 13 of this circular.

A notice convening the SGM to be held at The Boardroom (Basement 2), The Wharney Guang Dong Hotel Hong Kong, 57 – 73 Lockhart Road, Wanchai, Hong Kong on Tuesday, 25, April 2017 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's principal place of business in Hong Kong at Unit 1801, 18/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM, or any adjournment thereof, should you so wish.

* *for identification purpose only*

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	means a day other than a Saturday, Sunday or a public holiday in the PRC
“Capital Injection”	the capital injection into Yancheng Herong by the Company (or indirectly through its wholly-owned subsidiary) pursuant to the terms and conditions of the Capital Injection Agreement
“Capital Injection Agreement”	the agreement dated 23 January 2017 entered into amongst (i) the Company, (ii) Nantong Ronghui and Herong Holdings, and (iii) Yancheng Herong in relation to the Capital Injection
“Capital Injection Conditions”	the conditions precedent set out in the paragraph “Conditions Precedent” under the section headed “The Capital Injection Agreement” in this circular
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Company”	Applied Development Holdings Limited (實力建業集團有限公司*), a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 519)
“Completion”	completion of the Capital Injection pursuant to the Capital Injection Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group as enlarged by the Capital Injection
“Group”	the Company and its subsidiaries

DEFINITIONS

“Herong Holdings”	Herong Holdings Group Limited* (和融控股集團有限公司), a limited company established under the laws of the PRC, directly holding 40% of the equity interests of Yancheng Herong as at the Latest Practicable Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	24 March 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Letter of Intent”	the letter of intent dated 10 January 2017 entered into among the Company, Herong Holdings, Nantong Ronghui and Yancheng Herong with respect to the proposed Capital Injection
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Nantong Ronghui”	Nantong Ronghui Property Development Limited* (南通融匯房地產開發有限公司), a limited company established under the laws of the PRC, directly holding 60% of the equity interests of Yancheng Herong as at the Latest Practicable Date
“Original Shareholders”	collectively, Herong Holdings and Nantong Ronghui
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC
“Project”	the Youshanmeidi Garden Project* (優山美地花園項目) held by Yancheng Herong and located at Yandu District, Yancheng City, Jiangsu Province, the PRC and the land use rights in respect thereof
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Shareholders to be convened by the Company on Tuesday, 25 April 2017 to consider and approve, among others, the Capital Injection Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Valuer” or “AVISTA”	AVISTA Valuation Advisory Limited, an independent professional valuer
“Yancheng Herong”	Yancheng Herong Property Development Limited* (鹽城和融房地產開發有限公司), a limited company established under the laws of the PRC and is directly owned as to 60% and 40% by Nantong Ronghui and Herong Holdings respectively as at the Latest Practicable Date
“%”	per cent.

* *for identification purpose only*

LETTER FROM THE BOARD



APPLIED DEVELOPMENT HOLDINGS LIMITED

實力建業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 519)

Non-executive Director:

Mr. Wang Bo (Chairman)

Executive Directors:

Mr. Yuen Chi Ping (Chief Executive Officer)

Ms. Ng Kit Ling

Independent Non-executive Directors:

Mr. Lau Chi Keung

Mr. Yu Tat Chi, Michael

Mr. Chiu Kit Man, Calvin

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business in

Hong Kong:

Unit 1801, 18/F

West Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

28 March 2017

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION IN RELATION TO
CAPITAL INJECTION INTO YANCHENG HERONG PROPERTY
DEVELOPMENT LIMITED***

AND

NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 23 January 2017 in relation to the Capital Injection. It was announced that on 23 January 2017 (after trading hours), (i) the Company, (ii) Nantong Ronghui and Herong Holdings (both being Original Shareholders of Yancheng Herong and currently holding 60% and 40% of the equity interests of Yancheng Herong respectively), and (iii) Yancheng Herong entered into the Capital Injection Agreement, pursuant to which the Company (or indirectly through its wholly-owned subsidiary) has conditionally agreed to inject capital of RMB150,000,000 into Yancheng Herong by way of cash contribution.

* *for identification purpose only*

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, inter alia, details of the Capital Injection and other information in accordance with the Listing Rules.

THE CAPITAL INJECTION AGREEMENT

Major terms of the Capital Injection Agreement are set out below:

Date

23 January 2017 (after trading hours)

Parties

- (i) the Company;
- (ii) Nantong Ronghui and Herong Holdings, the Original Shareholders of Yancheng Herong; and
- (iii) Yancheng Herong.

To the best knowledge, information and belief of the Board, having made all reasonable enquiries, each of Herong Holdings, Nantong Ronghui, Yancheng Herong and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Capital Injection

As at the date of the Capital Injection Agreement, Yancheng Herong has a registered capital of RMB50,000,000, which is subscribed and fully paid by Nantong Ronghui and Herong Holdings in cash as to 60% and 40% respectively.

Pursuant to the Capital Injection Agreement, the Company (or indirectly through its wholly-owned subsidiary) has conditionally agreed to inject capital in the amount of RMB150,000,000 into Yancheng Herong by way of cash contribution. Upon Completion, Yancheng Herong will be held as to 75%, 15% and 10% equity interests by the Group, Nantong Ronghui and Herong Holdings respectively, and the registered capital of Yancheng Herong will be increased from RMB50,000,000 to RMB200,000,000.

The amount of the Capital Injection was determined after arm's length negotiations between the Company and the Original Shareholders with reference to (i) the original registered capital and paid-up capital of Yancheng Herong made by the Original Shareholders; (ii) the registered capital of Yancheng Herong after the Capital Injection; and (iii) the value of the principal asset of Yancheng Herong.

LETTER FROM THE BOARD

As disclosed in the announcement of the Company dated 10 January 2017 in relation to the Letter of Intent, the Company agreed to pay the earnest money in a sum of RMB15,000,000 (the “**Earnest Money**”) to Yancheng Herong pursuant to the terms of the Letter of Intent, and such Earnest Money was paid by the Company to Yancheng Herong on 12 January 2017.

The total consideration payable by the Company for the Capital Injection is RMB150,000,000, which will be paid by installments in the following manners:

- (i) as to RMB30,000,000, representing 20% of the total consideration for the Capital Injection, will be paid by the Company within 15 Business Days after the completion of the Share Pledge (being one of the Capital Injection Conditions as set out below in this circular), and will be partially offset by the Earnest Money paid by the Company; and
- (ii) as to the remaining RMB120,000,000, representing 80% of the total consideration for the Capital Injection, will be paid by the Company within 10 Business Days after the fulfillment (or waiver, if applicable) of all other Capital Injection Conditions.

Payment of the Capital Injection is intended to be funded as to 40% by internal resources and 60% by external borrowings of the Group.

Conditions precedent

The payment of the Capital Injection in the amount of RMB150,000,000 is conditional upon the fulfillment (or waiver, if applicable) of one or more of the following conditions precedent (the “**Capital Injection Conditions**”):

- (1) the Company being satisfied with the results of the due diligence reviews on, among others, the financial, legal and valuation aspects of Yancheng Herong and the projects held by it, and there having been no change to the results of the due diligence reviews that are not acceptable to the Company prior to the date of payment of the Capital Injection; and based on the results of the due diligence reviews, Yancheng Herong having taken the appropriate remedial actions (if necessary) (including but not limited to the confirmation and verification of the fund transfer between Yancheng Herong and its related parties, the payment method and date of payment in respect of the accounts receivable and accounts payable), which is satisfactory and acceptable to the Company;
- (2) the Original Shareholders, Yancheng Herong and the Company having obtained all necessary government approvals required under the relevant laws and regulations and all necessary consents from third parties which are required for the Capital Injection Agreement and the transactions contemplated thereunder;
- (3) the Company having published the relevant announcement(s) and/or circular(s) (if applicable) and having obtained the Shareholders’ approval (if applicable) in accordance with the relevant requirements of the Listing Rules and the Stock Exchange in relation to the Capital Injection Agreement and the transactions contemplated thereunder;

LETTER FROM THE BOARD

- (4) in the opinion of the Company, there having been no material adverse change in relation to Yancheng Herong and/or the projects held by it;
- (5) the Original Shareholders' representations and warranties contained in the Capital Injection Agreement having remained true, accurate and not misleading;
- (6) there having been no restriction, prohibition, injunction, invalidation or of any kind which prevents (or seeks to prevent) the Capital Injection and the transactions contemplated under the Capital Injection Agreement by any government authorities;
- (7) the Original Shareholders having pledged the entire equity interests of Yancheng Herong held by them to the Company (or its designated persons), and the relevant registration of the pledge having been completed (the "**Share Pledge**"); and
- (8) the Original Shareholders having complied with all of their respective obligations under the Capital Injection Agreement.

The Original Shareholders shall use their best endeavors to procure the fulfillment of all Capital Injection Conditions on or before 30 April 2017 (or such other date as may be agreed by the Company in writing at its sole discretion). The Company may waive, in whole or in part, conditionally or unconditionally, conditions set out in paragraphs (1), (4), (5), (7) and (8) above by written notice to the Original Shareholders. The conditions set out in paragraphs (2), (3) and (6) above cannot be waived.

The fund transfer between Yancheng Herong and its related parties referred to in paragraph (1) above mainly refers to amount due to ultimate holding company and amount due to fellow subsidiaries, the details of which have been disclosed on page II-4 in Appendix II to this circular. Such fund has been used as working capital of Yancheng Herong for the development of the Project and is payable on demand. In the case that the relevant related parties demand the repayment, as Yancheng Herong only pledged part of its assets for financing, Yancheng Herong may apply for additional borrowings for such repayment. As at the Latest Practicable Date, Yancheng Herong's related parties do not intend to demand the repayment of such balances before the Completion. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, the necessary government approvals and consents from third parties referred to in paragraph (2) above include approvals and consents from the local commerce department, administration for industry and commerce department and foreign exchange department. As at the Latest Practicable Date, save for the publication of the announcement as required by the condition in paragraph (3) above, none of the above Capital Injection Conditions have been fulfilled.

LETTER FROM THE BOARD

Completion

Completion of the Capital Injection shall take place within five (5) Business Days after the consideration of the Capital Injection is paid in full and upon completion of the registration with the relevant administration for industry and commerce in the PRC in respect of the Capital Injection.

Termination

In the event of any material breach of the Capital Injection Agreement which is not remedied within 20 Business Days, the non-defaulting party(ies) shall have the right to (a) terminate the Capital Injection Agreement; and (b) request the defaulting party(ies) to compensate in full the losses and damages suffered in connection with such breach.

In addition, if the Capital Injection Conditions have not been fulfilled or waived (as the case may be) for whatever reason on or before 31 January 2018 or the Completion has not taken place in accordance with the terms of the Capital Injection, the Company shall have the right to terminate the Capital Injection Agreement by written notice.

Information on the Original Shareholders and Yancheng Herong

Herong Holdings is a limited company established under the laws of the PRC, and is principally engaged in investment holdings, assets management and property development and operation.

Nantong Ronghui is a limited company established under the laws of the PRC, and is principally engaged in property development and leasing.

Yancheng Herong is a limited company established under the laws of the PRC, and is principally engaged in property development. As at the Latest Practicable Date, Yancheng Herong is directly owned as to 60% and 40% by Nantong Ronghui and Herong Holdings respectively.

The principal asset of Yancheng Herong is the Project located at Yandu District, Yancheng City, Jiangsu Province, the PRC and its land use rights. The Project will be developed in three phases. The first phase development of the Project is currently under development with 115 units of villa and various ancillary facilities thereon having been completed and in the pre-sale stage.

The second and third phase development of the Project will be developed for residential purpose with aggregate gross floor area of approximately 355,947 sq.m. The construction cost for the first phase development is estimated to be approximately RMB266,200,000, of which RMB143,700,000 has been paid as at 31 January 2017. The total construction cost for the second and third phase development of the Project will depend on the detailed development plan, which has not been finalised by Yancheng Herong as at the Latest Practicable Date. As

LETTER FROM THE BOARD

at 31 December 2016, the properties under development expenditure commitment for the Project which is contracted but not provided for amounted to approximately RMB171,965,000. The development cost of the second and third phase development of the Project will be funded by the Capital Injection and the operating cash flow from the presale of properties from the first phase development. In addition, as Yancheng Herong only pledged part of its assets for financing as at 31 December 2016, the Company, the Original Shareholders and Yancheng Herong may consider applying for additional borrowings as general working capital of Yancheng Herong if further funding is required for the second and third phase development of the Project. The Company, the Original Shareholders and Yancheng Herong intend to continue to engage the existing contractors for the second and third phase development of the Project based on their performance, price and quality of work. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the existing contractors and their ultimate beneficial owners are third parties independent of the Company and its connected persons, and will not become a connected person of the Company as a result of the Capital Injection.

