THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China City Infrastructure Group Limited (the "**Company**"), you should at once hand this circular and accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

中國城市基礎設施集團有限公司
China City Infrastructure Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

MAJOR TRANSACTION INVOLVING ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF PRECIOUS PALACE ENTERPRISES LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Advisor to the Vendor

建银国际
CCB International

A notice convening an extraordinary general meeting of the Company to be held at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 9 July 2019 at 11:00 a.m. is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular, which is also published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company.

Whether or not you are able to attend the extraordinary general meeting, you are advised to read the notice and to complete and return the form of proxy, in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time fixed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjournment thereof should you so wish.

21 June 2019

CONTENTS

DEFINITIONS

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

"Acquisition"	the acquisition by the Purchaser of the Sale Shares subject to and upon the terms and conditions of the Sale and Purchase Agreement
"associates"	has the meaning ascribed to this term under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day (not being Saturdays, Sunday or public holidays) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Company"	China City Infrastructure Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition pursuant to the terms and conditions of the Sale and Purchase Agreement
"connected persons"	has the meaning ascribed to this term under the Listing Rules
"Conversion Price"	initially at HK$0.50 (subject to adjustments) per Conversion Share
"Conversion Rights"	the rights attached to the Convertible Bonds to convert the principal amount (or any part(s) thereof) of the Convertible Bonds into Conversion Shares
"Conversion Shares"	the Shares to be allotted and issued by the Company under the Convertible Bonds upon exercise of the Conversion Rights

"Convertible Bonds"	the 3-year with interest of 3% per annum unlisted convertible bonds of an aggregate principal amount of HK$431,500,000 to be issued by the Company to the Vendor (or as it may direct) to settle part of the consideration payable by the Purchaser under the Sale and Purchase Agreement and the bondholder shall have the Conversion Rights to convert any outstanding principal amount of the Convertible Bonds into the Conversion Shares at an initial Conversion Price of HK$0.50 (subject to adjustments) per Conversion Share for the period from the date of issuance to the maturity date of the Convertible Bonds
"Director(s)"	director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be held and convened for the purpose of approving the Acquisition and the transactions contemplated thereunder
"Enlarged Group"	the Group enlarged as a result of the Acquisition
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hong Kong Subsidiary"	鳳珍企業有限公司 (Mimiro Industrial Co. Limited), a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Target Company
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons in accordance with the Listing Rules
"Latest Practicable Date"	20 June 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China

"PRC Subsidiary"	鳳珍實業發展(深圳)有限公司 (Fengzhen Industrial Development (Shenzhen) Co. Limited)*, a company established in the PRC and a wholly owned subsidiary of the Hong Kong Subsidiary
"Project Group"	Hong Kong Subsidiary and PRC Subsidiary
"Promissory Note"	the 3-year unlisted promissory note with an interest of 3% per annum in an aggregate principal amount of HK$363,500,000 to be issued by the Company to the Vendor (or as it may direct) to settle part of the consideration payable by the Purchaser under the Sale and Purchase Agreement
"Properties"	the properties owned by the Target Group in Shenzhen, the PRC with total construction area of approximately 36,875.72 square meters
"Purchaser"	Green City Development Limited, being a wholly owned subsidiary of the Company
"Sale and Purchase Agreement"	the conditional sale and purchase agreement dated 3 January 2019 and entered into among the Vendor, the Vendor Guarantor, the Company and the Purchaser for the sale and purchase of the Sale Shares
"Sale Shares"	50,000 shares of US$1.00 each in the issued share capital of the Target Company, representing the entire issued share capital of the Target Company, which are fully paid up or credited as fully paid and are beneficially owned by the Vendor
"SFO"	Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"sq m"	square meter(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Target Company"	Precious Palace Enterprises Limited, a company incorporated in the British Virgin Islands with limited liabilities
"Target Group"	together the Target Company and its subsidiaries (i.e. the Hong Kong Subsidiary and the PRC Subsidiary)
"Vendor"	Sky Climber Development Limited, a company incorporated in the British Virgin Islands with limited liabilities
"Vendor Guarantor"	楊智雄 (Yang Zhixiong)*, an individual who is the sole shareholder of the Vendor and the Vendor's guarantor under the Sale and Purchase Agreement
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

* *for identification purpose only*

中國城市基礎設施集團有限公司
China City Infrastructure Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

Executive Directors:
Mr. Li Chao Bo
(Chairman and Chief Executive Officer)
Mr. Ji Jiaming

Non-executive Director:
Mr. Zhang Guiqing

Independent non-executive Directors:
Mr. Wang Jian
Mr. Ng Chi Ho, Dennis
Mr. Kwok Kin Wa

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Suite 6208, 62nd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

21 June 2019

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION INVOLVING ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF PRECIOUS PALACE ENTERPRISES LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 3 January 2019, pursuant to which the Board announced that on 3 January 2019, the Purchaser and the Company entered into the conditional Sale and Purchase Agreement with the Vendor and the Vendor Guarantor in relation to the acquisition of the Sale Shares by the Purchaser for an aggregate consideration of HK$795,000,000, which will be satisfied by the issue of the Convertible Bonds in the principal amount of HK$431,500,000 and the issue of the Promissory Note in the principal amount of HK$363,500,000 to the Vendor or its nominee.

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are 25% or more but less than 100%, the Acquisition constitutes a major transaction on the part of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement and Shareholders' approval requirements.

The purpose of this circular is to provide you with, among other things, (i) further details of the Acquisition; (ii) an accountant's report of the Target Group and the Project Group; (iii) the unaudited pro forma financial information of the Enlarged Group; (iv) the valuation report on the Properties; and (v) the notice of EGM and other information as required under the Listing Rules.

SALE AND PURCHASE AGREEMENT

Date: 3 January 2019 (after trading hours)

Parties:

(1) Vendor

(2) the Vendor Guarantor

(3) the Purchaser

(4) the Company

The Vendor is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holdings. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and its ultimate beneficial owner (i.e. the Vendor Guarantor) are Independent Third Parties.

The Vendor Guarantor, who is the sole shareholder of the Vendor, is a Macau citizen and is a merchant.

The Purchaser is a wholly owned subsidiary of the Company. The Purchaser is incorporated in the British Virgin Islands and is principally engaged in investment holdings.

Asset to be acquired

Pursuant to the Sale and Purchase Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to sell the Sale Shares. The Sale Shares represent the entire issued share capital of the Target Company.

Consideration

The total consideration for the Acquisition (the "**Consideration**") is HK$795,000,000, which shall be satisfied upon Completion by the issue of the Convertible Bonds in the principal amount of HK$431,500,000 and the issue of the Promissory Note in the principal amount of HK$363,500,000 by the Company to the Vendor or its nominee.

The Consideration was determined after arm's length negotiation among the parties to the Sale and Purchase Agreement and with reference to (i) the preliminary valuation of the Properties of RMB702.0 million (equivalent to approximately HK$797.7 million) as at 30 September 2018 prepared by a professional valuer based on market approach; and (ii) the unaudited consolidated net assets value of the Target Group as at 30 September 2018 as adjusted by the preliminary property valuation.

The valuation report of the Properties is set out in Appendix VI to this circular.

Principal Terms of the Convertible Bonds

Issuer:	The Company
Principal amount:	HK$431,500,000
Maturity Date:	The third anniversary of the date of issue of the Convertible Bonds
Redemption:	Subject to the written consent of the holder(s) of the Convertible Bonds and having given the holder(s) of the Convertible Bonds not less than 5 Business Days notice, the Company may at any time before the maturity date of the Convertible Bonds redeem the Convertible Bonds (in whole or in part). Any amount of the Convertible Bonds which remains outstanding on the maturity date shall be redeemed at 100% of its then outstanding principal amount. Any amount of the Convertible Bonds which is redeemed by the Company will be forthwith cancelled. As at the Latest Practicable Date, the Company currently has no plan to early redeem the Convertible Bonds.

Interest: The Convertible Bonds shall bear interest at the rate of 3% per annum payable yearly.

Transferability: The Convertible Bonds may be assigned or transferred to any transferee subject to prior notification to the Company. The Convertible Bonds may only be assigned or transferred to any connected person of the Company (as defined under the Listing Rules) subject to compliance with the Listing Rules.

The Company, the Vendor and their respective ultimate beneficial owners currently do not have any plans, arrangements or otherwise to assign or transfer the Convertible Bonds to any transferee or any connected persons of the Company. The Company would comply with the relevant Listing Rules requirements (including but not limited to the requirements under Chapter 14A of the Listing Rules and seeking independent Shareholders' approval if necessary) in the event that the Convertible Bonds are being transferred to any connected persons of the Company.

Conversion: Provided that the public float of the Shares shall not be less than 25% (or any given percentage as required by the Listing Rules) of the issued Shares at any one time in compliance with the Listing Rules, the holder(s) of the Convertible Bonds shall have the right at any time from the date of issue of the Convertible Bonds up to the maturity date to convert the whole or part of the outstanding principal amount of the Convertible Bonds registered in its name into Conversion Shares.

As at the Latest Practicable Date, the Vendor currently has yet decided as to whether and when on exercising the conversion right to convert any part or all of the Convertible Bonds. The Vendor is entitled to convert all or part of the Convertible Bonds in accordance with the terms thereof during the conversion period and there is no current plan for conversion of the Convertible Bonds.

Conversion Price: The Convertible Bonds shall be converted at the Conversion Price. Upon issue of the Convertible Bonds, the initial Conversion Price will be HK$0.5 per Conversion Share (subject to adjustments).

The initial Conversion Price of HK$0.5 represents:

(i) a premium of approximately 63.93% over the closing price of HK$0.305 per Share as quoted on the Stock Exchange on 3 January 2019, being the date of the Sale and Purchase Agreement;

(ii) a premium of approximately 64.47% over the average of the closing prices of HK$0.304 per Share as quoted on the Stock Exchange for the last five (5) consecutive trading days up to and including 3 January 2019; and

(iii) a premium of approximately 114.59% over the closing price of HK$0.233 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The initial Conversion Price was determined after arm's length negotiations between the Vendor and the Purchaser with referencing to the unaudited consolidated net assets value per Share of the 2018 interim report (which as approximately HK$0.49 per Share) and the subscription price of HK$0.50 per Share for subscription of new Shares as announced in 2017. The Board considers that it is fair and reasonable to make reference to the subscription price in 2017 in determining the Consideration, having considered that (i) such subscription price represents the latest indicative price at which a willing investor would invest in the Company's shares; and (ii) if the Convertible Price is determined solely based on the prevailing share market price (which is below HK$0.3 per share), it would not be in the interests of the Company and its Shareholders as such price is lower than the Company's net asset value of HK$0.49 per Share as at 30 June 2018.

