

AUSTRALIAN

RESEARCH

PROPERTY INVESTMENT RESEARCH

Living Cities Development Group (ASX Code: LCG)

March 2016

Capital raising to restructure as a China/ Australia
property development business

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Summary

Living Cities Development Group (ASX Code: LCG) has launched a Public Offer to raise a total of \$7.6m through the issuance of up to 38 million shares at a price of A\$0.20. The Retail Offer consists of 15 million shares at \$0.20 each to raise \$3.0m maximum and is in conjunction with \$4.6m in private placements. The capital raising intends to serve two purposes:

- 1) Restructure the company** – by way of the repayment of \$3.0m in outstanding debt, allowing LCG to reposition its business as a property development company from a mining company; and
- 2) Fund the construction and commercialisation of the GuoFeng Farmers Market Complex (GFMC) in Sichuan Province, China.**

The investment rationale centers around LCG progressively investing in a range of development projects in mainland China by partnering with developers based in China. LCG will contribute capital and oversee developments with at least one Board position on each of the entities under which the development will be managed.

LCG believes that by applying this business model, it will be able to identify and secure additional property and infrastructure project opportunities in China and Australia to grow the business, but has provided no specifics about these developments at this stage. As such, PIR is unable to provide detailed financial forecasts and a valuation estimate.

However, based on the information provided in the prospectus and the reliance on assumptions provided by China United Assets Appraisal Group (Australia) as the independent expert, PIR has undertaken a sensitivity analysis on expected returns from the GFMC project.

Based on the successful placement of shares and the restructure of the company's balance sheet, the project is estimated to increase LCG's net asset position to \$0.23 per share, which recapitalises the company from its current negative net asset position. Our indicative High Case estimate is a \$0.26 per share net asset position and our indicative Low Case estimate is a \$0.21 per share net asset position.

Distributions from the sale of the property will be unfranked and not expected until FY18-FY19. Returns will be dependent on property development risks as well as the relatively high risk and returns associated with doing business in China. The final profitability and expected return of capital from the project will allow LCG to reinvest its capital to grow its development pipeline. As such, PIR expects no dividends or distributions being paid to investors over the short term.

Investor Suitability

There are risks associated with investing in companies providing exposure to offshore property as evidenced by several AREITs collapsing during the GFC. PIR considers an investment in LCG to be speculative in nature due to the high risks associated with the property development, currency risk, the high use of debt to fund construction, the risks associated with doing business in China as well as the exposure to the Chinese commercial property market.

In PIR's opinion, LCG is best suited to investors with a strong appetite for risk who are willing to accept the high risk/return potential of investing in the construction of a commercial property in China. Investors and potential investors should be willing to accept volatility and uncertainty in return for higher potential upside return.

Offer Details

Retail Offer Opens	5 January 2016
Retail Offer Closes	27 April 2016
Retail Offer Amount	\$3.0m (\$2.85m minimum)
Minimum Investment	A\$2,000
Offer Price	A\$0.20 per share
Issue of Shares	2 May 2016
Dispatch of Holding Statements	2 May 2016
Commencement of Trading on ASX	To be determined (not earlier than 2 May 2016)

Investment Profile

Targeted properties	1
Property Name	GuoFeng Farmers Market
Property Location	Zigong City, Sichuan Province, China
Property sector	Commercial

Key contacts

Brett Manning	Executive Chairman brett@lcg.properties
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Link to prospectus

<http://lcg.properties/>

2. Sources & Application of Funds

The prospectus notes that LCG intends to raise a total of up to A\$7.6m through the issuance of 38.0 million shares at A\$0.20 each, consisting of:

\$3.0m Retail Offer and \$2.5m Private Placement

A Public Offer to subscribe for up to 15 million shares at a price of A\$0.20 each intends to raise up to A\$3.0m. **The Public Offer requires a minimum subscription of A\$2.85m, and a minimum of 300 additional investors (75% of which need to be Australian domiciled) in order to proceed.** The offer also includes a priority offer of up to 7.5 million shares at A\$0.20 which is available to existing shareholders that held shares on the record date of 7 December 2015.