The Board noted it was stated on page V-9 of Appendix V to this circular that Yancheng Herong had obtained partial construction works planning permit, construction works commencement permit and pre-sale permit (the “**Permits**”) required for the development of the Project. As advised by the Company's PRC legal advisers in the PRC legal opinion, (i) the existing licences obtained by Yancheng Herong are sufficient and in compliance with the relevant PRC laws and regulations for the current construction and pre-sale of the first phase development of the Project; (ii) the reason for not obtaining all the Permits is that the detailed development plan for the second and third phase development of the Project has not been finalised as at the Latest Practicable Date; and (iii) there are no legal or substantial restrictions in relation to the application for such Permits as required for the construction, development and pre-sale of second and third phase development of the Project.

Set out below is the audited financial information of Yancheng Herong for the two financial years ended 31 December 2015 and 2016 prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the financial year ended	
	31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Net loss before and after taxation and extraordinary items	(9,409)	(8,036)
	As at 31 December	
	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Net assets	14,211	6,175

LETTER FROM THE BOARD

According to the valuation report prepared by AVISTA making reference to comparable sales evidence as available in the relevant market, the market value of the properties under development attributable to Yancheng Herong as at 31 January 2017 was approximately RMB665,000,000. Details of the valuation report are disclosed in the Appendix V to this circular.

Statement of reconciliation

The total estimated construction cost and the construction cost paid for the first phase development of the Project as at 31 January 2017 as disclosed in the valuation report set out in the Appendix V to this circular was approximately RMB266,200,000 and RMB143,700,000 respectively. According to the accountants' report set out in the Appendix II to this circular, the carrying value of the properties under development as at 31 December 2016 was approximately RMB513,999,000 (the "**Carrying Value**"). To the best knowledge of the Company, the aforesaid construction cost paid is one of the components to measure the Carrying Value, and the other components include: (i) a total land premium of RMB213,718,000; (ii) other tax and expenses in relation to the transfer of land of RMB7,585,000; (iii) construction costs incurred but not yet received value added tax invoice of RMB15,303,000; (iv) interest expense capitalised RMB137,729,000 and (v) minus the construction cost paid during the month ended 31 January 2017 of RMB4,036,000.

According to the valuation report set out in the Appendix V to this circular, the market value of properties under development as at 31 January 2017 was RMB665,000,000 ("**Market Value**"). To the best knowledge of the Company, the Carrying Value represents the cost of the properties under development as at 31 December 2016, whereas the Market Value represents valuation of Yancheng Herong by the independent professional Valuer, and the difference between the Carrying Value and the Market Value of approximately RMB151,001,000 represents (i) the construction cost paid during the month ended 31 January 2017 of RMB4,036,000; and (ii) the appreciation of fair value of RMB146,965,000 as at 31 January 2017, being the date of valuation.

REASONS AND BENEFITS OF THE CAPITAL INJECTION

The Company is an investment holding company and the Group is principally engaged in resort and property development, property investment and investment holding.

It was mentioned in the annual report of the Company for the twelve months ended 30 June 2016 that the Group would continue its principal business in property investment, resort and property development and investment holding, and would seek to expand these business segments by looking for appropriate investment opportunities with the aim to bring satisfactory return to the Group and the Shareholders. In particular, for the resort and property development business, the Group would continue to look for resort and property development business opportunities including but not limited to Mainland China and Hong Kong, being markets the Company's management is more familiar with. To widen the scope of the Group's property investment portfolio, the Company is also considering commercial property and hotel investments.

LETTER FROM THE BOARD

It was also mentioned in the interim report of the Company for the six months ended 31 December 2016 that the Group would continue to seek for good investment opportunities in investments and property development projects. The Group has been actively identifying investment opportunities in pursuit of its business strategy.

The current management of the Company has experience in and is familiar with the residential and commercial property development market in the PRC. The Company will develop the second and third phase of the Project by leveraging on the experience of the current management and its previous experience in the resort, villa and commercial property (including shopping mall, restaurants and offices) development projects in Panama and the British Virgin Islands.

Upon Completion, Yancheng Herong will become a non-wholly owned subsidiary of the Company. The Board considered that: (i) the Project is a villa project with land area of 316,020 sq.m., and is located at Yandu District, Yancheng City, Jiangsu Province, the PRC; (ii) the first phase development of the Project is currently under development with 115 units of villa having been completed and in the presale stage; (iii) the remaining land will add to the land bank of the Group for future developments; and (iv) the RMB150,000,000 capital to be injected to Yancheng Herong is at a discount of approximately 15.06% to the 75% equity interest to be attributable to the adjusted net assets value of RMB235,451,000 after taking into account of (a) the fair value adjustment on the properties under development, (b) the deferred tax liability arising from the fair value adjustment and (c) the capital to be injected to Yancheng Herong as disclosed in the Appendix III to this circular. In addition, the pre-sale of the first phase development of the Project has commenced in 2014, and the second and third phase of the Project is intended to be developed as residential properties for sale purpose by the Company. In view of the location and the intended development of the Project, the Board considers that the Capital Injection offers good opportunity for the Group to invest in the property market in the PRC and expand the scope of the Group's property investment portfolio with a view to bring more investment return for the Shareholder.

In light of the above, the Directors consider the terms of the Capital Injection are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTIONS

Upon Completion, the Company will be interested in 75% equity interest in Yancheng Herong, and therefore Yancheng Herong is accounted for as a non-wholly owned subsidiary of the Company and hence, it will be included in the Group's consolidated financial statements. For details of the unaudited pro forma financial information of the Enlarged Group, please refer to Appendix III to this circular.

LETTER FROM THE BOARD

Assets and liabilities

Based on the unaudited pro forma financial information as set out in Appendix III to this circular, assuming that the Completion had taken place on 31 December 2016, the total assets of the Group would have increased from approximately HK\$1,005,166,000 to approximately HK\$1,765,116,000 on a pro forma basis, the total liabilities of the Group would have increased from approximately HK\$5,009,000 to approximately HK\$670,654,000 on a pro forma basis, and the net assets of the Group would have increased from approximately HK\$1,000,157,000 to approximately HK\$1,094,462,000 on a pro forma basis.

Earnings

For the six months ended 31 December 2016, the Group recorded profit after tax of approximately HK\$43,984,000, which will not be affected by the Capital Injection. Nevertheless, after the Capital Injection, the financial results, assets and liabilities of Yancheng Herong will be consolidated with those of the Group and the earnings of the Group will be affected by the performance of Yancheng Herong. The properties of Yancheng Herong are classified as properties under development and are stated at the lower of cost and net realisable value.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios set forth under Rule 14.07 of the Listing Rules in respect of the Capital Injection is more than 25% but less than 100%, the Capital Injection under the Capital Injection Agreement constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and the shareholders' approval requirements under Chapter 14 of the Listing Rules.

SGM

A notice convening the SGM to be held at The Boardroom (Basement 2), The Wharney Guang Dong Hotel Hong Kong, 57 – 73 Lockhart Road, Wanchai, Hong Kong on Tuesday, 25 April 2017 at 10:00 a.m. is set out on pages SGM-1 to SGM-3 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolution in relation to the Capital Injection Agreement and the transactions contemplated thereunder, respectively.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's principal place of business at Unit 1801, 18/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the SGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM, or any adjournment thereof, should you so wish.

LETTER FROM THE BOARD

The register of members of the Company will be closed from Thursday, 20 April 2017 to Tuesday, 25 April 2017 (both days inclusive) for the purpose of determining the entitlement to attend and vote at the SGM, during which period no transfer of Share(s) will be registered. In order to be eligible to attend and vote at the SGM, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with Computershare Hong Kong Investor Services Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 19 April 2017. Shareholders whose names appear on the register of members of the Company on Tuesday, 25 April 2017 shall be entitled to attend and vote at the SGM.

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Shareholders have any material interest in the Capital Injection Agreement and the transactions contemplated thereunder, and therefore no Shareholder is required to abstain from voting in respect of the Capital Injection Agreement and the transactions contemplated thereunder.

RECOMMENDATIONS

The Directors believe that the terms of the Capital Injection Agreement and the Capital Injection are fair and reasonable, are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Capital Injection Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is also drawn to the information as set out in the appendices to this circular and the notice of the SGM as set out on pages SGM-1 to SGM-3, which form part of this circular.

By Order of the Board
Applied Development Holdings Limited
Wang Bo
Chairman and Non-executive Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for the six months ended 31 December 2016 and each of the three years ended 30 June 2014, 2015 and 2016 are disclosed in the following interim report for the six months ended 31 December 2016 and the annual reports of the Company for the years ended 30 June 2014, 2015 and 2016, 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.applieddev.com):

- The annual report 2014 of the Company for the year ended 30 June 2014 which is published on 9 October 2014 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/1009/LTN20141009023.pdf>), please refer to pages 40 to 134 in particular.
- The annual report 2015 of the Company for the year ended 30 June 2015 which is published on 27 October 2015 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/1027/LTN20151027272.pdf>), please refer to pages 28 to 88 in particular.
- The annual report 2016 of the Company for the year ended 30 June 2016 which is published on 20 September 2016 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0920/LTN20160920275.pdf>), please refer to pages 30 to 84 in particular.
- The interim report 2017 of the Company for the six months ended 31 December 2016 which is published on 9 March 2017 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0309/LTN20170309188.pdf>), please refer to pages 3 to 17 in particular.

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

2. INDEBTEDNESS

Borrowings

At the close of business on 31 January 2017, being the latest practicable date for the purpose of preparing this indebtedness statement, the Enlarged Group had the following borrowings:

	<i>RMB'000</i>	<i>HK\$'000</i>
The Group		
Interest-bearing borrowing [#]	15,000	17,250
Yancheng Herong		
Secured interest-bearing borrowings	45,000	50,722
Unsecured interest-bearing borrowings [#]	220,065	248,049
Amount due to ultimate holding company [#]	83,010	93,566
Amounts due to fellow subsidiaries [#]	105,970	119,445
	<u>469,045</u>	<u>529,032</u>

[#] *The amounts are unguaranteed and unsecured.*

Pledge of assets

At the close of business on 31 January 2017, being the latest practicable date for the purpose of preparing this indebtedness statement, interest-bearing borrowings of Yancheng Herong were pledged by land use rights of Yancheng Herong with aggregate carrying value of approximately RMB78,639,000 (equivalent to approximately HK\$88,639,000).

In addition, at the close of business on 31 January 2017, certain of Yancheng Herong's land use rights with aggregate carrying value of approximately RMB135,079,000 (equivalent to approximately HK\$152,256,000) were pledged to secure banking borrowings granted to contractors of Yancheng Herong amounted RMB180,000,000 (equivalent to approximately HK\$202,889,000).

Save as aforesaid or otherwise mentioned herein, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not have any other outstanding borrowings, mortgages, charges, debentures, loan capital and overdraft, debt securities or other similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities at the close of business on 31 January 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular.

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 of the Group since 30 June 2016, the date to which the latest published audited consolidated financial statements of the Group were made up.

4. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account the effects of the Completion and the financial resources available to the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least the next 12 months from the date of publication of this circular in the absence of unforeseen circumstances.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group will continue its principal business in property investment, resort and property development and investment holding, and will seek to expand these business segments by looking for appropriate investment opportunities with the aim to bring satisfactory return to the Group and the Shareholders. For the property investment business, the Company will continue to seize acquisition opportunities in prime office properties located in core business districts in Hong Kong in view that demands for high grade offices will continue to steadily increase in the coming years. In respect of the resort and property development business, the Group will continue to look for resort and property development business opportunities including but not limited to Mainland China and Hong Kong, being markets the Company's management is more familiar with. As for the investment holding business, the Group will continue with its investment business, being part of its treasury management activities, in effectively utilizing surplus listed on the Stock Exchange or overseas exchanges, equity-linked notes, convertible bonds as well as in corporate bonds. To widen the scope of the Group's property investment portfolio, the Company is also considering commercial property and hotel investments with an aim to maximise return to Shareholders. The Group has been exploring various investment opportunities available in the market recently which includes various commercial properties, boutique hotel and office units.

After the acquisition of the office properties in Lippo Centre and China Merchants Tower, the rental income of the Group for the six months ended 31 December 2016 raised to HK\$5,691,000, representing 836% increase as compared to HK\$608,000 for the corresponding period ended 31 December 2015. The Group recorded the increase of fair value of investment properties of HK\$41,000,000 for the six months ended 31 December 2016. At 31 December 2016, the carrying value of the Group's investment properties amounted to HK\$481,000,000. The Board believes the office properties of the Group continue to generate satisfied rental income as well as their appreciation of values.

In addition, the Company subscribed 20% equity interests in an investment holdings company, Wealth Guide Global Limited, for US\$20 and provided a loan of HK\$200,000,000. The Board believes that the investments in an investment holdings company as well as the shareholder's loan will benefit the Group as a whole.