The Conversion Price shall be adjusted as provided in the Convertible Bonds instrument in each of the following cases:

(a) an alteration of the number of the Shares by reason of any consolidation or subdivision, in which case the Conversion Price shall be adjusted by multiplying the following:

$$\frac{A}{B}$$

A = the number of the Shares in issue before such alteration; and

B = the number of the Shares in issue immediately after such alteration

(b) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account, contributed surplus account or capital redemption reserve fund), in which case the Conversion Price shall be adjusted by multiplying the following:

$$\frac{C}{D}$$

C = the number of the Shares in issue before such alteration; and

D = the number of the Shares in issue immediately after such alteration

(c) an issue or grant by the Company by way of rights or options relating to Shares to holders of Share to acquire cash assets of the Group, in which case the Conversion Price shall be adjusted by multiplying the following (subject to confirmation by approved investment bank acting as expert to confirm the adjustment):

$$\frac{E - F}{E}$$

E = the Conversion Price immediately before the date of announcement of such issue ; and

F = the fair market price per such Share to be issued as at the date of the announcement as confirmed by approved investment bank acting as expert

(d) an offer or grant being made by the Company to holders of Shares by way of rights or of options or warrants to subscribe for new Shares at a price which is less than 90 per cent. of the Conversion Price, in which case the Conversion Price shall be adjusted by multiplying the following:

$$\frac{G + \frac{H \times I}{J}}{G + H}$$

G = the number of Shares in issue as at the date of the announcement of such offer or grant;

H = the number of Shares to be offered or granted;

I = the subscription price payable for each new Share to be offered or granted plus any price to acquire such subscription right;

J = the Conversion Price immediately before such grant or offer.

(e) an issue wholly for cash or for reduction of liabilities being made by the Company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per Share (as defined in the Convertible Bonds instrument) initially receivable (or in the case of reduction in liabilities, the amount of liabilities to be reduced) for such securities is less than 90 per cent. of the Conversion Price, or the terms of any such rights of conversion or exchange or subscription attached to any such securities being modified so that the said total effective consideration per Share initially receivable for such securities is less than 90 per cent. of the Conversion Price, in which case the Conversion Price shall be adjusted by multiplying the following:

the nominator shall be the sum of (i) the number of Shares in issue immediately prior to the relevant issue; and (ii) the number of Shares which can be acquired based on the total effective consideration and the then Conversion Price before adjustment

the denominator shall be the sum of (i) the number of Shares in issue immediately prior to the relevant issue; and (ii) the number of Shares to be allotted and issued upon the exercise of such rights of conversion or exchange or subscription in full

(f) an issue being made by the Company wholly for cash of Shares at a price per Share less than 90 per cent. of the Conversion Price, in which case the Conversion Price shall be adjusted by multiplying the following:

the nominator shall be the sum of (i) the number of Shares in issue immediately prior to the relevant issue; and (ii) the number of Shares which can be acquired based on the cash amount and the then Conversion Price before adjustment

the denominator shall be the sum of (i) the number of Shares in issue immediately prior to the relevant issue; and (ii) the number of Shares to be allotted and issued under such issue and allotment

(g) an issue being made by the Company of Shares for the acquisition of asset at a total effective consideration per Share (as defined in the Convertible Bonds instrument) less than 90 per cent. of the Conversion Price, in which case the adjustment shall be determined by confirmation from approved investment bank acting as expert confirming the adjustment

(h) a capital distribution (as defined in the Convertible Bonds instrument) being made by the Company, whether on a reduction of capital or otherwise, to holders of the Shares in their capacity as such, in which case the Conversion Price shall be adjusted by multiplying the following (subject to confirmation by approved investment bank acting as expert to confirm the adjustment):

$$\frac{E - F}{E}$$

E = the Conversion Price immediately before the date of announcement of such issue; and

F = the fair market price per such Share to be issued as at the date of the announcement as confirmed by approved investment bank acting as expert

(i) in the event that the Company or the holders of the Convertible Bonds consider that it would be appropriate for an adjustment to be made on the Conversion Price as a result of one or more events or circumstances not specified above, subject to confirmation by approved investment bank acting as expert to confirm the adjustment.

The Conversion Price will be adjusted in the occurrence of the above adjusting events in accordance with the formulas set out in the Convertible Bonds instrument based on the principle that the holder(s) of the Convertible Bonds shall have the same proportion of the issued share capital upon conversion of the Convertible Bonds as that to which that holder was previously entitled.

Voting Rights: The holder(s) of the Convertible Bonds will not be entitled to attend or vote at any general meetings of the Company by reason only of it being the holder(s) of the Convertible Bonds.

Ranking:	The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by applicable legislation, at all times rank equally with all its other present and future unsecured and unsubordinated obligations. The Conversion Shares issued upon conversion of the Convertible Bonds will in all respects rank *pari passu* with the Shares in issue on the date of allotment and issue of such Conversion Shares and accordingly shall entitle the shareholders to participate in all dividends or other distributions declared, paid or made on or after the relevant conversion date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the relevant conversion date.
Listing:	The Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Based on the initial Conversion Price of HK$0.5 per Conversion Share, a maximum number of 863,000,000 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Bonds in full, which represent: (i) approximately 28.00% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 21.87% of the issued share capital of the Company as to be enlarged by the allotment and issue of the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds in full (assuming that there is no change in the issued share capital of the Company after the date of Sale and Purchase Agreement). The Acquisition is not expected to result in a change in control of the Company.

The Conversion Shares will rank *pari passu* in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares. The Conversion Shares will be allotted and issued under the specific mandate to be sought at the EGM.

The Conversion Price was arrived at after arm's length negotiations between the Vendor and the Purchaser. The Directors consider that the Conversion Price and the terms and conditions of the Convertible Bonds are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CHANGE OF SHAREHOLDING STRUCTURE

The changes of the shareholding structure of the Company as at the Latest Practicable Date and upon full conversion of the Convertible Bonds at the initial Conversion Price (assuming no Shares issued or repurchased prior to Completion and the conversion of the Convertible Bonds) are as follows:

		As at the Latest Practicable Date and before Completion		Immediately after the allotment and issue of all the Conversion Shares		Immediately after the allotment and issue of all the Conversion Shares and all other outstanding Convertible Note	
Shareholders	*Notes*	*No. of shares*	*Approximate %*	*No. of shares*	*Approximate %*	*No. of shares*	*Approximate %*
Mr. Li Chao Bo, Linkway Investment Holdings Limited, Asia Unite Limited and its concert parties	*(1)*	678,992,000	22.03	678,992,000	17.21	678,992,000	17.01
China Financial International Investments Limited and its concert parties	*(2)*	652,079,429	21.16	652,079,429	16.53	698,079,429	17.49
Good Outlook Investments Limited	*(3)*	215,683,681	7.00	215,683,681	5.47	215,683,681	5.40
Century Forum Development Limited	*(3)*	200,000,000	6.49	200,000,000	5.07	200,000,000	5.01
Trikey Investments Limited	*(3)*	160,000,000	5.19	160,000,000	4.06	160,000,000	4.01
Sky Climber Development Limited	*(3, 4)*	–	–	863,000,000	21.87	863,000,000	21.62
Other public Shareholders		1,175,523,432	38.13	1,175,523,432	29.79	1,175,523,432	29.46
Total		3,082,278,542	100.00	3,945,278,542	100.00	3,991,278,542	100.00

Notes:

(1) Mr. Li Chao Bo is the sole beneficial owner of Linkway Investment Holdings Limited and Asia Unite Limited which in turn owns 668,912,000 Shares and 10,080,000 Shares of the Company respectively. Mr. Li Chao Bo is a Director of the Company.

(2) China Financial International Investments Limited ("**CFIIL**") is a company incorporated in the Cayman Islands and continued in Bermuda, the issued shares of which are listed on the main board of the Stock Exchange. Convertible notes in the principal amount of HK$23,000,000 carrying the rights to subscribe for Shares at conversion price of HK$0.50 per share was issued by the Company to CFIIL on 28 June 2016.

(3) It is a company incorporated in the British Virgin Islands with limited liability

(4) Though the Vendor will become the single largest Shareholder of the Company upon allotment and issue of all the Conversion Shares upon full conversion of the Convertible Bonds, it is noted that the Vendor yet holds less than 30% of the voting rights in the Company. As such, the Company takes the view that there will be no Takeovers Code implication.

Principal Terms of the Promissory Note

Issuer:	The Company
Principal amount:	HK$363,500,000
Maturity Date:	The third anniversary of the date of issue of the Promissory Note
Redemption:	Subject to further written agreement by both the Company and the holder(s) of the Promissory Note, the Company may at any time before the maturity date of the Promissory Note by written notices to relevant holder(s) of the Promissory Note, redeem the Promissory Note (in whole or in part) at 100% to the principal amount of the part of the Promissory Note to be redeemed. The Promissory Note holder may at any time after 3 months following issuance of the Promissory Note and before the maturity date of the Promission Note request the Company to redeem the Promissory Note (in whole or in part) at 100% to the principal amount of the part of the Promissory Note by serving a 60-day prior notice to the Company. Any amount of the Promissory Note which remains outstanding on the maturity date shall be redeemed at 100% of its then outstanding principal amount.

	As at the Latest Practicable Date, the Company currently has no plan to early redeem the Promissory Notes and the Vendor currently has no plan to request the Company to early redeem the Promissory Notes. The Company and the holder(s) currently has no plan to enter into any further agreement for early redemption of the Promissory Note and will comply with the relevant Listing Rules requirements upon the entries of such agreement.
Interest:	The Promissory Note shall bear interest at the rate of 3% per annum payable annually in arrear and upon redemption or maturity.
Transferability:	The Promissory Note may be transferrable to any transferee (provided that any transfer to connected persons of the Company shall be subject to compliance with the Listing Rules).
	The Company, the Vendor and their respective ultimate beneficial owners currently have no plans, arrangements or otherwise to assign or transfer the Promissory Notes to any transferee or connected person of the Company. The Company will comply with the relevant Listing Rules requirements (where applicable) in the event that the Promissory Notes are being transferred to any connected persons of the Company.
Voting Rights:	The holder of the Promissory Note will not be entitled to attend or vote at any general meetings of the Company by reason only of it being the holder of the Promissory Note.
Ranking:	The payment obligations of the Company under the Promissory Note shall, save for such exceptions as may be provided by applicable legislation, at all times rank equally with all its other present and future unsecured and unsubordinated obligations.
Listing:	The Promissory Note will not be listed on the Stock Exchange or any other stock exchange.