Conditional on the success of the Public Offer, LCG also intends to offer up to 12.5 million shares to Yaopeng International in a private placement to raise up to A\$2.5m. Yaopeng has also agreed to underwrite 2.5 million shares (A\$0.5m) of the Public Offer.

\$1.95m Placement to extinguish debt, and \$0.15m offer to Advisors

A separate placement of up to 9.75 million shares at A\$0.20 each is to be made to Yaopeng in full settlement of the A\$1.95m debt owed by LCG to Yaopeng. An issue of up to 0.75 million shares is available to Advisors for services provided as part of the Prospectus.

Application of Funds

The capital raising will allow LCG to be restructured and appropriately capitalised to reposition the business as a property development company from a mining company. As part of the restructuring:

- An amount of \$3.035m in outstanding debt from the prior operations of the company is to be repaid, through shares and cash, in order to restructure the company.
- This includes \$1.95m of debt owed to Yaopeng International, as a creditor, which assumed the debt from major shareholder TFA. Also \$1.085m in other debts will be repaid, including amounts owed to previous and existing directors and officers of the company who have foregone payments to assist in the operations of the company.

As at 31 December 2015, LCG had a net asset position of -\$2.2m, which included -\$21.9m in accumulated losses from its activities as a mineral exploration company under its former name, Ferrowest Ltd. The full payment of the \$3.0m in debt will allow LCG to clear its creditor obligations and recapitalise the company to continue operations.

The remainder of the funds from the capital raising will be used to support the development, the construction, and sale of the GuoFeng Farmers Market (the Project), a proposed 5-storey shopping centre complex in Zigong, near the Sichuan province in China.

The development is situated on a 9,057 m² site in an area that has already undergone strong growth in development. LCG has secured an option to purchase a 51% interest in Sichuan FuChuan Property Co Ltd ('SFP'), the private company that owns the project.

The proposed entity structure of the joint venture arrangement is subject to confirmation by LCG's legal representatives in China, but is expected to be similar to the structure in Figure 1.

Figure 1: Structure of Joint Venture investment



Source: PIR/ LCG

Upon the success of the capital raising, LCG will acquire its 51% interest in SFP for AUD\$2.11m and provide \$0.55m to its Chinese subsidiary Pan Aust. Pan Aust will also acquire a loan receivable for \$1.1m as part of its acquisition price. Thereafter, Pan Aust will loan a further \$0.51m to SFP as working capital for the Project. The joint venture partner, Mr Jingda Song, will also loan \$0.49m to SFP to bring working capital up to A\$1.0m.