On 24 February 2017, the Company entered into the share transfer agreement, pursuant to which the Company (or indirectly through its subsidiary) has conditionally agreed to purchase from the vendors the entire issued share capital of Wuxi Shengye Haigang Joint Stock Company Limited* (無錫盛業海港股份有限公司) (“**Wuxi Shengye**”), a property development company at a total consideration of RMB234,000,000 by way of cash. Upon completion of the share transfer, Wuxi Shengye will become a subsidiary of the Company. There is no variation to the aggregate of the remuneration payable to and benefits in kind receivable by the directors of the property development company in consequence of such acquisition. The transaction constitutes a major transaction of the Company, the details of which are set out in the announcement of the Company dated 24 February 2017 and the circular of the Company dated 24 March 2017.

Upon Completion, Yancheng Herong will become a non-wholly owned subsidiary of the Company and its accounts will be consolidated into the accounts of the Company.

The Board considers the relevant acquisitions are in line with the Group's business strategy, and the Board will continue to seek for good opportunities in investments and property development projects for the Group. Save as disclosed above, no other decision has been made as at the Latest Practicable Date. The Company will issue further announcement(s) to provide Shareholders with further details once any other investment opportunity has been identified.

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

**MAZARS CPA LIMITED**

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28 March 2017

The Directors
Applied Development Holdings Limited
Unit 1801, 18/F, West Tower
Shun Tak Center
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) of 鹽城和融房地產開發有限公司 (Yancheng Herong Property Development Limited[#]) (“Yancheng Herong”) for inclusion in the circular of Applied Development Holdings Limited (the “Company”) dated 28 March 2017 (the “Circular”) in connection with the proposed capital injection into Yancheng Herong (the “Capital Injection”). The Financial Information comprises the statements of financial position of Yancheng Herong as at 31 December 2014, 2015 and 2016, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of Yancheng Herong for each of the three years ended 31 December 2014, 2015 and 2016 (the “Relevant Periods”) and a summary of significant accounting policies and other explanatory information.

Yancheng Herong was established in the People’s Republic of China (the “PRC”) with limited liability on 5 December 2007 and is engaged in property development in the PRC.

Yancheng Herong adopts 31 December as its financial year end date.

Basis of preparation

For the purpose of this report, the sole director of Yancheng Herong has prepared the financial statements of Yancheng Herong for the Relevant Periods in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). We have carried out an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in the Circular based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Sole director’s responsibility

The sole director of Yancheng Herong is responsible for the preparation of the Underlying Financial Statements which give a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance, and the applicable disclosure provisions of the Listing Rules, and for such internal control as the sole director of Yancheng Herong determines is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Financial Information based on our procedures performed in accordance with the Auditing Guideline No. 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA and to report our opinion to you. We have not audited any financial statements of Yancheng Herong in respect of any period subsequent to 31 December 2016.

Opinion in respect of the Financial Information of the Relevant Periods

In our opinion, for the purpose of this report and on the basis of presentation as set out in Section B below, the Financial Information gives a true and fair view of the financial position of Yancheng Herong as at 31 December 2014, 2015 and 2016 and of its financial performance and cash flows for the Relevant Periods.

Yours faithfully,

Mazars CPA Limited

Certified Public Accountants

Hong Kong

A. FINANCIAL INFORMATION OF YANCHENG HERONG

Statements of Comprehensive Income

	<i>Note</i>	Year ended 31 December		
		2014	2015	2016
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	–	–	–
Other revenue	3	42	12	12
Selling and marketing expenses		(6,020)	(3,772)	(3,297)
Administrative and other operating expenses		<u>(4,533)</u>	<u>(5,649)</u>	<u>(4,751)</u>
Loss before tax	4	(10,511)	(9,409)	(8,036)
Income tax expense	5	<u>–</u>	<u>–</u>	<u>–</u>
Loss and total comprehensive loss for the year		<u><u>(10,511)</u></u>	<u><u>(9,409)</u></u>	<u><u>(8,036)</u></u>

Statements of Financial Position

	<i>Note</i>	As at 31 December		
		2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Non-current assets				
Property, plant and equipment	9	229	104	45
Current assets				
Properties under development	10	400,219	464,984	513,999
Other receivables	11	4,670	8,074	15,329
Cash and bank balances	12	2,373	1,395	1,586
		<u>407,262</u>	<u>474,453</u>	<u>530,914</u>
Current liabilities				
Trade and other payables	13	51,117	38,360	7,320
Deposits from sale of properties	14	15,781	37,353	71,219
Due to ultimate holding company	15	2,350	–	75,010
Due to fellow subsidiaries	16	71,902	72,859	105,970
Interest-bearing borrowings	17	152,721	241,774	245,265
		<u>293,871</u>	<u>390,346</u>	<u>504,784</u>
Net current assets		<u>113,391</u>	<u>84,107</u>	<u>26,130</u>
Total assets less current liabilities		<u>113,620</u>	<u>84,211</u>	<u>26,175</u>
Non-current liabilities				
Interest-bearing borrowings	17	90,000	70,000	20,000
NET ASSETS		<u>23,620</u>	<u>14,211</u>	<u>6,175</u>
Capital and reserves				
Paid-up capital	18	50,000	50,000	50,000
Accumulated losses		<u>(26,380)</u>	<u>(35,789)</u>	<u>(43,825)</u>
TOTAL EQUITY		<u>23,620</u>	<u>14,211</u>	<u>6,175</u>

Statements of Changes in Equity

	Paid-up capital <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2014	50,000	(15,869)	34,131
Loss for the year and total comprehensive loss for the year	<u>–</u>	<u>(10,511)</u>	<u>(10,511)</u>
At 31 December 2014 and 1 January 2015	50,000	(26,380)	23,620
Loss for the year and total comprehensive loss for the year	<u>–</u>	<u>(9,409)</u>	<u>(9,409)</u>
At 31 December 2015 and 1 January 2016	50,000	(35,789)	14,211
Loss for the year and total comprehensive loss for the year	<u>–</u>	<u>(8,036)</u>	<u>(8,036)</u>
At 31 December 2016	<u>50,000</u>	<u>(43,825)</u>	<u>6,175</u>

Statements of Cash Flows

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES			
Loss before tax	(10,511)	(9,409)	(8,036)
Adjustments for:			
Depreciation of property, plant and equipment	180	125	59
Bank interest income	(25)	(12)	(4)
Changes in working capital:			
Properties under development	(34,926)	(36,782)	(21,576)
Other receivables	453	(2,748)	(6,565)
Trade and other payables	1,555	(2,082)	(31,040)
Deposits from sale of properties	15,781	21,572	33,866
Due to ultimate holding company	1,050	(2,350)	75,010
Net cash (used in) generated from operations	(26,443)	(31,686)	41,714
Interest paid	(13,574)	(26,316)	(9,432)
PRC land appreciation tax paid	(577)	(656)	(690)
Net cash (used in) from operating activities	(40,594)	(58,658)	31,592
INVESTING ACTIVITIES			
Interest received	25	12	4
Payment for purchases of property, plant and equipment	(3)	–	–
Net cash from investing activities	22	12	4
FINANCING ACTIVITIES			
(Repayment of) Advance from fellow subsidiaries, net	(99,033)	75,668	33,845
Inception of bank loans	222,000	18,800	–
Inception of other borrowings	23,310	182,200	82,310
Repayment of bank loans	–	(132,000)	(63,800)
Repayment of other borrowings	(107,750)	(87,000)	(83,760)
Net cash from (used in) financing activities	38,527	57,668	(31,405)
Net (decrease) increase in cash and cash equivalents	(2,045)	(978)	191
Cash and cash equivalents at the beginning of the reporting periods	4,418	2,373	1,395
Cash and cash equivalents at the end of the reporting periods, represented by cash and bank balances	2,373	1,395	1,586

Major non-cash transactions:

During the years ended 31 December 2014, 2015 and 2016, interest expenses of approximately RMB2,363,000, RMB1,019,000 and RMB5,456,000 respectively on amounts due to fellow subsidiaries were settled through current accounts with fellow subsidiaries.

During the years ended 31 December 2014, 2015 and 2016, interest expenses of approximately RMB1,772,000, RMB10,100,000 and RMB12,551,000 respectively on other borrowings were not yet settled and included in the interest-bearing borrowings.

During the years ended 31 December 2014 and 2016, the proceeds of other borrowings amounting to approximately RMB72,590,000 and RMB6,190,000 were received by fellow subsidiaries.

During the year ended 31 December 2015, other borrowings amounting to approximately RMB17,650,000 were repaid by fellow subsidiaries.

B. NOTES TO THE FINANCIAL INFORMATION**1. CORPORATE INFORMATION**

Yancheng Herong is a limited liability company established in the PRC on 5 December 2007. The address of its registered office is 鹽城市鹽都區西區世紀大道北·龍乘路西 (Longcheng W Rd, Century Ave, Yandu Qu Western District, Yancheng, Jiangsu, China[#]).

The principal activity of Yancheng Herong is property development in the PRC.

The immediate holding company of Yancheng Herong is 南通融匯房地產開發有限公司 (Nantong Ronghui Property Development Limited[#]), a company established in the PRC. In the opinion of the sole director of Yancheng Herong, the ultimate holding company of Yancheng Herong is 和融控股集團有限公司 (Herong Holdings Group Limited[#]) (“Herong Holdings”), a company established in the PRC.

2. PRINCIPAL ACCOUNTING POLICIES**Statement of compliance**

The Financial Information has been prepared in accordance with HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA, and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the Financial Information also complies with the applicable disclosure provisions of the Listing Rules.

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Application of HKFRSs

The HKICPA has issued a number of new/revised HKFRSs during the Relevant Periods. For the purpose of preparing the Financial Information, Yancheng Herong has consistently adopted all HKFRSs that are relevant to its operations and are effective for the Relevant Periods.

As at the date of this report, the HKICPA has issued the following new/revised HKFRSs that are relevant to Yancheng Herong but not yet effective, which Yancheng Herong has not early adopted.

Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 9 (2014)	Financial Instruments ²
HKFRS 16	Leases ³

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

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

The sole director of Yancheng Herong is in process of assessing the possible impact on the future adoption of the new/revised HKFRSs, but is not yet in a position to reasonably estimate their impact on the Financial Information.

A summary of the principal accounting policies adopted by Yancheng Herong in the preparation of the Financial Information is set out below.

Basis of measurement

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Computer equipment	33%
Furniture, fixtures and office equipment	20%
Motor vehicle	25%

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

Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated cost to completion. Development cost of property comprises mainly construction costs, cost of land use rights, borrowing costs and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Financial instruments***Recognition and derecognition***

Financial assets and financial liabilities are recognised when and only when Yancheng Herong 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) Yancheng Herong's contractual rights to future cash flows from the financial asset expire or (ii) Yancheng Herong transfers the financial asset and either (a) Yancheng Herong transfers substantially all the risks and rewards of ownership of the financial asset, or (b) Yancheng Herong 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.

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 assets or financial liabilities are initially recognised at their fair value plus, in the case of financial assets or financial liabilities not carried at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities.

(1) Loans and receivables

Loans and receivables including cash and bank balances and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less any impairment loss. Amortised cost is calculated by taking into account any discounts or premiums on acquisition, over the period to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in profit or loss.

(2) *Financial liabilities*

Yancheng Herong's financial liabilities include trade and other payables, amounts due to ultimate holding company and fellow subsidiaries and interest-bearing borrowings. All financial liabilities except for derivatives 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

At the end of each reporting period, Yancheng Herong assesses whether there is objective evidence that financial assets are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Yancheng Herong and when the revenue and costs, if applicable, can be measured reliably and on the following bases:

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. To the extent that the Yancheng Herong has to perform further work on the properties already delivered to the purchasers, the relevant expenses shall be recognised simultaneously. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the "Deposits from sale of properties" under current liabilities.

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Borrowing costs

Borrowing costs incurred which are 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. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised as an expense in the year in which they are incurred.

Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

Defined contribution plans

The employees of Yancheng Herong in the PRC are members of the state-managed retirement benefits schemes operated by the government. Yancheng Herong is required to contribute a specified percentage of their payroll costs to the retirement benefits schemes. The only obligation of Yancheng Herong with respect to the retirement benefits schemes is to make the specified contributions.

Taxation

The charge for current income tax is based on the results for each reporting period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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 in the Financial Information. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss is not recognised.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the year when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Related parties

A related party is a person or entity that is related to Yancheng Herong.

- (a) A person or a close member of that person's family is related to Yancheng Herong if that person:
 - (i) has control or joint control over Yancheng Herong;
 - (ii) has significant influence over Yancheng Herong; or
 - (iii) is a member of the key management personnel of Yancheng Herong or of the parent of Yancheng Herong.
- (b) An entity is related to Yancheng Herong if any of the following conditions applies:
 - (i) The entity and Yancheng Herong are members of the same group (which means that each holding company, 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 Yancheng Herong or an entity related to Yancheng Herong.
 - (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 holding company of the entity).
 - (viii) The entity, or any of a group of which it is a part, provides key management personnel services to Yancheng Herong or to the parent of Yancheng Herong.