Conditions

The Acquisition is conditional upon the satisfaction of the following:

(1) the Vendor and the Target Company having obtained all necessary consents and approvals relating to the sale and purchase of the Sale Shares;

(2) the Purchaser and the Company having obtained all necessary consents and approvals relating to the sale and purchase of the Sale Shares;

(3) there being no situation, facts or circumstances which constitute or may constitute any breach of the Vendor's warranties under the Sale and Purchase Agreement;

(4) there being no situation, facts or circumstances which constitute or may constitute any breach of the Purchaser's and the Company's warranties under the Sale and Purchase Agreement;

(5) (if necessary) the passing of necessary resolutions by the Shareholders at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Bonds and the Promissory Note);

(6) the Purchaser being satisfied with the results of the due diligence review on the Target Group to be carried out by the Purchaser;

(7) the Vendor being satisfied with the results of the due diligence review on the Company to be carried out by the Vendor; and

(8) the Stock Exchange granting the listing of and permission to deal in the Conversion Shares.

The Purchaser may at any time waive in writing the conditions (3) and/or (6) set out above. The Vendor may at any time waive in writing the conditions (4) and/or (7) set out above. The other conditions are incapable being waived. If the conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before 31 December 2019 (or such later date as the parties may agree), the Sale and Purchase Agreement shall cease and terminate and thereafter neither party to the Sale and Purchase Agreement shall have any obligations and liabilities towards each other hereunder save for any antecedent breaches of the terms hereof. The Purchaser does not have any current intention to waive any of the conditions.

None of the conditions precedent has been fulfilled as at the Latest Practicable Date.

The Vendor has provided warranties in favour of the Purchaser under the Agreement in respect of the Properties. It is also one of the conditions precedent that the Purchaser being satisfied with the results of the due diligence review on the Target Group. As such, the Purchaser will not proceed with Completion without the release of the pledges on the Properties.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Completion

Completion is expected to take place on the third Business Day after the fulfillment (or waiver) of the conditions (or such later date as the parties to the Sale and Purchase Agreement may agree) mentioned above. Assuming all the conditions precedent are fulfilled, the Completion of the Acquisition is expected to be taken place in July 2019.

Upon Completion, the Target Company will become an indirect wholly owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the accounts of the Group.

There are no terms or conditions in the Sale and Purchase Agreement conferring any rights to the Vendor and/or the Vendor Guarantor to appoint Director to the Board of the Company. The Vendor Guarantor will not be appointed as the Company's Director upon Completion.

INFORMATION ON THE TARGET GROUP AND THE PROPERTIES

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The Target Company is the legal and beneficial owner of the entire issued share capital of the Hong Kong Subsidiary, which in turn holds the entire equity interests of the PRC Subsidiary. The PRC Subsidiary is the legal and beneficial owner of the Properties. Immediately prior to the entering into of the Sale and Purchase Agreement, the Target Company is held as to 100% by the Vendor. After Completion of the Acquisition, the Purchaser shall be interested in the entire issued share capital of the Target Company and the Target Company shall become an indirect wholly owned subsidiary of the Company.

The PRC Subsidiary is currently holding the Properties located in Shenzhen, the PRC. The Properties comprise property complex in Shenzhen, the PRC with land area of approximately 14,971.1 square meters and total gross floor area of approximately 36,875.72 square meters. The Properties are the only significant assets of the Target Group. The construction of the Properties have been completed and comprise (1) Huajiang Building with a total gross floor area of approximately 3,786.46 square meters was used for rental purpose; (2) Meizhou Building with a total gross floor area of approximately 12,248.64 square meters of which approximately 9,784.64 square meters was used for rental purpose and approximately 2,464.00 square meters was vacant; and (3) two factory premises and two staff quarters with a total gross floor area of approximately 20,840.62 square meters were used for rental purpose (the "**Industrial Property**").

Set out below is the audited consolidated financial information of the Project Group:

	For the year ended 31 December 2018 *HK$'000*	**For the year ended 31 December 2017** *HK$'000*
Profit before taxation	419,242	33,421
Profit after taxation	307,932	25,375

The audited consolidated net asset value of the Project Group is approximately HK$535,277,000 as at 31 December 2018. The valuation of the Properties is approximately RMB702,000,000 as at 31 December 2018.

The fair value gain on investment properties of HK$421.8 million for the year ended 31 December 2018 mainly due to the change in use of Meizhou Building with total gross floor area of approximately 12,248.64 square meters during the year. Due to the low room occupancy rate and fluctuation in income of the hotel operation business, the Project Group changed the use of Meizhou Building from hotel operation to rental purpose since 30 June 2018. The carrying value of Meizhou Building was then transferred from property, plant and equipment to investment property in accordance with HKAS40 Investment Property. The difference of approximately HK$401.6 million between the fair value of Meizhou Building at 31 December 2018 of approximately HK$425.0 million and its previous carrying amount of approximately HK$23.4 million is recognised in the statements of profit or loss as fair value gain of investment properties. The remaining fair value gain of approximately HK$20.2 million due to the appreciation of other investment properties of the Project Group for the year ended 31 December 2018.

Set out below is the reconciliation of the appraised market value of the Properties as at 31 March 2019, as set out in the valuation report on the Properties in Appendix VI to this circular, and the book value of the Properties as at 31 December 2018, as stated in the consolidated statements of financial position of the Target Companies in Appendix II and Appendix III to this circular.

	RMB'000
Book value of the Properties as at 31 December 2018	702,000*
Add: Fair value adjustment	–
Appraised market value of the Properties as at 31 March 2019	702,000

* *The valuation of the Properties as at 31 December 2018 is approximately RMB702,000,000 (equivalent to approximately HK$797,728,000), which is the same as the appraised market value of the Properties as at 31 March 2019.*

Set out below is the audited financial information of the Industrial Property and other investment properties of the Project Group for the year ended 31 December 2018:

	Industrial Property	**Investment properties other than Industrial Property**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	3,034	5,846	8,880
Fair value of investment properties	221,591	576,137	797,728

Set out below is the audited consolidated financial information of the Target Group:

	For the year ended 31 December 2018	**For the period from 3 July 2017 to 31 December 2017**
	HK$'000	*HK$'000*
Profit/(loss) before taxation	535,124	(11)
Profit/(loss) after taxation	535,124	(11)

The audited consolidated net asset value of the Target Group is approximately HK$535,648,000 as at 31 December 2018.

The Target Group and the Project Group have the same revenue stream, which is primarily the rental income from the lease of the Properties and the Target Group and the Project Group are principally engaged in leasing of the Properties. The major customers of the Target Group are companies established in the PRC with limited liabilities. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the major customers are Independent Third Parties to the Company and the Vendor. The principal activities of the major customers of the Target Group are property investment and property management. Apart from the rental agreements, there are no signed long-term contracts or relationship between the PRC Subsidiary and the two major customers.

The difference in revenue/profits between the financials statements of the Target Group and the Project Group were mainly because the revenue and the expenses of Project Group were generated during the period before the acquisition of the Project Group by the Target Company on 7 December 2018. As the Target Company only acquired the Project Group on 7 December 2018, only the revenue and expenses for the period from 7 December 2018 to 31 December 2018 was included in the consolidation profit and loss statement of the Target Group.

The current major tenant of Huajiang Building, 深圳市寧佳置業有限公司 (Shenzhen Ningjia Real Estate Co., Ltd.*) ("**Shenzhen Ningjia**"), is wholly owned by 華融國際信託有限責任公司 (Huarong International Trust Co., Ltd.) ("**Huarong International Trust**"). Shenzhen Ningjia was owned as to 10% by 深圳市金益創科技有限公司 (Shenzhen Jin Yi Chuang Technology Co., Ltd.*) ("**Shenzhen Jin Yi Chuang**") and as to 90% by 深圳市全晟利實業有限公司 (Shenzhen Quan Sheng Li Enterprise Co., Ltd.*) ("**Shenzhen Quan Sheng Li**") respectively, prior to the transfer to Huarong International Trust on 10 July 2017. 珠海市華策集團有限公司(Zhuhai Huace Group Limited*) ("**Zhuhai Huace**") only owns 7.3% equity interests in Huarong International Trust and is neither a substantial shareholder nor controlling shareholder of Huarong International Trust. As such, the tenant of Huajiang Building is an independent third party to the Vendor and an Independent Third Party.

According to the search results, Shenzhen Jin Yi Chuang was owned as to 99% by Zhuhai Huace and 1% by a related company of the Vendor in 2016 and the 99% shareholding of Shenzhen Jin Yi Chuang was transferred by Zhuhai Huace to 渤海國際信托股份有限公司 (Bohai International Trust Co., Ltd.) ("**Bohai International Trust**") on 23 May 2016. On 22 November 2017, the 99% shareholding of Shenzhen Jin Yi Chuang was transferred by Bohai International Trust to Zhuhai Huace.

According to the search results, Shenzhen Quan Sheng Li was owned as to 99% by Zhuhai Huace and 1% by a related company of the Vendor in 2016 and the 99% shareholding of Shenzhen Quan Sheng Li was transferred by Zhuhai Huace to Bohai International Trust on 23 May 2016. On 22 November 2017, the 99% shareholding of Shenzhen Quan Sheng Li was transferred by Bohai International Trust to Zhuhai Huace.

The PRC Subsidiary and Shenzhen Ningjia entered into the tenancy agreement dated 20 April 2016 with rental period from 1 May 2016 to 30 April 2021. The Company has reviewed the terms of the tenancy agreement including the rentals payable by Shenzhen Ningjia and considered that the terms are on normal commercial terms.

To the best of the Directors' knowledge and information having made all reasonable enquiry, save as disclosed above, Shenzhen Jin Yi Chuang and Shenzhen Quan Sheng Li has no prior/current relationship with the Vendor or the Company and its connected persons.