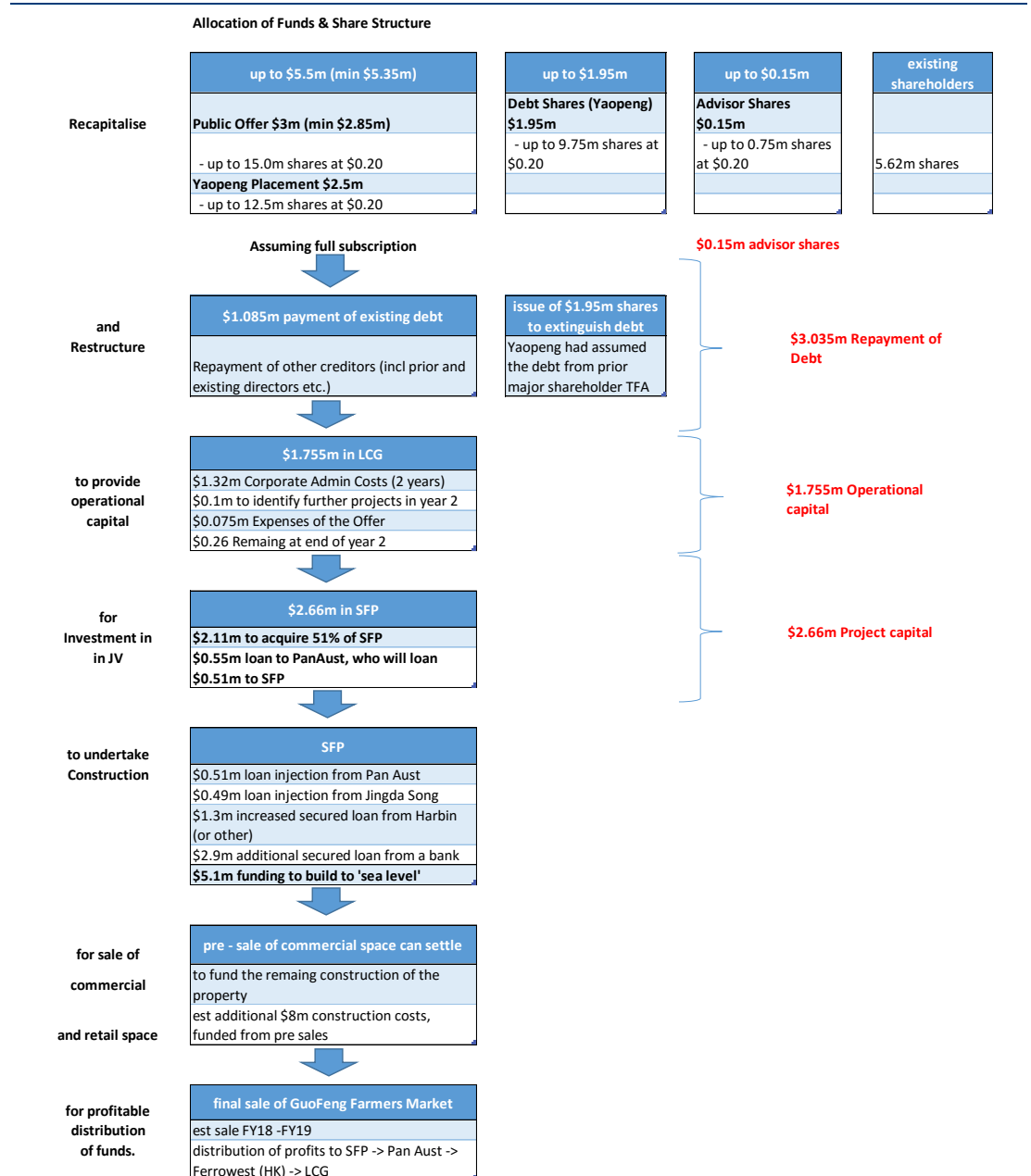
A project manager will be appointed by the SFP for the day to day operations of the project. An existing loan with Harbin Bank is expected to be extended by an additional A\$1.3m and a further A\$2.9m loan will also be required. Both these loans have not yet been finalised as this is dependent on the success of the capital raising.

The total funds of around A\$5.1m will allow the construction to progress up to what is known as 'sea level', which includes the basement and foundations. Once sea level has been reached, the project manager will be able to settle on any pre sales of the property. As pre sales are settled, funds will become available for the continued construction of the shopping centre, thereby allowing the construction to be self-funding thereafter.

Expenses of the Offer are \$0.075m plus up to \$0.15m in shares for advisors to the placement.

With a number of approvals already received, and the fast construction periods in China, it is estimated that the full construction will take about 18 months. A summary of the uses of the capital is provided below.

Figure 2: Allocation of Funds for Recapitalisation and Property Development



Source: PIR/ LCG

3.The Property

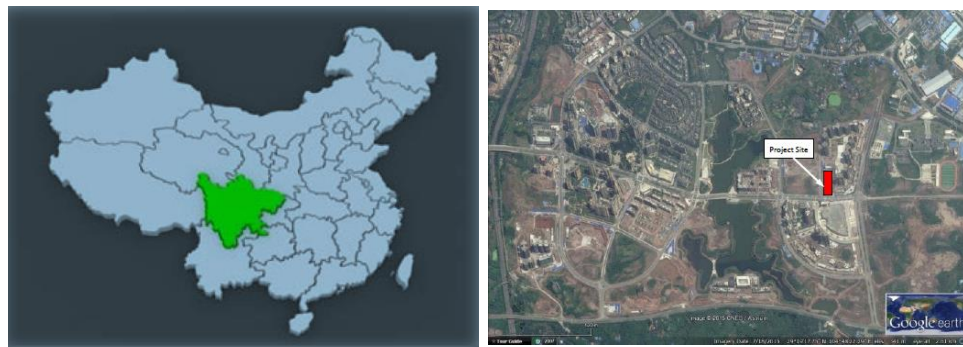
The Zigong GuoFeng Farmers Market is located in the city of Zigong in the Sichuan Province of China. The Project is located in the Yantan New District and is adjacent to the Nanhu District.