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.

Critical accounting estimates and judgements

Estimates and assumptions concerning the future and judgements are made by the management in the preparation of the Financial Information. They affect the application of Yancheng Herong's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

Estimation of net realisable value of properties under development

Yancheng Herong considers information from a variety sources, including recent prices of similar properties in the same location and condition, with adjustments to reflect any changes in economic conditions since the dates of transactions that occurred at those prices. Particulars of the properties under development of Yancheng Herong are set out in Note 10 to the Financial Information.

Impairment of other receivables

The management determines the provision for impairment of Yancheng Herong's other receivables based on the current creditworthiness and the past collection history of each other debtor. If the financial conditions of Yancheng Herong's other debtors were to deteriorate, resulting in an impairment of their ability to make payments, provision may be required.

3. REVENUE

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue <Remark>	—	—	—
Other revenue			
Bank interest income	25	12	4
Others	17	—	8
	<u>42</u>	<u>12</u>	<u>12</u>

<Remark>:

Yancheng Herong did not generate any revenue from the property development during the Relevant Periods.

Yancheng Herong has only one operating segment which is operated in the PRC and therefore, no segment information is presented.

4. LOSS BEFORE TAX

This is stated after charging (crediting):

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Finance cost			
Interest on bank loans and other borrowings	28,384	26,760	27,439
Less: Amount capitalised into properties under development <Remark>	(28,384)	(26,760)	(27,439)
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

<Remark>:

Interest expenses capitalised for the Relevant Period are related to borrowings for current property development project.

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Staff cost			
Employee benefits expense (including director's emoluments)	1,382	1,394	1,289
Contributions to defined contribution plans	384	377	382
	<u> </u>	<u> </u>	<u> </u>
Total staff costs	1,766	1,771	1,671
Less: Amount capitalised into properties under development	(658)	(485)	(486)
	<u> </u>	<u> </u>	<u> </u>
	1,108	1,286	1,185
Other items			
Auditor's remuneration	15	15	27
Operating lease payments on premises	285	247	1
Depreciation	180	125	59
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>

5. INCOME TAX EXPENSE

PRC Enterprise Income Tax has not been provided for the Relevant Periods as Yancheng Herong incurred a loss for taxation purposes for the Relevant Periods in accordance with the relevant tax laws applicable to Yancheng Herong. The statutory Enterprise Income Tax rate in the PRC is 25% for the Relevant Periods.

Reconciliation of tax expense

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Loss before tax	(10,511)	(9,409)	(8,036)
PRC Enterprise Income Tax at applicable tax rate of 25%	(2,627)	(2,352)	(2,009)
Expenses not deductible for tax purpose	985	455	351
Unrecognised tax losses	1,642	1,799	1,311
Others	–	98	347
Tax expense for the year	–	–	–

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the tax losses because it is not probable that future taxable profit will be available against which Yancheng Herong can utilise the benefits therefrom. At the end of the reporting period, Yancheng Herong has the following tax losses arising in the PRC that can be offset against future taxable profits for a maximum of 5 years from the year in which the tax loss was incurred:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Year of expiry			
2015	1,693	–	–
2016	2,371	2,371	–
2017	2,307	2,307	2,307
2018	4,418	4,418	4,418
2019	6,568	6,568	6,568
2020	–	7,196	7,196
2021	–	–	5,244
	17,357	22,860	25,733

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**(a) Directors' emoluments**

Directors' emoluments disclosed pursuant to the Listing Rules regarding section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2014

	Salaries, allowance and benefits in kind <i>RMB'000</i>	Contribution to defined contribution retirement plans <i>RMB'000</i>	Total <i>RMB'000</i>
洪遠富	—	—	—

Year ended 31 December 2015

	Salaries, allowance and benefits in kind <i>RMB'000</i>	Contribution to defined contribution retirement plans <i>RMB'000</i>	Total <i>RMB'000</i>
洪遠富 (Note i)	—	—	—
張錦忠 (Note i)	—	—	—
	—	—	—

Year ended 31 December 2016

	Salaries, allowance and benefits in kind <i>RMB'000</i>	Contribution to defined contribution retirement plans <i>RMB'000</i>	Total <i>RMB'000</i>
張錦忠	—	—	—

Note:

- (i) On 28 August 2015, 洪遠富 resigned as the sole director of Yancheng Herong and 張錦忠 was appointed as the sole director of Yancheng Herong.

(b) Loans, quasi-loans and other dealings in favour of directors

Other than as disclosed in notes 15 and 16 to the Financial Information, there are no loans, quasi-loans and other dealings in favour of the sole director of Yancheng Herong or its holding companies that were entered into or subsisted during the Relevant Periods.

(c) Sole director's material interests in transactions, arrangements or contracts

After consideration, the sole director is of the opinion that no transactions, arrangements and contracts of significance in relation to Yancheng Herong's business to which Yancheng Herong was a party and in which the sole director of Yancheng Herong had a material interest whether directly or indirectly, subsisted at any time during the Relevant Periods.

(d) Individuals with highest emoluments

None of the directors of Yancheng Herong is included in the five highest paid individuals for the Relevant Periods. The emoluments of the five individuals for the years ended 31 December 2014, 2015 and 2016 respectively are as follows:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowance and benefits in kind	541	430	423
Contributions to defined contribution retirement plans	110	96	93
Total	651	526	516

The emoluments of the above individuals with the highest emoluments are within the band ranging from Nil to HK\$1,000,000 (equivalent to approximately Nil to RMB830,000).

7. DIVIDENDS

No dividends have been paid or declared by Yancheng Herong during the Relevant Periods.

8. LOSS PER SHARE

Loss per share has not been presented as such information is not considered meaningful for the purpose of the Financial Information.

9. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Motor vehicle <i>RMB'000</i>	Total <i>RMB'000</i>
Reconciliation of carrying amount – year ended 31 December 2014				
At the beginning of the reporting period	136	64	206	406
Additions	3	–	–	3
Depreciation	(60)	(23)	(97)	(180)
At the end of the reporting period	79	41	109	229
Reconciliation of carrying amount – year ended 31 December 2015				
At the beginning of the reporting period	79	41	109	229
Depreciation	(53)	(20)	(52)	(125)
At the end of the reporting period	26	21	57	104
Reconciliation of carrying amount – year ended 31 December 2016				
At the beginning of the reporting period	26	21	57	104
Depreciation	(23)	(10)	(26)	(59)
At the end of the reporting period	3	11	31	45
At 31 December 2014				
Cost	240	121	407	768
Accumulated depreciation	(161)	(80)	(298)	(539)
	79	41	109	229
At 31 December 2015				
Cost	240	121	407	768
Accumulated depreciation	(214)	(100)	(350)	(664)
	26	21	57	104
At 31 December 2016				
Cost	240	121	407	768
Accumulated depreciation	(237)	(110)	(376)	(723)
	3	11	31	45

10. PROPERTIES UNDER DEVELOPMENT

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Properties under development	400,219	464,984	513,999

The properties under development include costs of acquiring rights to use lands, which are located in the PRC for the property development. Land use rights are held on leases of 70 years from the date of acquired.

Certain properties under development (including land use rights) were pledged for the interest-bearing borrowings of Yancheng Herong and its contractors and details are set out in notes 17 and 22 to the Financial Information.

The development of the properties expected to be completed after more than one year is approximately RMB400,219,000, RMB464,984,000 and RMB139,481,000 as at 31 December 2014, 2015 and 2016 respectively.

11. OTHER RECEIVABLES

	Note	As at 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Deposits paid		2,882	2,857	2,837
Prepaid PRC land appreciation tax		577	1,233	1,923
Prepaid other taxes		1,078	2,302	3,506
Prepayments and other receivables	(a)	133	1,682	7,063
		<u>4,670</u>	<u>8,074</u>	<u>15,329</u>

(a) Approximately RMB100,000, RMB1,650,000 and RMB6,683,000 which represented loan to independent third parties, are unsecured, interest free and have no fixed term of repayment as at 31 December 2014, 2015 and 2016 respectively.

12. CASH AND BANK BALANCES

Bank balances held by Yancheng Herong bear interest at prevailing market interest rates.

13. TRADE AND OTHER PAYABLES

	Note	As at 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Trade payables				
To third parties	(a)	5,073	2,402	2,425
Other payables				
Accrued interest expenses	(b)	10,675	–	–
Deposits received and other payables	(c)	35,369	35,958	4,895
		<u>51,117</u>	<u>38,360</u>	<u>7,320</u>

- (a) The ageing analysis of trade payables of Yancheng Herong presented based on recognition date at the end of the reporting periods as follows:

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Trade payables			
Within 365 days	1,618	961	1,086
Over 365 days	3,455	1,441	1,339
	<u>5,073</u>	<u>2,402</u>	<u>2,425</u>

- (b) The amount represented the unpaid interest expenses of the interest-bearing borrowing and had been settled during year 2015.
- (c) Approximately RMB29,470,000 and RMB27,890,000 which represented cash advances from third parties, were unsecured, interest free and had no fixed term of repayment as at 31 December 2014 and 2015 respectively.

14. DEPOSITS FROM SALES OF PROPERTIES

Deposits from sale of properties in the amount of approximately RMB15,781,000, RMB37,353,000 and Nil as at 31 December 2014, 2015 and 2016 are expected to be recognised as income in more than one year.

15. DUE TO ULTIMATE HOLDING COMPANY

The amount due is unsecured, interest free and repayable on demand.

16. DUE TO FELLOW SUBSIDIARIES

Included in the amounts due to fellow subsidiaries, approximately RMB45,373,000, RMB34,769,000 and RMB74,234,000 are unsecured, repayable on demand and bear interest ranging from 6% to 11%, at 4% and at 9% per annum as at 31 December 2014, 2015 and 2016 respectively.

The remaining balances are unsecured, interest free and repayable on demand.

During the year ended 31 December 2015, a balance of approximately RMB98,732,000 included in amounts due to fellow subsidiaries was transferred to interest-bearing borrowings upon cessation as a fellow subsidiary of Yancheng Herong.

17. INTEREST-BEARING BORROWINGS

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Secured	123,000	108,800	45,000
Unsecured	119,721	202,974	220,265
	<u>242,721</u>	<u>311,774</u>	<u>265,265</u>

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Current – Within 1 year or on demand	152,721	241,774	245,265
Non-current			
After 1 year, but within 2 years	20,000	25,000	20,000
After 2 years, but within 5 years	70,000	45,000	–
	90,000	70,000	20,000
	242,721	311,774	265,265

The effective interest rate on the interest-bearing borrowings as at 31 December 2014, 2015 and 2016 ranged from 7% to 18%, 5% to 18% and 6% to 8% per annum respectively.

As at 31 December 2014, 2015 and 2016, loans of approximately RMB123,000,000, RMB108,800,000 and RMB45,000,000 are secured by the followings:

- (i) pledge of land use rights (included in “Properties under development”) with aggregate carrying value of approximately RMB213,718,000, RMB213,718,000 and RMB78,639,000, as at 31 December 2014, 2015 and 2016 respectively; and
- (ii) pledge of properties under development with construction cost of approximately RMB13,000,000 and RMB54,830,000 as at 31 December 2014 and 2015 respectively.

18. PAID-UP CAPITAL

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Registered and paid-up capital	50,000	50,000	50,000

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Yancheng Herong's principal financial instruments comprise other receivables, trade and other payables, amounts due to ultimate holding company and fellow subsidiaries and interest-bearing borrowings. The main purpose of these financial instruments is to raise and maintain finance for Yancheng Herong's operations.

The main risks arising from Yancheng Herong's financial instruments are interest rate risk, credit risk and liquidity risk.

The objective of financial risk management is to ensure that Yancheng Herong's overall financial risk is at an acceptable level and that appropriate returns are achieved for the level of risk assumed. The management generally adopts conservative strategies on its risk management and limits Yancheng Herong's exposure to these risks to a minimum. The management reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Yancheng Herong is exposed to interest rate risk in relation to fixed-rate bank and other borrowings. Yancheng Herong is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and deposits with a non-banking financial institution, and variable-rate bank borrowings.

Yancheng Herong's exposure to the cash flow interest rate risk relates primarily to the variable-rate bank and other borrowings. It is Yancheng Herong's policy to negotiate the terms of the interest-bearing bank and other borrowings in order to balance the interest rate exposure. The sensitivity analysis below has been determined based on the exposure to interest rates for bank and other borrowings at the end of the reporting period. No sensitivity analysis has been presented for the exposure to interest rates for bank balances as the management of Yancheng Herong considers that, taking into account that the fluctuation in interest rates on bank balances and deposits with a nonbanking financial institution is minimal, the impact on profit or loss for the Relevant Periods is insignificant.