中國華融資產管理股份有限公司 (China Huarong Asset Management Co., Ltd.) ("**China Huarong**") is the controlling shareholder of Huarong International Trust and owns and has control over approximately 76.8% in the equity interests in Huarong International Trust. Zhuhai Huace owns approximately 7.3% in the equity interests in Huarong International Trust. China Huarong and the other independent investors holding an aggregate of approximately 92.7% equity interests of Huarong International Trust are Independent Third Parties. China Huarong is a joint stock limited liability company established in the PRC and a listed company on the Main Board of the Stock Exchange (stock code: 2799).

Zhuhai Huace is owned as to 83% by the Vendor Guarantor, 9% by the Vendor Guarantor's father and as to 8% by 余道群 (Yu Daoqun) who is an Independent Third Party.

深圳市九雁物業管理有限公司(Shenzhen Jiu Yan Property Management Co., Ltd.*) ("**Shenzhen Jiu Yan**"), a company established in the PRC with limited liability, is the major tenant of the Industrial Property. The principal activities of the major customers of the Target Group are property investment and property management. Shenzhen Jiu Yan is wholly owned by Mr. Ke Fushui (柯福水) who has no prior/current relationship with the Vendor or the Company and its connected persons.

Save as disclosed above, there is no other relationship between the customers of the Target Group and the Vendor (and its ultimate beneficial owners and associates) as at the Latest Practicable Date.

The Target Company acquired the Project Company on 7 December 2018 from 深圳市華策投資控股有限公司 (Shenzhen Huace Investment Holding Co., Ltd.*) (the "**Former Owner**") of a nominal consideration of HK$1. The Vendor Guarantor and Zhuhai Huace hold 10% and 90% of the issued share capital of the Former Owner respectively. The transfer of the Project Company by the Former Owner to the Target Company was part of the internal restructuring and reorganisation of the Former Owner group. The Former Owner acquired the Project Company together with the Properties on 31 December 2015 at a total consideration of approximately RMB335 million.

Apart from above and save for the Acquisition as disclosed herein, there are no relationships, understandings or arrangement among any of Huarong International Trust, the Former Owner, the Vendor, their respective ultimate beneficial owners, the Company and its connected persons.

Apart from the above and save for the Acquisition as disclosed herein, there are no agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) between any of Huarong International Trust, the Vendor, Zhuhai Huace, Shenzhen Rongee (as defined below) their respective ultimate beneficial owners and the Company and/or its connected persons.

Demolition Compensation Agreement

During the course of the due diligence process on the Target Group, the Company was first provided by the Vendor a demolition compensation agreement entered into between the PRC Subsidiary and Shenzhen Rongce (as defined below) dated 4 July 2017 (the "**Demolition Compensation Agreement**"), which has been subsequently terminated as disclosed in the section headed "Termination of Demolition Compensation Agreement" below.

Pursuant to the Demolition Compensation Agreement, the PRC Subsidiary agreed to swap the Industrial Property in exchange of (i) a cash compensation of RMB97,481,780 and (ii) an unidentified industrial use property with gross floor area of 15,000 sq.m.(the "**Swapped Property**"). At as 31 December 2018, the PRC Subsidiary has received from 深圳市融策置業有限公司 (Shenzhen Rongce Real Estate Company Limited*) ("**Shenzhen Rongce**") a total cash compensation of RMB19,496,356, which was recorded as a liability in the consolidated statements of financial position of the Target Group. Shenzhen Rongce was owned as to 10% by the Vendor Guarantor and as to 90% by Former Owner before completion of transfer of the entire equity interests of Shenzhen Rongce to Huarong International Trust on 10 July 2017. Shenzhen Rongce then became wholly owned by Huarong International Trust. The Vendor Guarantor is the legal representative and the chairman of Shenzhen Rongce.

Shenzhen Rongce is responsible for development and construction of the Swapped Property and shall bear the entire demolition and development costs thereunder. Besides, Shenzhen Rongce is obliged to deliver the Swapped Property to the PRC Subsidiary within 48 months after signing of the Demolition Compensation Agreement.

The PRC Subsidiary is responsible to deliver vacant possession of the Industrial Property without any charge, seal or encumbrance to Shenzhen Rongce within 24 months after signing of the Demolition Compensation Agreement.

Pursuant to the terms of the tenancy agreements entered into between the PRC Subsidiary and relevant tenants in respect of the Industrial Property, the PRC Subsidiary can terminate such tenancy agreement(s) by giving three-month notice to the tenant(s) without any compensation. Moreover, as disclosed in the section headed "Settlement of the outstanding liabilities of the Target Group" below, the Vendor Guarantor will provide shareholder's loan to settle the outstanding borrowings of the Target Group and the mortgage on the Industrial Property would be released. As such, should the property swap as contemplated under the Demolition Compensation Agreement be materialised, the Target Group would be able to deliver Industrial Property within the timeframe.

The Board also noted that there would be time gap between the delivery of the Industrial Property by the PRC Subsidiary and the delivery of the Swapped Property by Shenzhen Rongce under the Demolition Compensation Agreement. Since the PRC Subsidiary would receive cash compensation in advance and the property swap would still be subject to a formal sale and purchase agreement to be further agreed between the relevant parties, the Board considered that such arrangements were on normal commercial terms.

Whilst the Demolition Compensation Agreement was legally binding on the parties thereto, the Demolition Compensation Agreement by its nature is similar to a framework agreement and the property swap would still be subject to a formal sale and purchase agreement to be further agreed between the relevant parties. In other words, in the event that the PRC Subsidiary and Shenzhen Rongce cannot reach the formal sale and purchase agreement, the property swap contemplated under the Demolition Compensation Agreement will be lapsed.

Please also refer to the section headed "Board's Assessment on Acquisition" for further consideration made by the Board in respect of the Demolition Compensation Agreement as at the time of entering into of the Sale and Purchase Agreement.

Save for the above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the counterparty to the Demolition Compensation Agreement (i.e. Shenzhen Rongce) and its ultimate beneficial owners do not have any other relationship with the Vendor and/or the Vendor Guarantor.

Termination of Demolition Compensation Agreement

The Directors were aware of the uncertainties arising from the Demolition Compensation Agreement in relation to the exact location and the value of the Swapped Property.

To eliminate such certainties, the Company has communicated with the Vendor and concluded the possible ways are (i) provision of the exact location and details of the Swapped Property or (ii) termination of the Demolition Compensation Agreement.

However, the Vendor and Shenzhen Rongce could only provide an approximate location of the Swapped Property (i.e. the Longcheng Road（龍城街道）in Longgang District, Shenzhen City, the PRC) but still could not ascertain all the exact details of the Swapped Property.

In order to eliminate the uncertainties in connection with the Demolition Compensation Agreement as the details of the Swapped Property could not be ascertained and the value of the Swapped Property could not be ascertained, with the fact that the Properties are of redevelopment potentials, the Company proposed to terminate the Demolition Compensation Agreement. The Company considers that the termination of the Demolition Compensation Agreement would not affect the fairness and the reasonableness of the Acquisition.

After the arm's length negotiations among the Company, the Vendor and Shenzhen Rongce during the period from February 2019 to March 2019, the Board was informed by the Vendor that the PRC Subsidiary and Shenzhen Rongce had eventually agreed to terminate the Demolition Compensation Agreement in April 2019.

Pursuant to the terms and conditions of the termination agreement, the PRC Subsidiary and the counterparty have agreed to terminate and release each other from their respective rights and obligations under the Demolition Compensation Agreement and no party to the Demolition Compensation Agreement shall have any claim against the others under the Demolition Compensation Agreement after termination. Save and except for the return of the cash compensation of RMB19,496,356 received by the PRC Subsidiary to Shenzhen Rongce prior to the Completion as a result of the termination, there shall be no obligations, penalty or other arrangement on the part of the PRC Subsidiary and the Company is not required to bear any penalty for the termination.

There is no agreement, arrangement, understanding or undertaking (whether formal or informal and whether express or implied) between any of Huarong International Trust, the Vendor, Shenzhen Rongce, Zhuhai Huace, their respective ultimate beneficial owners and the Company and/or its connected persons for the Target Group to enter into an agreement similar to the Demolition Compensation Agreement upon Completion.

Settlement of the outstanding liabilities of the Target Group

It is the intention that the Vendor Guarantor will enter into a shareholder loan agreement with the Target Group, pursuant to which the Vendor Guarantor will provide to the Target Group a loan equivalent to the outstanding amount of borrowings as the Target Group (approximately HKD56.8 million) and the cash compensation to be returned (approximately RMB19.5 million) as a result of the termination of the Demolition Compensation Agreement. The shareholder's loan will be unsecured, interest-free and repayable on demand. The Target Group will utilise the proceeds generated from the shareholder loan to settle the borrowings and to return the proceeds received from Shenzhen Rongce under the Demolition Compensation Agreement. The Vendor Guarantor will waive such shareholder loan before Completion such that the Target Group will have no outstanding borrowings as at Completion.

It is expected that the consolidated net asset value of the Target Group will be increased by approximately HK$78,973,000 after completion of the waiver of the shareholder loan. As such, the aforesaid settlements will not result in any adverse impact on the value of the Target Group. The Target Group and the Project Group will have sufficient working capital after Completion of the Acquisition.

Redevelopment Plan

The Board is of the view that the Acquisition provides a good investment opportunity for the Group to diversify its property portfolio with a good development potential. An urban renewal program (龍崗區城市更新單元計劃) is now being carried out in certain areas of Longgang District, which covers the location where the Properties are situated. The location of the Industrial Property falls within the redevelopment area according to preliminary redevelopment proposal issued by 深圳市龍崗區城市更新局 (Shenzhen Longgong District Urban Renewal Department*) (the "**Relevant Authority**"). It also comes to the attention of the Company that there are numbers of redevelopment projects approved and carried out in the Longgang District. As such, the Company considers that the Properties are of redevelopment potentials.

The Board intends to redevelop the Industry Property into an office and commercial complex comprising three buildings with a planned total gross floor area of approximately 78,413 square meters based on an estimated plot ratio of 6.6, subject to the approval of redevelopment plan by the Relevant Authority (the "**Redevelopment Plan**"). The proposed plot ratio is based on the preliminary enquiry result from the Relevant Authority (but subject to further approval of the Redevelopment Plan) and the proposed gross floor area after redevelopment was determined based on the proposed plot ratio and the site area of the Industrial Property of approximately 11,880.8 square meters. The Target Group shall have to comply with the relevant regulations including 龍崗區城市更新單元規劃審批操作規則 (Longgang District Urban Renewal Planning and Approval Rules*) and 龍崗區城市更新單元計劃申報管理規定 (Longgang District Urban Renewal Plan Declaration and Management Regulations*) to apply for approval of the Redevelopment Plan from the Relevant Authority.