The Yantan New District has a population of around 30,000 people and is expected to roughly double in population over the next 3 years. All infrastructure facilities such as transport, schools, hospitals and accommodation are already in place. The project also borders the Nanhu District which is planned to be the new centre of Zigong City with an estimated increase in population to 75,000 from its current level of around 25,000 persons.

Zigong is the third largest city in the Sichuan province and is a key second tier city with a population of over 3 million. It is a major regional centre for southern Sichuan and is a major industrial, food production and tourism centre.

The planned GuoFeng Farmers Market shopping centre will be based around a fresh produce offering with retail and commercial spaces sold on other levels. Culturally, in China, the fresh produce is intended to be the draw card for the development in the same way that a major department store chain would be the cornerstone tenant in an Australian shopping centre development.

Figure 3: Location map and artist impression of GuoFeng Farmers Market



Source: LCG Prospectus

Figure 4: Artist impression of GuoFeng Farmers Market



Source: LCG Prospectus

The Project is targeted to begin operations upon receipt of available funds (estimated in April 2016). A number of approvals have already been obtained from the Chinese government and these include:

- Record Notice of Enterprise Investment Project (project registration and establishment);
- Land Use Planning Permit; and
- Planning Design Approval.

The remaining approvals required are:

- Construction Drawing Approval (similar to a DA approval in Australia);
- Construction Engineering Planning Permit; and
- Construction Permit.

As the first three approvals have been secured, the Project is at a reasonably progressed stage to move to construction and it is expected that the whole project will take around 18 months to be completed.

The receipt of final funds from the sale is expected to be received during the FY18 period, after which LCG will make a determination on what amount is to be retained for future opportunities and what amount will be distributed as a dividend to shareholders.

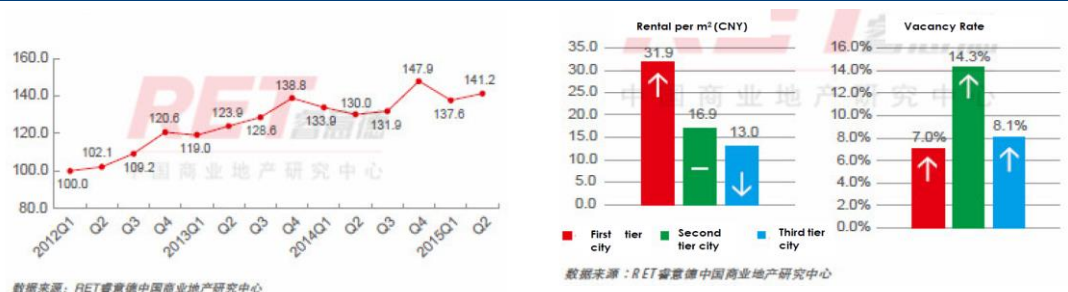
The dividend timing and amount will be dependent on the profitability of the project, its cashflows, and what amount LCG would like to retain for future opportunities.

4. China's commercial property market

Information about the China commercial property market has been presented by the independent expert report prepared by China United Assets Appraisal Group (CUAAP). This report is available in the notice of meeting and replacement prospectus. **PIR has relied on the expert's opinion in the CUAAP report** and we recommend potential investors refer to this report for further detailed information. Some of the key points from this report include:

- China's Commercial Real Estate Index has experienced an overall steady rise from 100.0 in 1Q2012 to 141.2 in 2Q2015 (see Figure 5);
- Commercial real estate continues to grow rapidly with concerns about a regional bubble risk increasing; and
- Average rental for second tier cities such as Zigong, have been flat at around 16,900 per m², with vacancy rates increasing to 14.3% in 1Q2015. Rent levels in quality shopping centres stabilised, while lower occupied centres in remote locations were expected to fall further (see Figure 5).