The analysis is prepared assuming the variable-rate bank and other borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease during the Relevant Periods is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 50 basis points higher/lower during the Relevant Periods and all other variables were held constant, Yancheng Herong's properties under development (which qualified for capitalisation) would increase/decrease by approximately RMB719,000, RMB860,000 and RMB730,000 for the years ended 31 December 2014, 2015 and 2016 respectively.

Credit risk

As at 31 December 2014, 2015 and 2016, Yancheng Herong's maximum exposure to credit risk which will cause a financial loss to Yancheng Herong due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognised financial assets as stated in the statements of financial position. Yancheng Herong's credit risk is primarily attributable to other debtors and bank balances.

The management considers the credit risk in respect of bank balances is minimal because Yancheng Herong's bank balances are placed with creditworthy banks in the PRC.

In respect of other debtors, individual credit evaluations are performed taking into account of the counterparties' repayment ability. Monitoring procedures are in place on an ongoing basis in order to reduce credit risk.

Liquidity risk

Management of Yancheng Herong aims at maintaining sufficient level of cash and cash equivalents to finance Yancheng Herong's operations and expected expansion. Yancheng Herong's primary cash requirements include payments for operating expenses and construction of properties under development.

Yancheng Herong finances its working capital requirements mainly by the funds generated from operations, proceeds from pre-sale of properties and utilisation of interest-bearing borrowings. The maturity profile of Yancheng Herong's financial liabilities at the end of the reporting period based on contractual undiscounted payments are summarised below:

	On demand or less than 3 months RMB'000	3-12 months RMB'000	1-5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
As at 31 December 2014					
Trade and other payables	36,832	14,285	–	51,117	51,117
Due to ultimate holding company	2,350	–	–	2,350	2,350
Due to fellow subsidiaries	71,902	–	–	71,902	71,902
Interest-bearing borrowings	42,812	117,398	96,978	257,188	242,721
	<u>153,896</u>	<u>131,683</u>	<u>96,978</u>	<u>382,557</u>	<u>368,090</u>
As at 31 December 2015					
Trade and other payables	33,589	4,771	–	38,360	38,360
Due to fellow subsidiaries	72,859	–	–	72,859	72,859
Interest-bearing borrowings	224,792	23,218	72,424	320,434	311,774
	<u>331,240</u>	<u>27,989</u>	<u>72,424</u>	<u>431,653</u>	<u>422,993</u>
As at 31 December 2016					
Trade and other payables	3,739	3,581	–	7,320	7,320
Due to ultimate holding company	75,010	–	–	75,010	75,010
Due to fellow subsidiaries	105,970	–	–	105,970	105,970
Interest-bearing borrowings	221,070	26,558	20,060	267,688	265,265
	<u>405,789</u>	<u>30,139</u>	<u>20,060</u>	<u>455,988</u>	<u>453,565</u>

20. FAIR VALUE MEASUREMENTS

All financial assets and financial liabilities are carried at amount not materially different from their fair values as at 31 December 2014, 2015 and 2016.

21. CAPITAL MANAGEMENT

The objectives of Yancheng Herong's capital management are to safeguard its ability to continue as a going concern and to provide returns for equity owners. Yancheng Herong manages its capital structure and makes adjustments, including payment of dividends to equity owners, return of capital to equity holders or call for additional capital from equity owners or sale of assets to reduce debts. No changes were made in the objectives, policies or processes during the Relevant Periods.

22. PLEDGE OF ASSETS

At 31 December 2016, certain of Yancheng Herong's land use rights (included in "Properties under development") with aggregate carrying value of approximately RMB135,079,000 were pledged to secure banking borrowings granted to contractors of Yancheng Herong amounted RMB180,000,000.

23. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances with related parties disclosed elsewhere in the Financial Information, Yancheng Herong had the following transactions with related parties during the Relevant Periods:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Ultimate holding company			
Service fee	850	850	–
Fellow subsidiaries			
Interest expenses (Capitalised into "Properties under development")	2,363	1,020	5,456
Purchase of materials (Capitalised into "Properties under development")	2,197	–	–
Service fee	534	1,050	2,035
	<u>534</u>	<u>1,050</u>	<u>2,035</u>

The above fellow subsidiaries are directly/indirectly owned subsidiaries of Herong Holdings, the ultimate holding company of Yancheng Herong.

24. COMMITMENTS**(a) Operating lease commitments – as lessee**

At the end of the reporting periods, Yancheng Herong had commitments for future minimum lease payments under non-cancellable operating leases which fall due:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	<u>20</u>	<u>20</u>	<u>–</u>

(b) Properties under development expenditure commitments

At the end of the reporting periods, Yancheng Herong had the following properties under development expenditure commitments:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Expenditure in respect of the properties under development contracted but not provided for	<u>190,207</u>	<u>168,443</u>	<u>171,965</u>

C. SUBSEQUENT FINANCIAL STATEMENTS/SUBSEQUENT EVENTS

No audited financial statements have been prepared by Yancheng Herong in respect of any period subsequent to 31 December 2016.

There were no significant subsequent events that have occurred to Yancheng Herong since 31 December 2016.

[#] *denotes an English translation of the Chinese name and is for identification purposes only. If there is any inconsistency between the Chinese name and the English translation, the Chinese name shall prevail.*

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

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



MAZARS CPA LIMITED

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28 March 2017

The Directors
Applied Development Holdings Limited
Unit 1801, 18th Floor
West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Applied Development 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 2016 and related notes as set out in Appendix III to the circular in connection with the proposed capital injection into 鹽城和融房地產開發有限公司 (Yancheng Herong Property Development Limited[#]) (“Yancheng Herong”) (the “Capital Injection”) dated 28 March 2017 (the “Circular”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in Appendix III to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Capital Injection on the Group’s consolidated financial position at 31 December 2016 as if the Capital Injection had taken place on 31 December 2016. As part of this process, information about the Group’s unaudited consolidated financial position at 31 December 2016 has been extracted by the Directors from the Group’s interim report for the six months ended 31 December 2016 on which no audit, review or accountant’s report has been published. Information about the financial position of Yancheng Herong at 31 December 2016 has been extracted by the Director from Appendix II to the Circular.

Directors' responsibility for the unaudited pro forma financial information

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

Reporting accountant's 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 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 accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

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

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

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

The procedures selected depend on the reporting accountants' 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 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

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**B. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED
GROUP****1. Introduction**

The following is a summary of illustrative unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities at 31 December 2016 in connection with the proposed capital injection into 鹽城和融房地產開發有限公司 (Yancheng Herong Property Development Limited[#]) (“Yancheng Herong”) (the “Capital Injection”). The unaudited pro forma financial information presented below is prepared to illustrate the financial position of the Group immediately after completion of the Capital Injection (the “Enlarged Group”) as at 31 December 2016 as if the Capital Injection had been completed on 31 December 2016.

The unaudited pro forma financial information is prepared based on the unaudited consolidated statement of financial position of the Group at 31 December 2016 as extracted from the interim report of the Group for the six months ended 31 December 2016 and the audited statement of financial position of Yancheng Herong at 31 December 2016 as extracted from Appendix II to the Circular.

The unaudited pro forma financial information is presented after making pro forma adjustments that are directly attributable to the Capital Injection and not relating to future events or decisions, factually supportable and clearly identified as to those adjustments which are expected to have/have no continuing effect on the Enlarged Group.

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 Capital Injection is based on a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, it may not give a true picture of the financial position of the Group had the Capital Injection been completed as of 31 December 2016, where applicable, or any future date.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group as set out in the interim report of the Group for the six months ended 31 December 2016 and other financial information included elsewhere in the Circular.

2. Unaudited Pro Forma Consolidated Statement of Assets And Liabilities of the Enlarged Group

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2016 has been prepared based on the unaudited consolidated statement of financial position of the Group as at 31 December 2016, which have been extracted from the interim report of the Company for the period then ended and the audited statement of financial statements of Yancheng Herong as at 31 December 2016, which have been extracted from Appendix II, after making pro forma adjustments relating to the Capital Injection that are directly attributable to the transaction and factually supportable.

	The Group at 31 December 2016	Yancheng Herong at 31 December 2016	Yancheng Herong at 31 December 2016	Pro forma adjustments		Pro forma Enlarged Group
	HK\$'000 (Note 1)	RMB'000 (Note 2)	HK\$'000 (Note 2)	HK\$'000 (Note 3)	HK\$'000 (Note 4)	HK\$'000
Non-current assets						
Investment properties	481,000	–	–	–	–	481,000
Property, plant and equipment	33	45	50	–	–	83
Interests in subsidiaries	–	–	–	167,385	(167,385)	–
Available-for-sale investments	175	–	–	–	–	175
	<u>481,208</u>	<u>45</u>	<u>50</u>	<u>167,385</u>	<u>(167,385)</u>	<u>481,258</u>
Current assets						
Properties under development	–	513,999	573,571	–	168,503	742,074
Financial assets at fair value through profit or loss	45,158	–	–	–	–	45,158
Trade and other receivables	75,019	15,329	17,106	–	–	92,125
Loan to an affiliate company	200,000	–	–	–	–	200,000
Bank balances and cash	203,781	1,586	1,770	–	(1,050)	204,501
	<u>523,958</u>	<u>530,914</u>	<u>592,447</u>	<u>–</u>	<u>167,453</u>	<u>1,283,858</u>
Current liabilities						
Deposits from sale of properties	–	71,219	79,473	–	–	79,473
Trade and other payables	2,673	7,320	8,168	–	–	10,841
Due to ultimate holding company	–	75,010	83,704	–	–	83,704
Due to fellow subsidiaries	–	105,970	118,252	–	–	118,252
Interest-bearing borrowings	–	245,265	273,691	–	–	273,691
	<u>2,673</u>	<u>504,784</u>	<u>563,288</u>	<u>–</u>	<u>–</u>	<u>565,961</u>
Net current assets	<u>521,285</u>	<u>26,130</u>	<u>29,159</u>	<u>–</u>	<u>167,453</u>	<u>717,897</u>
Total assets less current liabilities	<u>1,002,493</u>	<u>26,175</u>	<u>29,209</u>	<u>167,385</u>	<u>68</u>	<u>1,199,155</u>
Capital and reserves						
Share capital	20,876	50,000	55,795	167,385	(223,180)	20,876
Share premium and reserve	979,281	(43,825)	(48,904)	–	143,209	1,073,586
Total equity	<u>1,000,157</u>	<u>6,175</u>	<u>6,891</u>	<u>167,385</u>	<u>(79,971)</u>	<u>1,094,462</u>
Non-current liabilities						
Interest-bearing borrowings	–	20,000	22,318	–	–	22,318
Deferred tax liabilities	2,336	–	–	–	80,039	82,375
	<u>2,336</u>	<u>20,000</u>	<u>22,318</u>	<u>–</u>	<u>80,039</u>	<u>104,693</u>
	<u>1,002,493</u>	<u>26,175</u>	<u>29,209</u>	<u>167,385</u>	<u>68</u>	<u>1,199,155</u>

3. Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The balances have been extracted, without adjustments, from the interim report of the Group for the six months ended 31 December 2016.
2. The balances are extracted from the accountants' report on Yancheng Herong as set out in Appendix II to the Circular after translated at the exchange rate of RMB1 to HK\$1.1159, which is the prevailing exchange rate on 31 December 2016.
3. The adjustment represents the total capital contribution of the Capital Injection of RMB150,000,000 (equivalent to approximately HK\$167,385,000) (the "Consideration") which will be settled in cash upon completion of the Capital Injection and to be recorded in the bank balances of Yancheng Herong. Therefore, no cash outflow will be resulted in the Enlarged Group.
4. The adjustment represents the elimination of the investment cost of RMB150,000,000 (equivalent to approximately HK\$167,385,000) contributed by the Company to Yancheng Herong for the Capital Injection.