The demolition work is expected to commence within six months upon obtaining the approval from the relevant authority and the construction work will start in phases after completion of the demolition work. The construction work is expected to complete within two years after the completion of the demolition work.

The sales of the office and commercial complex will commence as soon as practicable after the completion of the construction works at an estimated average selling price of approximately RMB36,750 per square meter, which is determined with referencing to comparables about RMB30,500 per square meter to RMB43,000 per square meter for commercial buildings as shown in the valuation report. The preliminary estimated development costs of the redevelopment project is approximately RMB300 million, which is determined with referencing to the development cost per square meter of the Group's property development projects located in Wuhan and Hangzhou. Since the pledge of the Properties will be released on or before Completion, it is expected that the development cost shall be supported by the pledged borrowing from financial institution(s) with pledge of the Properties.

After taking into the Acquisition costs and related expenses (including the interest expenses payable under the Promissory Notes and the Convertible Bonds), the estimated redevelopment costs, the estimated finance costs for supporting the redevelopment construction, the estimated selling and administrative costs and expenses and the estimated tax payable, the expected internal rate of return from the Acquisition shall be not less than 10% per annum.

In respect of the Board's intention and plan for future operation and development of Huajiang Building and Meizhou Building, the Group currently intends to continue the existing property leasing business for Huajiang Building and Meizhou Building though it may consider renovating Huajiang Building and Meizhou Building in future in order to optimize the tenant mix and improve the rental yield.

Having considered that (i) the Redevelopment Plan has been formulated by the Directors who have the relevant expertise and extensive experience in the PRC property development industry for years; (ii) it does not expect any difficulty of legal impediment in obtaining regulatory approval on the Redevelopment Plan; and (iii) the internal rate of return from the Acquisition together with the Redevelopment Plan based on the Redevelopment Plan is expected to be not less than 10% per annum, the Directors consider that the Redevelopment Plan is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Pursuant to the terms of the tenancy agreements entered into between the PRC Subsidiary and relevant tenants in respect of the Industrial Property, the PRC Subsidiary can terminate such tenancy agreement(s) by giving three-month notice to the tenant(s) without any compensation. As such, the Company considers that the existing tenancy agreement(s) in respect of the Industrial Property will not hinder the implementation of the Redevelopment Plan.

Despite that the Company will incur additional redevelopment costs and the deferred tax liabilities may be crystallized upon sales of the redeveloped units, the Company will only implement the Redevelopment Plan in the event that the Redevelopment Plan will be in the interests of the Group as a whole.

Whilst the Group has sought professional advices as to the Redevelopment Plan, there is no guarantee that the Redevelopment Plan will be approved by the Relevant Authority and such approval may be subject to various conditions and requirements. In the event that the Redevelopment Plan would not be approved by the Relevant Authority or would have to be modified, this will affect the successful implementation of the Redevelopment Plan.

The Redevelopment Plan is formulated based on the estimated costs and expenses currently available to the Company. Any future fluctuation in costs and expenses and tax rate may affect the return of the Redevelopment Plan. The Company will provide updates by way of announcement as and when appropriate if there will be any fluctuation in costs and expenses and tax rate, which will affect the return of the Redevelopment Plan.

Shareholders are advised to take into consideration of the aforesaid risks in association with the Redevelopment Plan in assessing and approving the Acquisition at the EGM.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the property development and investment business, hotel business, property management business and infrastructure business. In particular, the Group is experienced and has the relevant expertise in the property development and investment business in the PRC for years.

It is and was the intention of the Company to extend its property development portfolio. With the recent rapid development of Shenzhen City, it is not easy for the Group to identify appropriate properties with appropriate size and redevelopment potentials for the Group. In order to keep the property development business of the Group to be sustainable, there are needs for the Group to extend its property development portfolio and the Acquisition represents such a good opportunity.

The Board is of the view that the Acquisition provides a good investment opportunity for the Group to extend its property development portfolio. The Company is of the view that the Properties will generate stable revenue with significant redevelopment potential based on the Redevelopment Plan as disclosed above and the development potential of the Properties upon realization will bring considerable financial benefit to the Group. The Acquisition is also in line with the Group's business strategy to further develop the PRC property market.

The Board considers the Target Group will generate stable revenue having considered that (i) the Properties derived rental income of approximately HK$8.9 million before the Redevelopment Plan becomes certain; (ii) the market rental and market price of the properties in Longgang; and (iii) through years of experience on the property development business of the Company, the Board believes that the redevelopment of the Properties will derive considerable revenue from the sales of property, rental income and property management income.

Board's Assessment on the Acquisition

The Company aims to extend its property portfolio with good redevelopment potential for rental income and capital appreciation through the Acquisition.

Before the entering into the Sales and Purchase Agreement, whist the Directors were aware of the Demolition Compensation Agreement and the uncertainties therein about the exact location and the value of the Swapped Property, the Directors considered that the Acquisition, even with the Demolition Compensation Agreement, is still fair and reasonable and in the interests of the Company and its Shareholders as a whole on the following grounds.

Firstly, the Board has performed a cost and benefit analysis on the Demolition Compensation Agreement. Pursuant to the Demolition Compensation Agreement, the PRC subsidiary is entitled to swap the Industrial Property with (i) a cash compensation of RMB97,481,780 and (ii) the Swapped Property with gross floor area of 15,000 sq. m. of industrial use located on Longcheng Road (龍城街道), Longgang District, Shenzhen City. Pursuant to the comparables used in the valuation report, the market prices of the industrial buildings nearby in the area are ranging from RMB6,500 to RMB14,000 per square meter. The potential value of the Swapped Property shall be ranging from approximately RMB97,500,000 and RMB210,000,000. The total compensation (i.e. the potential value of the Swapped Property together with the cash compensation of RMB97,481,780) to be received by the PRC Subsidiary shall range from approximately RMB195 million to RMB308 million, which would be approximate or greater than the value of the Industrial Property to be swapped of approximately RMB195 million.

Secondly, the Board has reviewed the terms on Demolition Compensation Agreement and considered the Company's interests are properly protected. Pursuant to the Demolition Compensation Agreement, the PRC Subsidiary shall have the priority right to elect the Swapped Property and the property swap is still subject to a formal sale and purchase agreement to be further agreed between the relevant parties. As such, the Board can revisit the situation and decide whether to complete the Demolition Compensation Agreement once the location and details of the Swapped Property will have been fixed. In the event that (i) the value of Swapped Property is unattractive or (ii) the self-redevelopment is more profitable, the Directors can choose to redevelop the Industry Property itself so that the Company's interest would be properly safeguarded.

For the avoidance of doubt, the Demolition Compensation Agreement was not the reason for the Group to enter into of the Sale and Purchase Agreement. Whilst the Company has made reasonable assessment as to the Demolition Compensation Agreement and considered that the Demolition Compensation Agreement might create uncertainties (which results in the subsequent termination of the Demolition Compensation Agreement), the Company is of the view that the fairness and reasonableness of the Acquisition would not be affected by the Demolition Compensation Agreement (or the termination thereof) on the aforesaid grounds.

The Company has conducted necessary due diligence on the Target Group prior to the entering into of the Sale and Purchase Agreement, including but not limited to performing a legal due diligence on the Target Group, obtaining of preliminary valuation report on the Properties and the relevant financial information in relation to the Target Group and also conducting a site visit in relation to the Target Group and the Properties.

The Company has performed basic assessment on the Target Group's current property leasing business and the findings are summarized as follows:

- Based on the existing rental agreements entered into by the Target Group, the Target Group will have a rental income of RMB9,965,823 (equivalent to approximately HK$11,724,498) for the year ending 31 December 2019 and RMB8,577,401 (equivalent to approximately HK$10,091,060) for the year ending 31 December 2020 respectively. A vast majority of the expenses incurred by the Target Group during the year of 2018 were non-recurring in nature and would not be recurring after Completion. It is because (a) administrative expenses related to the hotel operation of approximately HK$1.7 million would be avoided following cessation in the hotel operation in 2018; (b) depreciation charge of Meizhou Building of approximately HK$0.34 million would be not be incurred following the change in usage in 2018; and (c) the finance costs of approximately HK$3.2 million would be avoided as the other borrowing shall be refinanced by an interest-free shareholder loan that will be waived before the Completion. As such, it is expected that the costs of the Target Group shall be significantly reduced.

- The expected rental yields of Huajiang Building, the Industrial Property and Meizhou Building in 2019 are approximately 3.55%, 1.53% and 0.6% respectively, which are comparable to those of the properties with similar uses and vicinities. The rental yield of the Meizhou Building is relatively low because (i) the Meizhou Building is not fully leased with that 20% of its leasable area remains vacant and (ii) the rental agreement has a step-up rental clause with the rental yield shall hit the peak of 1.33% in 2023.

- The terms of the existing rental agreements of the Target Group range from 2 years to 5 years until the period from 31 January 2020 to 30 June 2024. It is expected that such rental agreements can be renewed by the Target Group, failing which the relevant property units can be leased to other parties.

It is necessary to point out that as demonstrated in the Accountants' Report, the two major customers contributed more than 80% of the Target Group's revenue for the three years ended 31 December 2016, 2017 and 2018. Whilst the Properties are located in Longgang District which is a rapidly developing area in Shenzhen and the Company considers that there is demand for leasing properties in the area, the revenue of the Target Group may be affected in the event that the Target Group cannot renew the rental agreements upon expiry or cannot lease the relevant property units to other third parties.

Shareholders are advised to note that the Industrial Property may not generate any rental income after the Group's implementation of the Redevelopment Plan as disclosed in the section headed "Redevelopment Plan" after Completion and the Target Group.

The return from the Acquisition would also be significantly lower in the event that the Redevelopment Plan cannot be implemented successfully. The expected annual rental income of the Target Group based on the existing rental agreements entered into by the Target Group (including rental income from the Industrial Property) would represent approximately 1.26% of the Consideration. Shareholders are advised to duly consider the potential risks and benefits of the Acquisition.

The Directors consider that the Consideration of the Acquisition is fair and reasonable because it essentially reflects the fair value of the Properties at their existing status, which are the subject assets, to be acquired by the Company under the Acquisition without referencing to the potential benefits and/or risks in association with the Redevelopment Plan. The consideration for the Acquisition was determined with referencing to the valuation of the Properties on market approach with referencing to the existing status of the Properties but without referencing on the Redevelopment Plan and/or redevelopment potentials of the Properties.