Figure 5: China's Commercial Real Estate Index, rent and vacancy rates (1Q 2015)



Source: China United Assets Appraisal Group (Australia) Report (CUAAP), based on data from RET Rui Yi De China Commercial Property Research Centre

5. Key Project Assumptions

Due to the risks and variable nature of the project, our calculations are only estimates and reliant on several assumptions that may or may not come to bear. The calculations are explicitly based on the stated assumptions made by SFP and reviewed by the independent expert report by China United Assets Appraisal Group (CUAAP) in the notice of meeting and replacement prospectus. PIR has relied on the CUAAP's expert opinion and is not in a position to comment on the veracity of these assumptions or comments.

The prospectus implies the Project is leveraged at around 48% which includes \$4.6m in borrowings in SFP plus an additional \$5.1m in borrowings needed to build to sea level. The use of leverage in development projects, although common, can negatively impact project returns should the timeframes be extended. This is mainly to do with capitalising the interest cost to the project until such time that settlements occur.

In calculating the Net Asset position of LCG, we have assumed the investment in SFP is retained in China, and is valued in LCG's balance sheet on a consolidated basis for its 51% share. This is after payment of the China Enterprise Income Tax (EIT).

In calculating the Net Distributable Profit for LCG, we have applied the EIT as well as retaining 10% for the Common Accumulation Fund (10% of profits are required to be retained in the entity for future growth, as required by Chinese law). A further 5% withholding tax has been applied to our estimates for money leaving China. We assume no further tax is payable in Australia, with no franking credits available to Australian shareholders.

Figure 6 summarises the key assumptions that PIR has relied upon in its calculations. Investors and potential investors should treat these calculations as a guide only and consider the amounts in conjunction with the risk factors of the project.

Figure 6: Key assumptions underpinning the financial estimates

Assumption	Adopted in financial model	Comment
Exchange Rate	AUD1.00=CNY4.5313	As per prospectus
PRC Enterprise Income Tax	25.0%	Income Tax paid in China on profits
Common Accumulation Fund	10.0%	Required to be retained in Chinese entity to fund future growth
Withholding Tax	5.0%	Tax payable on money leaving China
Franking Credits	0%	Assumes tax paid in China is not available for franking credits in Australia
Construction Costs	AUD\$20.0m estimate	\$7.1m Land Cost \$0.9m Site Appraisal \$5.2m Construction Expense \$2.9m Other Development Expense \$4.1m Finance, Mgmt, Sales, Other
Sales Revenue	AUD\$37.0m estimate (CNY 167.3m) Average Discount to market=26%	<u>L1 Commercial – 3,621m²</u> Ave Mkt Sales CNY 30,250 /m ² Forecast CNY 23,000 /m ² (24% disc) CNY 83.3m = AUD\$18.4m <u>L2 Farmers Market – 4,145m²</u> Ave Mkt Sales CNY 16,500 /m ² Forecast CNY 12,000 /m ² (27% disc) CNY 49.7m = AUD\$11.0m <u>L3 Commercial – 2,832m²</u> Ave Mkt Sales CNY 8,166 /m ² Forecast CNY 6,000 /m ² (26% disc) CNY 17.0m = AUD\$3.7m <u>L4 Commercial – 1,476m²</u> Ave Mkt Sales CNY 5,500 /m ² Forecast CNY 4,000 /m ² (27% disc) CNY 5.9m = AUD\$1.3m <u>L5 Commercial – 218m²</u> Ave Mkt Sales CNY 4,650 /m ² Forecast CNY 3,500 /m ² (25% disc) CNY 0.8m = AUD\$0.2m <u>Underground Parking – 4,153m²</u> Cost Price CNY 2,550 /m ² CNY 10.6m = AUD\$2.3m

Source: China United Assets Appraisal Group (Australia) Report (CUAAP).