Upon completion, the identifiable assets and liabilities of Yancheng Herong will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

The gain on bargain purchase resulted from the Capital Injection as if the Capital Injection had been completed on 31 December 2016 is calculated as follows:

		<i>HK\$'000</i>
Cash consideration		167,385
Less: Net assets acquired	<i>(i)</i>	(197,055)
Add: Estimated transaction cost	<i>(ii)</i>	<u>1,050</u>
 Gain on bargain purchase arising from the Capital Injection	 <i>(iii)</i>	 <u><u>(28,620)</u></u>

- (i) The amount of net assets of Yancheng Herong acquired are calculated as below:

	<i>RMB'000</i>	<i>HK\$'000</i>
Fair value of properties under development	665,000	742,074
<i>Less:</i> Carrying amount of properties under development as at 31 December 2016 as stated in the books	<u>(513,999)</u>	<u>(573,571)</u>
Fair value adjustment on properties under development	151,001	168,503
Deferred tax liability arising from fair value adjustment	(71,725)	(80,039)
Net assets (included RMB150,000,000 capital contribution by the Company)	<u>156,175</u>	<u>174,276</u>
	235,451	262,740
<i>Less:</i> Non-controlling interests recognised (<i>Note iv</i>)	<u>(58,863)</u>	<u>(65,685)</u>
	<u><u>176,588</u></u>	<u><u>197,055</u></u>

For the purpose of preparation of the unaudited pro forma consolidated statement of assets and liabilities, it is assumed that the fair values of the identifiable assets and liabilities of Yancheng Herong, except for properties under development, approximate to their respective carrying amounts as at 31 December 2016. The fair values of the identifiable assets and liabilities of Yancheng Herong as at the completion date of the proposed capital injection will be determined by the Directors by reference to a valuation to be carried out by an independent professional qualified valuer of the Company. The fair values of the identifiable assets and liabilities of Yancheng Herong determined on the completion date may be materially different from their respective values used in the preparation of the unaudited pro forma consolidated statement of assets and liabilities. Accordingly, the final amounts of assets or liabilities and gain on bargain purchase or goodwill, if any, to be recognised in the consolidated financial statements of the Enlarged Group upon completion may be materially different from the amounts adopted in the preparation of this unaudited pro forma consolidated statement of assets and liabilities.

The valuation of properties under development are taken with reference to the valuation report issued by AVISTA Valuation Advisory Limited, an independent professional qualified valuer not connected to the Group, at 31 January 2017 as set out in Appendix V to the Circular. For the purpose of preparation of the unaudited pro forma consolidated statement of assets and liabilities, the Directors consider that the fair value of properties under development as at 31 January 2017 approximates to the fair value of properties under development as at 31 December 2016.

Deferred tax liability in respect of the fair value adjustment is approximately RMB71,725,000 (equivalent to approximately HK\$80,039,000), which represents the potential tax effect on temporary difference (including PRC Land Appreciation Tax and PRC Enterprise Income Tax) on of the fair value adjustment on properties under development.

The Directors have reviewed the carrying values of the Enlarged Group taking into account the independent valuation report. Based on the valuation report, the Directors are of the opinion that there are no indications that the values of the properties under development of the Enlarged Group may be impaired as at 31 December 2016.

- (ii) The adjustment represents the estimated professional fees and expenses attributable to the Capital Injection amounting to approximately HK\$1,050,000.
 - (iii) The adjustment reflects the pro forma gain on bargain purchase of approximately HK\$28,620,000 arising from the Capital Injection using the acquisition method which is consistent with the accounting policy on business combinations adopted by the Group.
 - (iv) The adjustment represents the non-controlling interests amounting to approximately RMB58,863,000 (equivalent to approximately HK\$65,685,000) recognised at its proportionate interest in the identifiable assets and liabilities of Yancheng Herong.
5. Save as set out above, the Unaudited Pro Forma consolidated statement of assets and liabilities does not take into account any trading results or other transactions of the Group and Yancheng Herong subsequent to 31 December 2016 as included in the Unaudited Pro Forma consolidated statement of assets and liabilities.

denotes an English translation of the Chinese name and is for identification purposes only. If there is any inconsistency between the Chinese name and the English translation, the Chinese name shall prevail.

MANAGEMENT DISCUSSION AND ANALYSIS ON YANCHENG HERONG

Set out below is the management discussion and analysis of Yancheng Herong for the three years ended 31 December 2014, 2015 and 2016.

BUSINESS OVERVIEW

During the three years ended 31 December 2014, 2015 and 2016, the principal activity of Yancheng Herong is property development in the PRC. The principal asset of Yancheng Herong is the Project which comprised 3 parcels of land, located in Yandu District, Yancheng City, Jiangsu Province, the PRC, with land area of approximately 316,020 sq.m.. Based on the information available to-date, the development is scheduled to be completed in January 2018. Upon completion, the development will have a total gross floor area of approximately 411,687 sq.m. and the details are set out as follows:

	Area <i>(approx. sq.m.)</i>
Phase 1	
Villa	43,336
Commercial	7,338
Clubhouse	5,066
Sub-total	<u>55,740</u>
Phase 2 & 3	
Residential	<u>355,947</u>
Sub-total	<u>355,947</u>
Total	<u><u>411,687</u></u>

FINANCIAL OVERVIEW

The table below sets out Yancheng Herong's statement of profit or loss and other comprehensive income for the three years ended 31 December 2014, 2015 and 2016.

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Revenue	–	–	–
Other revenue	42	12	12
Selling and marketing expenses	(6,020)	(3,772)	(3,297)
Administrative and other operating expenses	(4,533)	(5,649)	(4,751)
Loss before tax	(10,511)	(9,409)	(8,036)
Income tax expense	–	–	–
Loss and total comprehensive loss for the year	<u>(10,511)</u>	<u>(9,409)</u>	<u>(8,036)</u>

Revenue

During the three years ended 31 December 2014, 2015 and 2016, Yancheng Herong did not generate any revenue as the Project, being its only property development project, was under construction.

Selling and marketing expenses

Selling and marketing expenses of Yancheng Herong for the three years ended 31 December 2014, 2015 and 2016 were mainly contributed by advertising expenses, promotion expenses, salary expenses and properties management expenses. Selling and marketing expenses of Yancheng Herong amounted to approximately RMB6,020,000, RMB3,772,000 and RMB3,297,000 for the three years ended 31 December 2014, 2015 and 2016 respectively.

The decrease in the selling and marketing expenses from 2014 to 2016 is due to the decrease in the advertising expenses and promotion expenses as the substantial selling activities were launched in the year of 2014. The advertising expenses and promotion expenses amounted to approximately RMB3,161,000, RMB1,352,000 and RMB983,000 for the three years ended 31 December 2014, 2015 and 2016 respectively.

Administrative expenses

Administrative and other operating expenses of Yancheng Herong for the three years ended 31 December 2014, 2015 and 2016 were mainly contributed by land use tax, operating management expenses, salary expenses, travelling expenses and depreciation. Administrative and other operating expenses of Yancheng Herong amounted to approximately RMB4,533,000, RMB5,649,000 and RMB4,751,000 for the three years ended 31 December 2014, 2015 and 2016 respectively.

The increase of administrative and other operating expenses from the year ended 31 December 2014 to 2015 was mainly due to the increase in land use tax from approximately RMB790,000 to RMB1,264,000 and the increase in operating management fee from approximately RMB1,414,000 to RMB1,900,000, in which the land use tax was remain unchanged in the year ended 31 December 2016.

The decrease of administrative and other operating expenses from the year ended 31 December 2015 to 2016 was due to the decrease in overall administration and operation activities.

Finance costs

Interest on bank loans and other borrowings of Yancheng Herong for the three years ended 31 December 2014, 2015 and 2016 was approximately RMB28,384,000, RMB26,740,000 and RMB27,439,000 respectively in which all the interest incurred in the three years has been capitalised into properties under development.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the three years ended 31 December 2014, 2015 and 2016, Yancheng Herong primarily financed its operations from its paid-up capital, amount due to ultimate holding company, amounts due to fellow subsidiaries and interest-bearing borrowings.

The table below sets out its borrowings by type and maturity profile as at 31 December 2014, 2015 and 2016.

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due to ultimate holding company			
– repayable on demand	2,350	–	75,010
Due to fellow subsidiaries			
– repayable on demand	71,902	72,859	105,970
Interest-bearing borrowings			
– within one year	152,721	241,774	245,265
– over one year	90,000	70,000	20,000
	<u>316,973</u>	<u>384,633</u>	<u>446,245</u>

The amount due to ultimate holding company is unsecured, interest free and repayable on demand.

The amounts due to fellow subsidiaries included approximately RMB45,373,000, RMB34,769,000 and RMB74,234,000 are unsecured, bear interest ranged from 6% to 11%, at 4% and at 9% per annum as at 31 December 2014, 2015 and 2016 respectively and repayable on demand. The remaining balances are unsecured, interest free and repayable on demand.

During the year ended 31 December 2015, a balance of approximately RMB98,732,000 included in amounts due to fellow subsidiaries was transferred to interest-bearing borrowings upon cessation as a fellow subsidiary of Yancheng Herong.

The effective interest rate on the interest-bearing borrowings as at 31 December 2014, 2015 and 2016 ranging from 7% to 18%, 5% to 18% and 6% to 8% per annum respectively.

Yancheng Herong does not use financial instruments for hedging purpose. No foreign currency net investments are hedged by currency borrowings or other hedging instruments.

EMPLOYEES

Yancheng Herong remunerated its employees by reference to their qualification, experience, responsibilities, profitability of Yancheng Herong and current market conditions. As required by applicable PRC regulations, Yancheng Herong participated in various employee benefit plans organised by the municipal and provincial governments, including housing provident fund, pension, medical, maternity and unemployment benefit plans.

Yancheng Herong incurred staff costs of approximately RMB1,766,000, RMB1,771,000 and RMB1,671,000 for the three years ended 31 December 2014, 2015 and 2016 respectively, in which amounted approximately RMB658,000, RMB485,000 and RMB486,000 has been capitalised on properties under development for the three years ended 31 December 2014, 2015 and 2016 respectively.

PLEDGE OF ASSETS

As at 31 December 2014, 2015 and 2016, loans of approximately RMB123,000,000, RMB108,800,000 and RMB45,000,000 are secured by the followings:

- (i) pledge of land use rights (included in “properties under development”) with aggregate carrying value of approximately RMB213,718,000, RMB213,718,000 and RMB78,639,000, as at 31 December 2014, 2015 and 2016 respectively; and
- (ii) pledge of properties under development with construction cost of approximately RMB13,000,000 and RMB54,830,000 as at 31 December 2014 and 2015 respectively.

In addition, as at 31 December 2016, certain of Yancheng Herong's land use rights (included in "properties under development") with aggregate carrying value of approximately RMB135,079,000 were pledged to secure banking borrowings granted to contractors of Yancheng Herong amounted RMB180,000,000.

MATERIAL INVESTMENTS, CAPITAL ASSETS, ACQUISITION AND DISPOSAL

During the three years ended 31 December 2014, 2015 and 2016, Yancheng Herong did not hold any significant investments, and did not have any material acquisitions and disposals of subsidiaries and associated companies.

Yancheng Herong will continue to focus on the development of the Project, which is expected to be funded by cash flows generated internally from its operation activities as well as bank borrowings. Other than the development of the Project, Yancheng Herong did not have any future plans for material investments or capital assets as at the Latest Practicable Date.

GEARING RATIO

During the three years ended 31 December 2014, 2015 and 2016, Yancheng Herong's interest-bearing borrowings amounted to approximately RMB242,721,000, RMB311,774,000 and RMB265,265,000 respectively.

Yancheng Herong computed its gearing ratio by its borrowings minus its cash and cash equivalents over its total equity. The gearing ratio of Yancheng Herong at the end of each of the three years of 2014, 2015 and 2016 is as follows:

	As at 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing borrowings	242,721	311,774	265,265
Amounts due to fellow subsidiaries, interest-bearing	45,373	34,769	74,234
Cash and cash equivalents	<u>(2,373)</u>	<u>(1,395)</u>	<u>(1,586)</u>
Net debts	285,721	345,148	337,913
Total equity	<u>23,620</u>	<u>14,211</u>	<u>6,175</u>
Gearing ratio (%)	<u>1,210</u>	<u>2,429</u>	<u>5,472</u>

FOREIGN CURRENCY EXPOSURE

As Yancheng Herong's monetary assets and liabilities are all denominated in RMB and Yancheng Herong conducts its business transactions only in RMB, the currency risk of Yancheng Herong is remote and Yancheng Herong does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENT LIABILITIES

Yancheng Herong did not have material contingent liabilities as at 31 December 2014, 31 December 2015, 31 December 2016 respectively.

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation as at 31 January 2017 of the property interest of the Target Company.



28 March 2017

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The Board of Directors
Applied Development Holdings Limited
Suite 1801
West Tower
Shun Tak Centre
168-200 Connaught Road
Central
Hong Kong

Dear Sirs/Madams,

INSTRUCTIONS

In accordance with the instructions of Applied Development Holdings Limited (“Applied Development” or the “Company”) for us to carry out the valuation of the property interest held by Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”) (the “Target Company”), we confirm that we have carried out inspection, 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 January 2017 (the “Date of Valuation”).

PREMISES OF VALUE

The valuation is our opinion of market value which is defined by the Hong Kong Institute of Surveyors as “the estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion”.

BASIS OF VALUATION

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

Our valuations also exclude potential tax liability which might arise if the assets were to be sold at the valuation date, including but not limited to profit tax, business tax, land appreciation tax, capital gain tax and any other relevant taxes prevailing at the valuation date.