The Board considers that the deferred tax liabilities arising from the fair value increment of the Property should not be taken into account in determination of the Consideration, on the ground that (1) the deferred tax liabilities do not represent a present obligation of the Target Group and are only recognised for accounting purpose; and (2) the Demolition Compensation Agreement entered into by the PRC Subsidiary has been terminated and the Group has no present intention to dispose of the Properties. As such, the deferred tax liabilities would not be crystallized in short term during the redevelopment period of the Properties and the tax liabilities would only be crystallized upon the sale of the Properties (or the redeveloped property units).

Taking into consideration of the redevelopment potentials of the Properties and the existing property leasing business of the Target Group, the Directors (including the independent non-executive Directors) consider that the Acquisition be fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATION

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and shall be subject to announcement, circular and the Shareholders' approval requirements under the Listing Rules. To the best belief, information and knowledge of the Directors, after making reasonable enquiries, no Shareholders have a material interest in the Acquisition and are required to abstain from voting at the EGM.

POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION

Effect on earnings

Upon Completion, the Target Company will become a wholly owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the financial results of the Company. It is expected that the Group will record additional revenue stream from the Target Group and the Acquisition will have positive impacts on the future earnings of the Group in long run.

Effect on assets and liabilities

Based on the unaudited pro forma financial information set out in Appendix V to this circular, the total assets of the Group as at 31 December 2018 would increase from approximately HK$2,867.8 million to approximately HK$3,860.6 million and its total liabilities as at 31 December 2018 would increase from approximately HK$1,606.5 million to approximately HK$2,519.6 million as a result of the Acquisition.

EGM

The EGM will be convened and held at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 9 July 2019 at 11:00 a.m. for the Shareholders to approve the Sale and Purchase Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Bonds and the Promissory Note. A notice convening the EGM is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM if you so wish.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the transactions contemplated under the Sale and Purchase Agreement. As such, no Shareholder is required to abstain from voting under the Listing Rules at the EGM on the resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

RECOMMENDATION

The Board (including the independent non-executive Directors) is of the view that the terms and conditions of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

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

By order of the Board
China City Infrastructure Group Limited
Li Chao Bo
Chairman and Chief Executive Officer

I. FINANCIAL SUMMARY

The financial information of the Group (i) for the year ended 31 December 2016 is disclosed in the annual report of the Company for the year ended 31 December 2016 published on 26 April 2017, from pages 52 to 145; (ii) for the year ended 31 December 2017 is disclosed in the annual report of the Company for the year ended 31 December 2017 published on 26 April 2018, from pages 58 to 157; and (iii) for the year ended 31 December 2018 is disclosed in the annual report of the Company for the year ended 31 December 2018 published on 26 April 2019, from pages 61 to 173 all of which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.city-infrastructure.com).

II. INDEBTEDNESS

As at the close of business on 30 April 2019, being the Latest Practicable Date for the purpose this indebtedness statement, the indebtedness of the Enlarged Group was as follows:

Borrowings

(a) the Enlarged Group had unaudited outstanding secured interest bearing bank loans and other loan of approximately HK$762.8 million;

(b) the Enlarged Group had unaudited outstanding unsecured interest bearing other loan of approximately HK$469.0 million;

(c) the Enlarged Group had outstanding convertible notes in the principal amount of HK$23,000,000 issued by the Company on 28 June 2016. The principal amount of HK$23,000,000 is comprised of the carrying amount of the debt component of approximately HK$22,260,000 as at 31 December 2018 and the effective interest payable of approximately HK$740,000 for the period from 1 January 2019 to 28 June 2019.

Operating lease commitments

The Enlarged Group as lessor

As at 30 April 2019, the Enlarged Group had contracted with tenants for the following future minimum lease payments:

	HK$'000
Within one year	25,520
In the second to fifth year inclusive	31,475
More than five years	3,868
	60,863

Capital commitments

As at 30 April 2019, the Enlarged Group had unaudited capital commitments in respect of its investment in a joint venture, contracted but not provided in the condensed consolidated financial statements, amounting to approximately HK$10,949,000.

Contingent liabilities

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities, the Enlarged Group did not have any 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 as at the close of business on 30 April 2019, being the Latest Practicable Date for the purpose of this statement of indebtedness prior to printing of this circular.

Save as aforesaid, the Directors are not aware of any material changes in the indebtedness, contingent liabilities and commitments of the Enlarged Group since 30 April 2019, the date to which the indebtedness statement is made and up to the Latest Practicable Date.

III. WORKING CAPITAL

As at the Latest Practicable Date, the Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the Enlarged Group's financial resources, including internally generated funds and presently available credit facilities, the Enlarged Group has sufficient working capital for its present requirements for the next twelve months from the date of this circular.

IV. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest audited financial statements of the Group were made up.

V. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in property related business and started to dedicate to the infrastructure businesses in late 2014, and looking forward to benefiting from China's vast market opportunities, rapid urbanisation and the Belt and Road initiative. The Group will give special priority to urbanisation development and other infrastructure-related projects.

Although the real estate control policies were further tightened in the prior year, the Company is still optimistic about the prospects of real estate development. To reduce its inventory of properties, the Group expects to seize the market trend and adjust the progress according to the market changes and market value of the property portfolio.

The Acquisition is in line with the Group's strategy in real estate development in China. The Properties themselves will generate stable revenue with significant redevelopment potential. With the loosening of real estate control policies, it is expected that the development potential of the Properties upon realization will bring considerable benefits to the Group.

The Enlarged Group will closely monitor its property related business and at the same time continue to seek for other property or infrastructure investment opportunities in the PRC with an aim to adhering to the Group's strategy and maximising the returns to the Shareholders.

ACCOUNTANT'S REPORT ON THE TARGET GROUP

The following is the text of the accountant's report on the Target Group, prepared for the purpose of incorporation in this circular, received from the reporting accountants of the Target Group, HLM CPA Limited, Certified Public Accountants, Hong Kong.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF PRECIOUS PALACE ENTERPRISES LIMITED TO THE DIRECTORS OF CHINA CITY INFRASTRUCTURE GROUP LIMITED

Introduction

We report on the historical financial information of Precious Palace Enterprises Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-5 to II-58, which comprises the consolidated statements of financial position as at 31 December 2017 and 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the periods from 3 July 2017 (date of incorporation of Target Company) to 31 December 2017 and year ended 31 December 2018 (the "**Track Record Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-5 to II-58 forms an integral part of this report, which has been prepared for inclusion in the circular of China City Infrastructure Group Limited (the "**Company**") dated 21 June 2019 (the "**Circular**") in connection with the proposed acquisition of the entire equity interests of the Target Company by the Company.

Directors' responsibility for the Historical Financial Information

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

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

Reporting accountants' responsibility

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

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

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

Opinion

In our opinion the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's consolidated financial position as at 31 December 2017 and 31 December 2018 and of the Target Group's consolidated financial performance and consolidated cash flows for the Track Record Periods in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Emphasis of matter

Without qualifying our opinion, we draw attention in Note 2 to the Historical Financial Information of the Target Group which indicates that the Target Group's current liabilities exceed its current assets by approximately HK$62,648,000 as at 31 December 2018. Notwithstanding the above, the Historical Financial Information have been prepared on a going concern basis, the validity of which is dependent on the Target Group's ability to obtain external source of funding in order for the Target Group to meet its financial obligations as the fall due and to finance its future working capital and financial requirements. These conditions, along with other matters as set forth in Note 2 to the Historical Financial Information of the Target Group, indicate the existence of a material uncertainty which may cast significant doubt about the Target Group's ability to continue as a going concern.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Information have been made.

Dividends

We refer to Note 16 to the Historical Financial Information which states that no dividends have been paid or declared by the Target Group in respect of the Track Record Periods.

No Historical Financial Statements for the Target Company

As at the date of this report, no statutory financial statements have been prepared for the Target Company since its date of incorporation.

HLM CPA Limited
Certified Public Accountants
Chan Lap Chi
Practising Certificate Number: P04084
Hong Kong

21 June 2019

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

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

The consolidated financial statements of the Target Group for the Track Record Periods, on which the Historical Financial Information of the Target Group is based, were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statement**").

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**Period from 3 July 2017 to 31 December 2017** *HK$'000*	**Year ended 31 December 2018** *HK$'000*
Revenue	*9*	–	420
Cost of services		–	(11)
Gross profit		–	409
Gain on bargin purchase		–	538,355
Other revenue	*10*	–	2
Administrative expenses		(11)	(441)
Finance costs	*11*	–	(3,201)
(Loss) profit before taxation		(11)	535,124
Income tax expense	*12*	–	–
(Loss) profit for the period/year	*13*	(11)	535,124
Other comprehensive income, net of income tax			
Items that have been reclassified or may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		–	145
Total comprehensive (expense) income for the period/year		(11)	535,269

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		Year ended 31 December	
		2017	**2018**
	Notes	*HK$'000*	*HK$'000*
Non-current assets			
Investment properties	*17*	–	797,728
		–	797,728
Current assets			
Trade and other receivables	*18*	–	8,699
Bank balances and cash	*19*	–	589
Amounts due from related parties	*20*	–	22,194
Amount due from shareholder	*20*	379	–
Tax recoverable		–	916
		379	32,398
Current liabilities			
Other payables and accruals	*21*	–	26,801
Amount due to shareholder	*20*	–	11,427
Other borrowings			
– due within one year	*22*	–	56,818
		–	95,046
Net current assets (liabilities)		379	(62,648)
Total assets less current liabilities		379	735,080

		Year ended 31 December	
		2017	**2018**
	Notes	*HK$'000*	*HK$'000*
Non-current liabilities			
Deferred tax liabilities	*24*	–	199,432
		–	199,432
Net assets		379	535,648
Capital and reserves			
Share capital	*23*	390	390
Reserves		(11)	535,258
Total equity		379	535,648

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Translation reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 3 July 2017	390	–	–	390
Loss and total comprehensive income for the period	–	–	(11)	(11)
At 31 December 2017 and 1 January 2018	390	–	(11)	379
Profit for the year	–	–	535,124	535,124
Translation exchange difference	–	145	–	145
At 31 December 2018	390	145	535,113	535,648

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Period from 3 July 2017 to 31 December 2017 *HK$'000*	Year ended 31 December 2018 *HK$'000*
Operating activities		
(Loss) profit before tax	(11)	535,124
Adjustments for:		
Bank interest income	–	(2)
Finance costs	–	3,201
Gain on bargin purchase	–	(538,355)
Operating cash flows before movements in working capital	(11)	(32)
Decrease in trade and other receivables	–	1,654
Decrease in other payables and accruals	–	(9,116)
Cash used in operations	(11)	(7,494)
PRC income tax paid	–	(456)
Net cash used in operating activities	(11)	(7,950)
Investing activities		
Net cashflow from acquisition of subsidiaries	–	985
Bank interest income received	–	2
Net cash generated from in investing activities	–	987

	Period from 3 July 2017 to 31 December 2017	Year ended 31 December 2018
	HK$'000	*HK$'000*
Financing activities		
Borrowings raised	–	56,818
Interest paid	–	(3,201)
Advanced from shareholder	11	552
Advanced to related parties	–	(46,762)
Net cash generated from financing activities	11	7,407
Net increase in cash and cash equivalents	–	444
Effect of foreign exchange rate changes	–	145
Cash and cash equivalents at beginning of the year	–	–
Cash and cash equivalent at end of the year	–	589

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General information

Precious Palace Enterprises Limited (the "**Target Company**") was incorporated in the British Virgin Islands (the "**BVI**") as a limited liability company on 3 July 2017.