Note: Average sale prices were based on 4 sites in close proximity as at April 2015 (ChuangXinCity, Longhu ShangCheng, GuanLan and JunHao Garden) - prices as provided by SFP and CUAAP report.

6. Investment Analytics

PIR has relied on the CUAAP Report assumption as a base case scenario to estimate the Project's profitability and potential distribution to shareholders. In doing so, PIR notes that the CUAAP Report already applies a 26% average discount to similar market prices as at April 2015.

Nevertheless, due to the higher risks inherent in the Project, we have adopted to use the A\$37.0m sales price and \$20m construction price as a base case scenario with an upside scenario of +10% in the sale price and downside scenario of a 10% increase in construction costs.

The summary of the three scenarios and the expected impact on net assets is presented below:

- The Project is estimated to move LCG to a net asset position \$8.8m or \$0.23 per share, if the profits are retained in the Chinese entity SFP, and consolidated into LCG's balance sheet;
- Our High Case scenario estimates the potential for a 10% increase in average sales price will move LCG to a net asset position of \$0.26 per share; and
- Our Low Case scenario of a 10% increase in construction costs will move LCG to a net asset position of \$0.21 per share.

Figure 7: Estimated Return on Project

Estimated Return on Project	Low	Base	High
Est Return on Project - 100% Share (SFP Entity)			
Current Net Assets - SFP	1.7	1.7	1.7
Additional Expenses (excl land) to spend	-15.0	-13.0	-13.0
Write down of land on sale	-6.4	-6.4	-6.4
Proceeds from Sale	37.0	37.0	40.7
Net Assets after Sale (SFP Entity)	17.3	19.3	23.0
PRC Enterprise Income Tax (25% of Profit)	-3.8	-4.3	-5.2
Net Assets of SFP	13.6	15.1	17.9
Pan Aust Share of Net Assets (51%)	6.9	7.7	9.1
Est return on Project - 51% Share (LCG)			
Pan Aust Share of Net Assets (51%)	6.9	7.7	9.1
Common Accumulation Fund (10%)	-0.7	-0.8	-0.9
Withholding Tax (5%)	-0.3	-0.3	-0.4
Net Distributable Profit to LCG A\$m	5.9	6.6	7.8
Net Distributable Profit per LCG Share	\$0.14	\$0.15	\$0.18
Impact on LCG Balance Sheet			
Net Assets - as at Dec 2015	-2.2	-2.2	-2.2
Capital Raising (max subscription)	7.6	7.6	7.6
- advisors expenses	-0.2	-0.2	-0.2
- operational expenses (2 years)	-1.5	-1.5	-1.5
- initial investment in JV	-2.7	-2.7	-2.7
- final net assets of SFP (at 51%)	6.9	7.7	9.1
- final net assets of Pan Aust (100%)	1.1	1.1	1.1
Net Assets - at end of Project	9.1	9.8	11.3
Net Assets per Share at end of Project	\$0.21	\$0.23	\$0.26
Shares on Issue (Max subscription) - m	43.6	43.6	43.6

Source: PIR calculations based on CUAAP assumptions

7. Management & Corporate Governance

The project is intended to be managed by parties who bring their specific areas of expertise and skills together. LCG, as the major shareholder, will apply Australian corporate governance practices to the oversight, management and monitoring of its majority interest.

Brett Manning, as Executive Chairman has over 20 years business experience, and has been the company's Managing Director for 10 years. He has participated in multiple IPOs and capital raisings and has been involved in joint venture and other cross border business negotiations and contracts. His continual oversight of the Project will provide a level of heightened governance to ensure the interests of LCG shareholders are protected.

Robert (Wei) Sun is the Managing Director of the company and brings over 20 years of business experience. He is an independent non-executive director of ASX listed PepinNini Minerals (ASX Code: PNN) and was previously a non-executive director of IMX Resources (ASX Code: IMX). Robert resigned in his role as General Manager of TFA International, which is the company's major shareholder, to devote his efforts to his new role as Managing Director of LCG, which will involve the oversight and day to day communication between LCG and SFP. Robert has extensive experience in business negotiations in China which will provide operational expertise and management of the Project.