VALUATION METHODOLOGY

In valuing the property interest of the development, the property interest is currently under development, we have assumed that they will be developed and completed in accordance with the latest development proposal provided to us by the Target Company. We have assumed that all consents, approvals and licenses from relevant government authorities for the development proposals have been obtained without onerous conditions or delays. In arriving at our opinion of value, we have adopted the market approach by making reference to comparable sales evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the date of valuation and the remainder of cost and fees that expected to be incurred for completing the development.

TITLE INVESTIGATION

We have been provided by the Target Company with copy of extract of the documents relating to the property interests. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any amendments which may not appear on the copies handed to us.

However, we have not searched the original documents to verify ownership or to ascertain any amendment. Due to the current registration system of the PRC under which the registration information is not accessible to the public, no investigation has been made for the title of the property interests in the PRC and the material encumbrances that might be attached. In the course of our valuation, we have relied considerably on the legal opinion given by the Company’s PRC legal adviser – Grandall Law Firm, concerning the validity of title of the properties in the PRC.

SITE INVESTIGATION

We have inspected the exterior and, where possible, the accessible portions of the interior of the properties being appraised. The inspection was carried out by Terry Lee (College Degree of Assets Evaluation and Management from Qinhuangdao Institute of Technology, Senior Analyst of AVISTA Valuation Advisory Limited), during the period from 11 January 2017 to 12 January 2017. However, we have not been commissioned to carry out structural survey nor to arrange for an inspection of the services. We are, therefore, not able to report whether the properties are free of rot, infestation or any other structural defects. We formulate our view as to the overall conditions of the properties taking into account the general appearance, the apparent standard and age of fixtures and fittings and the existence of utility services. Hence it must be stressed that we have had regard to you with a view as to whether the property is free from defects or as to the possibility of latent defects which might affect our valuation. In the course of our inspection, we did not note any serious defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

We have not been commissioned to carry out detailed site measurements to verify the correctness of the land areas in respect of the properties but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar properties, we consider the assumptions so made to be reasonable.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the properties or on adjoining or neighbouring land or that the properties had been or are being put to contaminated use, we reserve right to revise our opinion of value.

SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Target Company or the legal or other professional advisers on such matters as statutory notices, planning approval, zoning, easements, tenure, completion date of building, development proposal, identification of property, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore approximations and for reference only. We have not searched original plans, developer brochures and the like to verify them.

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

VALUATION ASSUMPTIONS

For the properties which are held under long term land use rights, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees has been granted and that any premium payable has already been fully settled. Unless stated as otherwise, we have assumed that the respective title owner of the properties have an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the properties without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted. Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the properties are/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assumes the properties will be used for the purposes for which the properties are designed and built, or to which they are currently adapted. The valuation on the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. In addition, it is assumed that the utilisation of the land and improvements are within the boundaries of the properties described and that no encroachment or trespass exists, unless noted in the report.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have further assumed that the properties were not transferred or involved in any contentious or non-contentious dispute as at the Date of Valuation. We have also assumed that there was not any material change of the properties in between dates of our inspection and the Date of Valuation.

LIMITING CONDITION

Wherever the content of this report is extracted and translated from the relevant documents supplied in Chinese context and there are discrepancies in wordings, those parts of the original documents will take prevalent.

CURRENCY

Unless otherwise stated, all amounts are denominated in Renminbi (RMB). Our valuation certificate is attached.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited
Sr Oswald W Y Au
MHKIS(GP) AAPI MSc(RE)
Registered Professional Surveyor (GP)
Director

Note: Mr. Oswald W Y Au holds a Master's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 10 years' experience in the valuation of properties including Hong Kong, the PRC, the U.S., Canada, East and Southeast Asia including Singapore, Japan and Korea.

VALUATION CERTIFICATE

Property interest held by Target Company under development in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 January 2017 <i>RMB</i>																				
<p>Youshanmeidi Garden Project* (優山美地花園項目) located at Yandu District, Yancheng City, Jiangsu Province, the PRC</p>	<p>The property comprises 3 parcels of land with a total site area of approximately 316,020.00 sq.m. and various villa units, commercial building and a clubhouse which are currently being constructed thereon.</p> <p>The development is scheduled to be completed in January 2018. As confirmed by Company, upon completion, the development will have a total gross floor area of approximately 411,686.86 sq.m. and the details are set out as follows:</p> <table style="margin-left: 40px;"> <thead> <tr> <th></th> <th style="text-align: right;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td colspan="2">Phase 1</td> </tr> <tr> <td>– Villa</td> <td style="text-align: right;">43,335.86</td> </tr> <tr> <td>– Commercial</td> <td style="text-align: right;">7,338.00</td> </tr> <tr> <td>– Clubhouse</td> <td style="text-align: right;">5,066.00</td> </tr> <tr> <td>Sub-total</td> <td style="text-align: right;">55,739.86</td> </tr> <tr> <td colspan="2">Phase 2 & 3</td> </tr> <tr> <td>– Residential</td> <td style="text-align: right;">355,947.00</td> </tr> <tr> <td>Sub-total</td> <td style="text-align: right;">355,947.00</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">411,686.86</td> </tr> </tbody> </table> <p>As advised by the Target Company, the total construction cost for the Phase 1 (include Villa, Commercial & Clubhouse) is estimated to be approximately RMB266,200,000 of which RMB143,700,000 had been paid as at the date of valuation. As advised by the Target Company, the Phase 2 & 3 of the development have not been scheduled yet, therefore, the construction cost of Phase 2 & 3 of the development cannot be estimated.</p> <p>The land use rights of the land are granted for a term of 40 years for commercial use and 70 years for residential use.</p>		Gross Floor Area (sq.m.)	Phase 1		– Villa	43,335.86	– Commercial	7,338.00	– Clubhouse	5,066.00	Sub-total	55,739.86	Phase 2 & 3		– Residential	355,947.00	Sub-total	355,947.00	Total	411,686.86	<p>As at the date of valuation, the property is currently under construction.</p>	<p>665,000,000 (100% interest attributable to the Target Company: RMB665,000,000)</p>
	Gross Floor Area (sq.m.)																						
Phase 1																							
– Villa	43,335.86																						
– Commercial	7,338.00																						
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Total	411,686.86																						

Notes:

- i. Pursuant to the 3 State-owned Land Use Rights Grant Contracts dated between 8 June 2007 and 21 August 2010, the land use rights of 3 parcels of land with a total site area of approximately 316,020.00 sq.m. have been contracted to be granted to Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”) for residential and commercial use at a total land premium of RMB213,718,300.

As revealed from the aforesaid State-owned Land Use Rights Grant Contract, the property is subject to the following material development conditions:

a. Phase 1

Site Area:	131,065.00 sq.m.
Plot Ratio:	< 1.3
Site Coverage:	< 28%
Greenery Area:	> 30%

b. Phase 2

Site Area:	69,815.00 sq.m.
Plot Ratio:	< 1.8
Site Coverage:	< 25%
Greenery Area:	> 40%

c. Phase 3

Site Area:	115,140.00 sq.m.
Plot Ratio:	< 2.0
Site Coverage:	< 20%
Greenery Area:	> 40%

- ii. Pursuant to the 3 State-owned Land Use Rights Certificates – Yan Du Guo Yong (2007) Di No. 014000091 dated 29 December 2007, Yan Du Guo Yong (2010) Di No. 014000037 dated 15 April 2010, and Yan Du Guo Yong (2012) Di No. 014000055 dated 12 May 2012, the land use rights of 3 parcels of land with a total site area of approximately 316,020.00 sq.m. has been granted to Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”) for residential and commercial use.
- iii. Pursuant to the 3 Construction Land Planning Permits – Di Zi Di No. 320901201142119, 320901201142118 and 320901201142117 in favour of Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”), permission towards the planning of 3 parcels of land with a total site area of approximately 316,020.00 sq.m.
- iv. Pursuant to the following 3 numbers of Construction Works Planning Permit in favour of Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”), the development with a total gross floor area of approximately 63,983.21 sq.m. have been approved for construction, with the detail information as follows:

No.	Construction Works Planning Permit	Construction Works Description	Gross Floor Area (sq.m.)	Date of Issue
1	Jian Zi Di No. 320901201243060	Block 1, 2, 3 & 5	8,486.43	9-Jul-12
2	Jian Zi Di No. 320901201343053	Block 7 – 13, 15 – 23, 25 – 33, 35 – 39	44,396.78	24-Apr-13
3	Jian Zi Di No. 320901201343064	Block 6	11,100.00	16-May-13

- v. Pursuant to the following 3 numbers of Construction Works Commencement Permits in favour of Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”), permission by the relevant local authority has been given to commence the construction work with a total gross floor area of approximately 63,242.98 sq.m. for the development, with the detail information as follows:

No.	Construction Works Commencement Permit	Construction Works Description	Gross Floor Area (sq.m.)	Date of Issue
1	Dujianshi 2013 Di No. 001	優山美地花園2#、3#、5#樓及會所	8,158.00	8-Jan-13
2	No. 320903020130051	優山美地花園7#-13#、15#-23#、25#-33#、35-39#樓	44,396.78	19-Jul-13
3	No. 320903020150001	優山美地花園6#樓(綜合商業三)	10,688.20	4-Jan-15

- vi. Pursuant to the following 5 numbers of Pre-sales Permit in favour of Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”), which is entitled to sell the properties with the detail information as follows:

No.	Pre-sales Permit	Property Name	Usage	Gross Floor Area (sq.m.)	Date of Issue
1	Yan Shi Fang Yu Zi 2013 Di No. 241	Block 2, 3, 19 & 20	Residential	3,537.08	25-Nov-13
2	Yan Shi Fang Yu Zi 2014 Di No. 32	Block 5, 7 – 11, 17, 18 & 21	Residential & Ancillary	10,966.91	10-Mar-14
3	Yan Shi Fang Yu Zi 2014 Di No. 40	Block 16, 22, 23 & 33	Residential & Ancillary	6,149.90	19-Mar-14
4	Yan Shi Fang Yu Zi 2014 Di No. 215	Block 30 – 32, 35 – 37	Residential & Ancillary	8,953.47	17-Dec-14
5	Yan Shi Fang Yu Zi 2015 Di No. 125	Block 12, 13, 25, 38 & 39	Residential & Ancillary	6,595.87	26-Oct-15

- vii. As advised by the Target Company that portion of the property with a total gross floor area of approximately 17,056.60 sq.m. has been pre-sold to various independent third parties but have not been handed over to the purchasers.

No.	Pre-sales Building	Pre-Sold Gross Floor Area (sq.m.)	Pre-Sold Consideration (RMB)
1.	Villa	17,056.60	113,269,674

- viii. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:

- a. Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”) has legally obtained the State-owned Land Use Right Certificate of the property;
- b. Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”) has obtained permission and approval in relation to the construction of the development project and Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”) is the legal owner of the development project;

- c. The land parcels of the property have pledged to secure banking facilities granted to independent third parties. Under the terms and conditions of the Property Law of the People's Republic of China and mortgagee contract, Yancheng Herong Property Development Limited (“鹽城和融房地產開發有限公司”) has the right to sell and/or transfer the pledged property after obtaining the approval from the mortgagee; and
- d. Since portion of the land premium has not been settled within the period stated in the Stated Owned Land Use Right Grant Contract of the land parcels of Phase 2 and 3, the government is entitled to charge the overdue penalty of 0.2% of the outstanding land premium commencing from the date of late payment. However, Yancheng Herong Property Development Limited* (“鹽城和融房地產開發有限公司”) did not received any notices about overdue penalty from the government. Therefore, based on the Company's PRC legal advisers that the possibility of the overdue penalty charged by the government is relatively low.
- ix. A summary of major certificates/licenses is shown as follows:
- | | |
|--|---------|
| a. State-owned Land Use Rights Certificate | Yes |
| b. Construction Land Planning Permit | Yes |
| c. Construction Works Planning Permit | Partial |
| d. Construction Works Commencement Permit | Partial |
| e. Pre-sales Permit | Partial |
- x. In our valuation, we have made reference to the transaction record of the development and some asking price references of some residential developments which have characteristics comparable to the property. We have adopted the range of unit rates of between RMB7,000 – 10,000/sq.m. for residential, and RMB6,000 – 10,000/sq.m. for commercial if completed.
- xi. The reference value for the Phase 1 of the property, as if completed as at the date of valuation under the development proposals as described above and assuming it can be freely transferred in the market would be approximately RMB418,000,000. As advised by the Target Company, the Phase 2 & 3 of the development have not been scheduled yet, therefore, the gross development value of Phase 2 & 3 of the development cannot be estimated.
- xii. As confirmed by the Target Company, no condition has been imposed by the relevant authority as to construction of roadways, pathways, drainage, sewage and other facilities or services for public use.