The address of the registered office and principal place of business of the Target Company are 3/F J&C Building, Road Town, Tortola, VG1110, British Virgin Islands. The principal activities of its subsidiaries are property investment and hotel operation in the People's Republic of China (the "**PRC**").

The Historical Financial Information is presented in Hong Kong Dollar ("**HK$**"), which is the functional currency of the Target Group.

2. Basis of preparation of the historical financial information

The Target Company was a company incorporated in the BVI on 3 July 2017 and is wholly owned by Sky Climber Development Limited (the "**Vendor**"). The Vendor is wholly owned by Mr. Yang Zhixiong.

Mimiro Industrial Co. Limited (the "**Project Company**") is a company incorporated in Hong Kong on 11 July 1991 with limited liability formerly held by 深圳市華策投資控股有限公司 (Shenzhen Huace Investment Holding Co., Ltd*). On 7 December 2018, the Target Company acquired the entire issued share capital of the Project Company, for details, please refer to Note 25.

鳳珍實業發展(深圳)有限公司 (Fengzhen Industrial Development (Shenzhen) Co. Limited*) is incorporated in the PRC on 7 December 1992 with limited liability held by the Project Company.

In preparing the Historical Financial Information of the Target Group, the sole director of the Target Company has given careful consideration to the future liquidity of the Target Group notwithstanding that the Target Group had net current liabilities of approximately HK$62,648,000 as at 31 December 2018.

The Historical Financial Information of the Target Group have been prepared on a going concern basis as Mr. Yang Zhixiong, the ultimate shareholder of the Target Company has confirmed to provide continuing financial support to the Target Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due. Accordingly, the sole director of the Target Company considers that the Historical Financial Information of the Target Group were prepared on a going concern basis. The Historical Financial Information does not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Target Group be unable to continue as a going concern.

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

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with HKFRSs issued by the HKICPA and complied with the disclosure requirements of the Hong Kong Companies Ordinance applicable for a PRC established company. All HKFRSs effective for the accounting period commencing from 1 January 2018, together with the relevant transitional provisions, have been adopted by the Target Company in the preparation of the Historical Financial Information throughout the Track Record Periods.

The Historical Financial Information has been prepared on the historical cost basis except for certain properties that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. New and revised HKFRSs in issue but not yet effective

At the date of this report, the following new standards, amendments and interpretation have been issued but not yet effective. The Target Group has not early adopted these standards, amendments and interpretations in the preparation of the Historical Financial Information for the Track Record Periods.

Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs Standards 2015 – 2017 Cycle[1]

1 *Effective for annual periods beginning on or after 1 January 2019*

2 *Effective for annual periods beginning on or after a date to be determined*

3 *Effective for annual periods beginning on or after 1 January 2021*

Except as described below, the directors consider that the application of new standards, amendments and interpretation is unlikely to have a material impact on the Target Group's financial position and performance as well as disclosure in future.

HKFRS 16 Leases

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Target Group had non-cancellable operating lease commitments of HK$38,857,000, as disclosed in Note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Target Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. The directors of the Target Company anticipate that the application of HKFRS 16 would not have significant impact on the financial position and performance of the Target Group comparing with HKFRS 17 currently adopted by the Target Group. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

4. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the disclosures requirements of the Hong Kong Companies Ordinance.

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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

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

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

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

The principal accounting policies adopted are set out below.

Basis of consolidated

The Historical Financial Information incorporates the financial statements of the Target Company and entities (including structured entities) controlled by the Target Company and its subsidiaries. Control is achieved when the Target Company:

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

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

Consolidated of a subsidiary begins when the Target Group obtains control over the subsidiary and ceases when the Target Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Target Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

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

Hotel operation income is recognised upon the provision of services and the utilisation of the hotel facilities by guests.

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, which reflects market conditions at the end of each of the Relevant Periods. All of the Target Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Target Group as an owner-occupied property becomes an investment property, the Target Group accounts for such property in accordance with HKAS 16 *Property, Plant and Equipment* up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation and carried in the asset revaluation reserve in equity. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statements of profit or loss.

Transfer to or from investment property

Transfers to or from investment property shall be made when and only when there is a change in use evidenced by:

(a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;

(b) commencement of development with a view to sale, for a transfer from investment property to inventories;

(c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or

(d) commencement of an operating lease to another party, for a transfer from inventories to investment property.

Leasing

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

The Target Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Target Group as lessee

Assets held under finance leases are initially recognised as assets of the Target Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Target Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

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

Exchange differences on monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Target Group's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Target Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Target Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary does not result in the Target Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Target Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period therelated service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

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

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

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

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, the Target Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

Provisions

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Target Group's financial assets are classified into "loans and receivables" and "financial assets at fair value through profit or loss (FVTPL)". The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivables, deposits and other receivables, bank deposits with maturity over 3 months and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Target Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Target Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire consolidated contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as accounts receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Target Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Derecognition of financial assets

The Target Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g. when the Target Group retains an option to repurchase part of a transferred asset), the Target Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs. Repurchase of the Target Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Target Company's own equity instruments.

Other financial liabilities

Other financial liabilities (including other payables and accruals, amount due to shareholder and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Derecognition of financial liabilities

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

Financial instruments (under HKFRS 9)

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

Recognised financial assets and financial liabilities are initially measured at fair value except for trade receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised in profit or loss.

Financial assets

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Target Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically

a. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ("**SPPI**"), are subsequently measured at amortised cost;

b. Debt instruments that are held within a business model whose objective is both to collect and contractual cash flows and to sell the debt instruments, and what have contractual cash flows that are SPPI, are subsequently measured at FVTOCI; and

c. All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Target Group may make the following irrevocable election/ designation at initial recognition of a financial asset on an asset-by-asset basis:

- The Target Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies, in other comprehensive income; and

- The Target Group may irrevocably designate a debt instrument that meets the amortised cost of FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("**ECLs**"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Interest income is recognised in profit or loss and is included in the "other income" line item.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Target Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

Impairment of financial assets

The Target Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For financial assets measured at amortised cost that are considered to be of low credit risk, it is assumed that no significant increase in credit risk has occurred. Thus, the impairment provision recognised during the year was limited to 12-month expected losses.

For trade receivables only, the Target Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9. Management considers trade receivables do not contain a significant financing component. Thus, the impairment provision recognised during the period/year was equal to the lifetime expected losses.

When there is information (developed internally or obtained from external sources) indicating that a debtor is unlikely to pay its creditors, including the Target Group, in full, the Target Group may consider the related receivables are generally not recoverable and constitute as a default.

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

- Significant financial difficulty of the counterparty;
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

The Target Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Classification and measurement of financial liabilities

Financial liabilities including short term borrowing, other payable and accrual are measured at amortised cost using the effective interest method. Interest expense are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In contrast, on derecognition of an equity investment which the Target Group has elected on initial recognition to measure at FVTOCI, the cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings.

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

Related parties

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

(i) has control or joint control of the Target Group;

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

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

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

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

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

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

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) dependents of that person or that person's spouse or domestic partner.

Cash and cash equivalents

Cash and cash equivalents represent cash at banks, short term deposits with banks that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

5. Critical accounting judgements and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

Recognition of current taxes and deferred taxes

There were transactions and calculations for which the ultimate tax determination was uncertain during the ordinary course of business. As detailed in the Target Group's accounting policies, deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Where the final tax outcomes of these matters are different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the periods in which such determination is made..

Estimation of fair value of investment properties

As disclosed in Note 17, the Target Group's investment properties were revalued at end of the reporting period on an open market value basis by an independent professional valuer. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Target Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. At 31 December 2018, the fair value of investment properties are approximately HK$797,728,000 (2017: HK$nil).

6. Capital risk management

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

The capital structure of the Target Group consists of net debt (which includes borrowings and amount due to a director, net of bank balances) and equity of the Target Group, comprising issued share capital and retained earnings.

The management of the Target Group reviews and manages its capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital, and will take appropriate actions to balance its overall capital structure.

7. Financial instruments

(a) Categories of financial instruments

	Year ended 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Financial assets		
Trade and other receivables	–	8,699
Amount due from shareholder	379	–
Amounts due from related parties	–	22,194
Bank balance and cash	–	589
	379	31,482
Financial liabilities		
Other payables and accruals	–	26,801
Amount due to shareholder	–	11,427
Other borrowing	–	56,818
At amortised cost	–	95,046

(b) Financial risk management objectives and policies

The Target Group's major financial instruments include trade and other receivables, bank and cash balances, amount due from shareholder, amount due from related parties, other payables and accruals, amount due to shareholder and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (represented by currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

i. Currency risk

The Target Group mainly operated in their local jurisdiction with all transactions settled in their functional currencies of the operations and did not have exposure to risk resulting from changes in foreign currency exchange rates. The Target Group currently 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.

ii. Interest rate risk

The Target Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 22 for details of these borrowings). The Target Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable rate bank deposits and borrowings at the end of the reporting period. The analysis is prepared assuming the amounts of bank deposits and borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 100 basis point (2017: 100 basis points) increase or decrease 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 100 basis points (2017: 100 basis points) higher/lower and all other variables were held constant, the Target Group's post-tax profit for the year ended 31 December 2018 would increase/decrease by HK$562,000 (2017: profit increase/decrease by approximately HK$nil).