John Pettigrew is an independent non-executive director of the company, appointed in December 2015. He has over 35 years of property development experience including 24 years at the Stockland Group (ASX Code: SGP) as CFO and executive director. He has served as a director at recruitment agency Rubicor Group (ASX Code: RUB) including 8 years as Chairman, and he is currently an executive director of Astro Japan Property Group (ASX Code: AJA) and non-executive director of New Horizons Enterprises Limited. John has a Bachelor of Commerce and is a CPA. His highly regarded experience in property, management and finance will provide enhanced corporate oversight and governance to the Project.

Related Party Transactions

We consider the Project to be subject to a number of related party transactions often associated with doing business in China. Such transactions often bring both a benefit as well as a risk to the project and require oversight and governance by LCG as the majority shareholder of the property development.

TFA International is the current major shareholder of the company and does not have any common shareholding with Yaopeng. Yaopeng has assumed TFA's debt and intends to become the majority shareholder of LCG under the proposed restructure. Nevertheless, LCG treats TFA and Yaopeng as related parties for the purposes of the Project.

We have assumed that the project will rely on a number of additional business relationships in China from an operational perspective. Such relationships provide further uncertainty to an Australian investor as they may positively or negatively influence the profitability of the project. The management and governance of these relationships by LCG will be crucial to the success of the development.

Details of the property developers, Sichuan Taifeng Group, and the joint venture entity Sichuan FuChuan Property, are provided below.

Property Developers – Sichuan Taifeng Group

LCG has established a working relationship with Sichuan Taifeng Group to support the development of the Project. Sichuan Taifeng was established in 1997 and is a significant real estate, mining and trade partner in China with about 2,000 staff employed across almost 40 subsidiaries.

Its Zigong real estate operations has been running since 2001 and currently has around 130 staff, and is a major developer of office building, convention centre, shopping centres and large scale residential property in Zigong.

Sichuan Taifeng currently has 18 buildings under construction in Zigong with development costs of over CNY 1.2 billion (AUD \$265m).

Joint Venture Entity - Sichuan FuChuan Property Co Ltd (SFP)

Sichuan FuChuan Property Co Ltd (SFP) is the legal entity in China that is undertaking the construction of the GuoFeng Farmers Market. SFP was established in March 2011 with AU\$1.9m in capital, with Jingda Song owning 52% and Huiming Feng owning 48%.

In 2011 it acquired the land rights to the Project for A\$6.1m (current valuation \$6.4m). SFP's assets is mainly the land rights. Borrowings comprise \$4.6m (\$2.6m mortgage to Harbin Bank, as well as a \$0.9m loan to Jingda Song and \$1.1m loan that Pan Aust will acquire as part of the acquisition).

The proceeds of the share placements will be used to acquire a 51% interest in SFP for \$2.11m. Mr Jingda Song is currently operating in the capacity as General Manager of SFP and will likely continue in this capacity whilst employing a new Project Manager to run the day to day operations of the Project, including the establishment of a sales team, sales office and marketing of the Project.

Quarterly accounts will be prepared by SFP to meet its ASX disclosure requirements, and annual accounts will be independently audited annually.

8. Corporate Strategy

While the GuoFeng Farmers Market Project has the potential to consolidate the reconstructed company and establish an initial level of performance, LCG will need to be actively pursuing new project opportunities.

The company's association with Taifeng Group should facilitate this until LCG builds up its own experience in China. The corporate strategy of developing in both China and Australia, thereby sourcing capital for growth from both markets, forms the basis for a potentially successful business model but will take time to grow from the relatively small initial capital base. As such, the success of LCG will also be highly dependent on the initial success of projects like the GFMC.

9. Risk Factors

The success and profitability of the project is subject to a number of factors, including:

- Expenses remaining within a reasonable range of budget;
- Achievement of appropriate sales prices during pre-sales and at completion; and
- Approvals and construction timelines maintained throughout the project.