* for identification purpose only

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**(a) Directors' interests in the securities of the Company and its associated corporation**

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company or its associated corporation(s) (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company under section 352 of the SFO, or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (“**Model Code**”) set out in Appendix 10 of the Listing Rules, were as follows:

Interests in the Shares or underlying shares

Name of Director	Name of company in which interests were held	Beneficially owned	Number of	Total	Approximate % of issued Shares
			Shares held by controlled corporation		
Ng Kit Ling	The Company	15,000	–	15,000	0.001%

As at the Latest Practicable Date, none of the Directors were interested in any share options granted under the share option scheme of the Company adopted on 15 November 2012.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

(b) Substantial Shareholders' interests

As at the Latest Practicable Date, to the best of the knowledge and belief of the Directors, Rich Unicorn Holdings Limited (“**Rich Unicorn**”), a company incorporated in British Virgin Islands with limited liability, beneficially owned 559,865,959 Shares, representing approximately 26.82% of the total issued share capital of the Company. Rich Unicorn is wholly owned by Fullshare Holdings Limited (“**Fullshare**”), a listed company in Hong Kong (stock code: 607). Magnolia Wealth International Limited (“**Magnolia Wealth**”) directly holds 9,188,860,454 shares in Fullshare, representing approximately 46.58% of the issued share capital of Fullshare. Magnolia Wealth is also wholly owned by Mr. Ji Changqun. Mr. Ji is personally interested in 937,910,000 shares in Fullshare. Accordingly, Mr. Ji is directly and indirectly interested in a total of 10,126,770,454 shares in Fullshare, representing approximately 51.33% of the issued share capital of Fullshare as at the Latest Practicable Date.

As at the Latest Practicable Date, Mr. Wang Bo, a non-executive Director and Chairman of the Company, Mr. Yuen Chi Ping, an executive Director and chief executive officer of the Company, and Mr. Lau Chi Keung, an independent non-executive Director, are also an executive director, chief operating officer and an independent non-executive director of Fullshare, respectively.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, (i) based on the register maintained by the Company pursuant to Part XV of the SFO, no persons (not being a Director or chief executive of the Company) had any interest, directly or indirectly, or short position in the Shares and underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, nor were recorded in the register required to be kept by the Company under section 336 of the SFO, nor were there any persons, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or held any option in respect of such capital; and (ii) none of the Directors was a director or employee of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or his or her respective close associates was considered to have an interest in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group other than those business to which the Directors or his or her close associates were appointed to represent the interests of the Company and/or the Group.

4. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date,

- (a) none of the Directors were materially interested in any contract or arrangement subsisting and which was significant in relation to the business of the Enlarged Group; and
- (b) none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Enlarged Group or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 30 June 2016, the date to which the latest published audited consolidated financial statements of the Company were made up.

5. MATERIAL CONTRACTS

The following are contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries) entered into by the members of the Enlarged Group within the two years immediately preceding the date of this circular and which is or may be material:

- (a) the Capital Injection Agreement;
- (b) a share transfer agreement dated 24 February 2017 entered into among (i) the Company (as the purchaser), (ii) National Trust* (國民信託有限公司) and Mr. Wang Jing Ning (“**Mr. Wang**”) (each as a vendor) and (iii) Wuxi Shengye Haigang Joint Stock Company Limited* (無錫盛業海港股份有限公司) (“**Wuxi Shengye**”), pursuant to which the Company (or indirectly through its subsidiary) has conditionally agreed to purchase, and National Trust* (國民信託有限公司) and Mr. Wang have conditionally agreed to sell 99% and 1% equity interest in Wuxi Shengye respectively, at a total consideration of RMB234,000,000;
- (c) a subscription agreement dated 12 December 2016 entered into among (i) Applied Investment (Asia) Limited (“**Applied Investment**”); (ii) China Tian Yuan International Finance Limited (“**Tian Yuan**”); and (iii) Wealth Guide Global Limited (the “**JV**”) pursuant to which (i) the JV agrees to issue 99 new shares and meanwhile, Tian Yuan and Applied Investment agree to subscribe for 79 new shares at US\$79.00 and 20 new shares at US\$20.00 respectively and thereby to own 80% and 20% respectively of the JV’s enlarged equity interest and (ii) Applied Investment agrees to provide the interest-free and security-free shareholder’s loan of HK\$200 million to the JV upon completion;
- (d) a loan agreement dated 18 October 2016 entered into between the Company (as lender) and BP Finance (HK) Limited (as borrower) pursuant to which the Company has agreed to provide a loan of HK\$220,000,000 to the borrower;

- (e) a purchase agreement dated 8 April 2016 entered into among Mr. Kuk Po Shun (as vendor) and Advantage Performance Limited (a wholly-owned subsidiary of the Company) (as purchaser) pursuant to which the vendor has conditionally agreed to sell and the purchaser has conditionally agreed to purchase (i) 1 ordinary share of US\$1.00 each in Legacy Billion Limited (“**Legacy Billion**”), representing the entire issued share capital of Legacy Billion; and (ii) the shareholder’s loan in the amount of HK\$37,235,240 advanced by the vendor to Legacy Billion at a total consideration of HK\$39,882,840;
- (f) a provisional sale and purchase agreement dated 4 February 2016 and a formal sale and purchase agreement dated 29 February 2016 entered into between Applied Hong Kong Properties Limited (an indirect wholly-owned subsidiary of the Company) as purchaser and Hong Kong EECPC Centre Limited as vendor in relation to the acquisition of an office unit at office no. 3316 on 33rd Floor, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong at a cash consideration of HK\$47,148,000;
- (g) a sale and purchase agreement dated 27 January 2016 entered into among (i) Applied Investment and Applied International Holdings Limited (each a wholly-owned subsidiary of the Company, together as the vendors); (ii) Horoy Qianhai International Holdings Limited (as the purchaser); (iii) Severn Villa Limited (a former indirect wholly-owned subsidiary of the Company before the disposal (as the “**Target**”)); and (iv) the Company (as the vendors’ guarantor), pursuant to which (i) the vendors have conditionally agreed to sell, and the purchaser has conditionally agreed to purchase the entire issued share capital of the Target; and (ii) Applied Investment has conditionally agreed to sell and the purchaser has conditionally agreed to purchase a shareholder’s loan owing by the Target to Applied Investment as at the completion date, at a total consideration of HK\$636,800,000;
- (h) a placing agreement dated 15 December 2015 entered into between the Company and Get Nice Securities Limited as placing agent for the placing of an aggregate of 347,930,000 Shares at a price of HK\$0.32 per Share; and
- (i) an agreement dated 9 November 2015 entered into between the Company and Glory Paradise Group Limited in relation to the disposal of the entire issued share capital of and shareholder’s loan to Applied Enterprises Limited and Beachside Investments Limited at a total consideration of HK\$255,000,000.

6. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged 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

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group which is not determinable by the Group within one (1) year without payment of compensation (other than statutory compensation).

8. EXPERTS' QUALIFICATION AND CONSENT

The following are the qualifications of the experts who have given an opinion or advice contained in this circular:

Name	Qualification
AVISTA Valuation Advisory Limited ("AVISTA")	Independent property valuer
Mazars CPA Limited ("Mazars")	Certified Public Accountants
Grandall Law Firm ("Grandall")	PRC legal advisers

Each of AVISTA, Mazars and Grandall has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter or opinion as set out in this circular and references to name in the form and context in which it appears in this circular.

As at the Latest Practicable Date, each of AVISTA, Mazars and Grandall had no shareholding directly or indirectly in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group, nor did it have any interest, directly or indirectly, in any asset 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 Enlarged Group since 30 June 2016, the date to which the latest published audited financial statements of the Company were made up.

9. GENERAL

- (a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda;
- (b) the branch share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, which situates at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong;
- (c) the company secretary of the Company is Ms. Ng Kit Ling, who is an Executive Director and a director of various subsidiaries of the Company, she is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants in the United Kingdom, she also holds a Master of Science in Accountancy degree from The Hong Kong Polytechnic University; and

- (d) in the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays, Sundays and public holidays) at the principal place of business of the Company in Hong Kong at Unit 1801, 18th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong from the date of this circular up to and including the date of the SGM:

- (a) the Memorandum of Association and Bye-laws of the Company;
- (b) the interim report of the Company for the six months ended 31 December 2016;
- (c) the annual reports of the Company for the three financial years ended 30 June 2014, 2015 and 2016 respectively;
- (d) the accountant's reports of Yancheng Herong, the text of which is set out in Appendix II of this circular;
- (e) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III of this circular;
- (f) the valuation report issued by the Valuer, the text of which is set out in Appendix V of this circular;
- (g) the PRC legal opinion issued by Grandall;
- (h) the written consent referred to in the section headed "Experts' Qualification and Consent" in this appendix;
- (i) the material contracts referred to in the section headed "Material Contracts" in this appendix;
- (j) the Capital Injection Agreement;
- (k) a copy of each circular of the Company issued pursuant to the requirements of Chapter 14 and/or 14A of the Listing Rules which has been issued since the date of the latest published audited accounts; and
- (l) this circular.

NOTICE OF SGM



APPLIED DEVELOPMENT HOLDINGS LIMITED

實力建業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 519)

NOTICE IS HEREBY GIVEN THAT a special general meeting (the “**Meeting**”) of Applied Development Holdings Limited (the “**Company**”) will be held at The Boardroom (Basement 2), The Wharney Guang Dong Hotel Hong Kong, 57 – 73 Lockhart Road, Wanchai, Hong Kong on Tuesday, 25 April 2017 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without modifications the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

1. “**THAT:**

- (a) the capital injection agreement dated 23 January 2017 (the “**Capital Injection Agreement**”) entered into amongst (i) the Company, (ii) Nantong Ronghui Property Development Limited* (南通融匯房地產開發有限公司) (“**Nantong Ronghui**”) and Herong Holdings Group Limited* (和融控股集團有限公司) (“**Herong Holdings**”) (both being the original shareholders of Yancheng Herong Property Development Limited* (鹽城和融房地產開發有限公司) (“**Yancheng Herong**”) and currently holding 60% and 40% of the equity interests of Yancheng Herong, respectively), and (iii) Yancheng Herong, in relation to the the capital injection of RMB150,000,000 into Yancheng Herong by the Company (or indirectly through its wholly-owned subsidiary) by way of cash contribution, a copy of which is produced to the Meeting and initialed by the chairman of the Meeting for the purpose of identification, and the terms and conditions of the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one or more of the directors of the Company be and is/are hereby authorised to do all other acts and things, to sign and execute all such further documents or agreements or deeds on behalf of the Company (including the affixation of the common seal of the Company where execution under seal is required) and to do such acts and things and to take such steps as he/she/they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the implementation of and giving effect to the Capital Injection Agreement and the transactions contemplated thereunder.”

By Order of the Board
Applied Development Holdings Limited
Wang Bo
Chairman and Non-executive Director

Hong Kong, 28 March 2017

* *for identification purpose only*

NOTICE OF SGM

Non-executive Director:

Mr. Wang Bo (*Chairman*)

Executive Directors:

Mr. Yuen Chi Ping (*Chief Executive Officer*)

Ms. Ng Kit Ling

Independent non-executive Directors:

Mr. Lau Chi Keung

Mr. Yu Tat Chi, Michael

Mr. Chiu Kit Man, Calvin

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal place of business in

Hong Kong:

Unit 1801, 18/F

West Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member of the Company who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at the Meeting.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her/its attorney duly authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
3. A form of proxy for use at the Meeting is enclosed. Whether or not you intend to attend the Meeting in person, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he/she/it so wish. In such event, the instrument appointing such a proxy shall be deemed to be revoked.
4. The register of members of the Company will be closed from Thursday, 20 April 2017 to Tuesday, 25 April 2017 (both days inclusive) for the purpose of determining the entitlement to attend and vote at the Meeting, during which period no transfer of Share(s) will be registered. In order to be eligible to attend and vote at the Meeting, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with Computershare Hong Kong Investor Services Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 19 April 2017. Shareholders whose names appear on the register of members of the Company on Tuesday, 25 April 2017 shall be entitled to attend and vote at the Meeting.
5. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority shall be deposited at the principal place of business of the Company in Hong Kong at Unit 1801, 18/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time for holding the Meeting or adjourned meeting at which the person named in such instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.
6. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto, but if more than one of such joint holders are present at the Meeting in person or by proxy, the persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.

NOTICE OF SGM

7. The ordinary resolution set out herein and are to be passed at the Meeting will be taken by way of poll.
8. If Typhoon Signal No. 8 or above, or a “black” rainstorm warning is in effect any time after 9:00 a.m. on the date of the Meeting, the Meeting will be postponed. The Company will post an announcement on the website of the Company at www.applieddev.com and on the HKExnews website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk to notify shareholders of the date, time and place of the rescheduled meeting.

In the event of inconsistency, the English text of this notice shall prevail over the Chinese text thereof.