In addition, the following risks may impact the overall profitability of the project:

Economic Risk – the success of the Project is closely associated with the growth and economic conditions in China remaining supportive of the construction and successful sale price for the shopping centre. A change in economic conditions may impact the profitability of the Project.

Country Risk – the project is subject to Chinese laws, which may change and impact the profitability of the project. This may also impact the ability for SFP to repatriate profits out of China into Hong Kong and ultimately into Australia for the distribution to LCG shareholders.

Funding – the project is dependent on existing funding with Harbin Bank continuing as well as the availability of additional funding to support the construction of the complex. A major portion of the funding has not been confirmed, which places an increased risk on the profitability and success of the project. The high level of debt places additional risk on the project to meet interest payments, which may impact the profitability of the project.

Taxation Risks – The Common Accumulation Fund (CAF) requires 10% of profits to be retained in the Chinese entity SFP for growth. In addition, the Chinese Enterprise Income Tax (EIT) of 25% applies to SFP and a 5% withholding tax applies to funds sent to Australia. A change in taxation laws in China, Hong Kong or Australia may impact future dividends.

Project Risk – the project is dependent on construction and regulatory approvals being obtained by the necessary government organisations; the project being managed by reputable and capable contractors and contracts being fulfilled on time and within budget. Although LCG is not aware of any issues that may impact this, there is a risk that final approvals may be delayed or denied, which would impact the project. The Project is reliant on the organisational structure in SFP, Pan Aust and Ferrowest (HK) for the repatriation of funds to Australia and any impact on this structure may impact the ability to do so. In

addition there are certain insurance risks like flood, fire, storm and tempest which would normally be covered in Australia, but may not be equally covered in China, which may impact on the expenses of the Project.

Exchange Rate Risks – the repatriation of profits will be impacted by the exchange rate between China and Australia. Our calculations are based on the prospectus exchange rate of AUD 1.00 = CNY 4.5313. A weakening of the CNY would move the exchange rate above 4.5313 and would reduce AUD profits; whilst a strengthening of the CNY would move the exchange rate below 4.5313 and would increase AUD profits. We note that in the past 2 years the exchange rate has traded in a 34% range of 4.39 - 5.88. As at 29 March 2016 the exchange rate was around AUD1=CNY4.90.

Majority Shareholders (Yaopeng & TFA) – following the successful completion of the capital raisings, Yaopeng and TFA will collectively hold between 54.8% and 61.6% (assuming full underwriting of 2.5m shares) of the ordinary shares of LCG and will have a controlling interest in the company. Yaopeng has stated that it fully supports the business direction and has no intention to change the proposals. As a majority controlling shareholder Yaopeng will be able to provide additional business opportunities and will be in a position of influence for the future direction of the company.

10. Investment Opinion

We consider the restructure of LCG and the Public Offer to be speculative in nature due to the uncertainties and high risks involved. This includes risks associated with the success of the property development, currency risks, the high use of debt in the project, the cost of doing business in China as well as an exposure to the commercial property market in China.

Based on the assumptions from the independent expert report, the property development is estimated to move LCG to a net asset position of \$0.23 per share, an improvement from its current negative net asset position.

We consider an investment in LCG to be long term in nature with further upside potential likely to be achieved through the potential success of the project. This would demonstrate LCG's capability to manage a profitable property development business and position the company for further profitable opportunities in both China and Australia.

We assess LCG to be suitable for investors with a strong appetite for risk. The company presents a high risk/return profile potential with the final sale price from the Project remaining uncertain and subject to volatility from a number of factors. Potential investors should be willing to accept volatility and uncertainty as the company seeks to establish itself as a successful property developer in China and then Australia.

Management appear to have the necessary structure in place to proceed, however the ultimate profitability will be impacted by the operational performance of the project as well as a number of external factors that it may not be able to control such as the economic conditions, tax laws and exchange rates.

Accepting these investment considerations, it is a rare opportunity to gain access to Chinese property market demand that is managed through an Australian listed company entity with Australian corporate governance benefits.