Credit risk

At the end of each of the Track Record Period, the Target Group's maximum exposure to credit risk which will cause a financial loss to the Target Group due to failure to repay for the other loans due within one year.

In order to minimise the credit risk, the management of the Target Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group reviews the recoverable amount of each individual accounts receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Target Group's credit risk is significantly reduced.

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

The Target Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (2017: 100%) of the total accounts receivables as at 31 December 2018.

Liquidity risk

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

The directors of the Target Company have given careful consideration to the going concern of the Target Group. The directors of the Target Company is of the opinion that, taking into account (i) the value of the Target Group's investment properties and properties held for sale pledged for its borrowings, (ii) presently available internal financial resources of the Target Group, and (iii) the sales of properties estimated to be completed and delivered to the buyers within twelve months from the end of the reporting period, the Target Group has sufficient working capital for its present requirements within one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

The following table details the Target Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each year during the Track Record Period.

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017							
Non-derivative financial liabilities							
Other borrowings	–	–	–	–	–	–	–
Amount due to a shareholder	–	–	–	–	–	–	–
		–	–	–	–	–	–

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018							
Non-derivative financial liabilities							
Other borrowing	18%	56,818	–	–	–	56,818	56,818
Accruals and other payables	–	26,801	–	–	–	26,801	26,801
Amount due to a shareholder	–	11,427	–	–	–	11,427	11,427
		95,046	–	–	–	95,046	95,046

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each year during the Track Record Period.

8. Segment reporting

The Target Group is mainly engaged in property investment in the PRC.

The Target Group currently operates property investment. Accordingly, the Target Group does not have separately reportable segments.

Geographical information

All the Target Group's operations and non-current assets are located in the PRC, no geographical analysis is presented.

Information about major customers

Revenue from customers during the Track Record Periods contributing over 10% of the total revenue of the Target Group is as follows:

	Period from 3 July 2017 to 31 December 2017	**Year ended 31 December 2018**
	HK$'000	*HK$'000*
Customer A	–	202
Customer B	–	143

9. Revenue

	Period from 3 July 2017 to 31 December 2017	Year ended 31 December 2018
	HK$'000	*HK$'000*
Rental income	–	420

10. Other revenue

	Period from 3 July 2017 to 31 December 2017	Year ended 31 December 2018
	HK$'000	*HK$'000*
Bank interest income	–	2

11. Finance costs

	Period from 3 July 2017 to 31 December 2017	Year ended 31 December 2018
	HK$'000	*HK$'000*
Interests on:		
Other borrowings	–	3,201

12. Income tax expense

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit arising in Hong Kong for both years.

The Target Group's PRC EIT is calculated based on the applicable tax rates on assessable profits, if applicable.

No provision for Hong Kong Profits Tax has been made as the Target Group did not have any assessable profits subject to Hong Kong Profits Tax during the end of the reporting period.

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

	Period from 3 July 2017 to 31 December 2017	**Year ended 31 December 2018**
	HK$'000	*HK$'000*
(Loss) profit before tax	(11)	535,124
Tax calculated at applicable PRC corporate income tax rate	(3)	133,781
Tax effect of expenses not deductible for tax purpose	3	808
Tax effect of income not taxable for tax purpose	–	(134,589)
Timing different not recognised	–	–
Income tax expense	–	–

13. (Loss) profit for the period/year

Profit for the year has been arrived at after charging (crediting):

	Period from 3 July 2017 to 31 December 2017	Year ended 31 December 2018
	HK$'000	*HK$'000*
Director's remuneration:		
Salaries and allowance	–	–
Retirement benefits scheme	–	–
Other staff costs:		
Salaries and allowance	–	8
Retirement benefits scheme	–	1
Rental income from investment properties*	–	(420)
Auditor's remuneration	–	–

* *There is no direct outgoings incurred for investment properties as no property management services has been provided for the year ended 31 December 2018.*

14. Director and senior management's emolument

Name of directors	Director's fees	Salaries, allowances and other benefits in kind	Discretionary bonus	Retirement benefit scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the period ended 31 December 2017					
Yang Zhixiong	–	–	–	–	–
For the year ended 31 December 2018					
Yang Zhixiong	–	–	–	–	–

(a) Director's emoluments and other benefits

The Director's emoluments disclosed above include their services in connection with the management of the affairs of the Target Company. No Directors had waived any emoluments for the period ended 31 December 2017 and for the year ended 31 December 2018. Save as disclosed above, no other emoluments were paid or payable to any Director.

(b) Director's termination benefits

During the year ended 31 December 2018, no termination benefits were paid to the director (2017: Nil).

(c) Consideration provided to third parties for making available director's services

During the year ended 31 December 2018, no consideration was paid for making available the services of the directors of the Target Group (2017: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of director, controlled bodies corporate by and connected entities with such director

During the year ended 31 December 2018, there was no loans, quasi-loans or other dealings entered into by the Target Company or subsidiaries undertaking of the Target Company, where applicable, in favour of director (2017: Nil).

(e) Director's material interests in transactions, arrangements or contracts

No significant transactions, arrangements or contracts in relation to which the Target Company was a party and in which a director of the Target Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

15. Five highest paid employees

The five highest paid employees of the Target Group during the end of the reporting period included one director, details of whose remuneration are set out in Note 14 above. Details of the remuneration for the end of the reporting period of the remaining four highest paid employees who are neither a director nor chief executive of the Target Group are as follows:

	Period from 3 July 2017 to 31 December 2017	Year ended 31 December 2018
	HK$'000	*HK$'000*
Salaries, allowances, and other benefits	–	8
Discretionary bonus	–	–
Retirement benefits scheme	–	1
	–	9

The number of the highest paid employees who are not the directors of the Target Company whose remuneration fell within the following bands is as follows:

	Number of employees	
	Period from 3 July 2017 to 31 December 2017	Year ended 31 December 2018
Nil to HK$1,000,000	–	4

During the Track Record Periods, no emoluments were paid by the Target Group to any of the directors or the five highest paid individuals of the Target Group (including directors and employees) as an inducement to join or upon joining the Target Group or as compensation for loss of office. None of the director has waived any emoluments during the year.

16. Dividends

No dividend was paid or declared during the end of the reporting period, nor has any dividend been declared since the end of each reporting period.

17. Investment properties

	HK$'000
At fair value	
At 3 July 2017, 31 December 2017 and 1 January 2018	–
Acquisition of subsidiaries	797,728
At 31 December 2018	797,728

The Target Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. All of these investment properties are located in the PRC.

As at 31 December 2018, part of the Target Group's investment properties of approximately HK$221,591,000 has been pledged to secure other borrowings granted to the Target Group, details of which are set out in Note 22.

The fair value of the Target Group's investment properties situated in PRC of RMB702,000,000 (equivalent to approximately HK$797,728,000) as at 31 December 2018 has been arrived at on the basis of a valuation carried out on the respective dates by AP Appraisal Limited, independent qualified professional valuer not connected to the Target Group and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The fair value of each investment property is individually determined at the end of each reporting period based on direct comparison method and investment method as appropriate. The direct comparison method assumes the sale of the property interest in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. The investment method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value. The rental value and capitalisation rate to be adopted for the valuation are derived from an analysis of market transactions.

On 4 July 2017, 鳳珍深圳 signed an agreement of compensation for demolish building (the "**Demolition Compensation Agreement**") with an Independent Third Party, Shenzhen Rongce Real Estate Company Limited* ("**Shenzhen Rongce**"). According to the Demolition Compensation Agreement, a lot with total area of approximately 11,880.8 square meters (total gross floor area of approximately 20,592.08 square meters) will be exchanged for a property with gross floor area of 15,000 square meters together will compensation of RMB97,481,780. As at 31 December 2018, 鳳珍深圳 has received RMB19,496,356 which was recorded as other payable in the consolidated statements of financial position. The Demolition Compensation Agreement has been terminated in April 2019.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Target Group's investment properties and information about the fair value hierarchy as at 31 December 2018 is as follows:

	2018
	Level 3
	HK$'000
Properties located in PRC	797,728

There were no transfers into or out of Level 3 during both years.

Details of valuation techniques used and key inputs to valuation on investment properties are as follows:

As at 31 December 2018:

	Fair value 2018 *HK$'000*	Valuation techniques	Significant unobservable inputs	Relationship unobservable inputs to fair value
Investment properties located in PRC	797,728	Combination of direct comparison method and investment method	Estimated market unit sales price per square metre: RMB6,500 – RMB54,700	An increase in the market unit rent and/ or sales price would result in an increase in the fair value of the properties and vice versa

18. Trade and other receivables

The Target Group's trading terms with its customers are mainly on credit, where payment in advance is normally required. The Target Company allows an average credit period of 30 days to its customers.

An aging analysis of the Target Group's trade receivables after deducting the allowance for doubtful debts presented based on invoice dates at the end of the reporting period.

	Year ended 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Trade receivables within 0-60 days	–	380
Prepayments	–	7,802
Other receivables	–	517
	–	8,699

The Target Group does not hold any collateral or other credit enhancements over these balances.

Trade receivables that were neither past due nor impaired related to customer for whom there were no recently history of default. The Director consider that the carrying amount of trade receivables approximates to their fair value.

Oher receivables included approximately HK$511,000 (2017: NIL) of deposits paid for construction work. The deposits paid will be refunded upon the completion of the construction work.

19. Bank balances and cash

	Year ended 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Bank balances and cash	–	589

The bank balances carried prevailing market rates at 0.01% per annum on average as at 31 December 2017 and 2018.

20. Amount due from (to) shareholder/related parties

The amounts due from (to) shareholder/related parties are unsecured, non-interest bearing and repayable on demand. The carrying amount approximates their fair value.

21. Other payables and accruals

	Year ended 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Other payables	–	4,646
Deposit received in respect of the proposed disposal of investment properties	–	22,155
	–	26,801

Other payables included approximately HK$2,398,000 (2017: Nil) of deposits received for rental deposit. The rental deposit will be refunded to the tenant upon the expiry date of the lease. The remaining balance is the payable of construction work and accrued expenses. The average credit period taken for other payables is 30 to 60 days.

As a result of the termination of the Demolition Compensation Agreement in April 2019, the deposit received in respect of the proposed disposal of investment properties will be return by the PRC Subsidiary to Shenzhen Rongce.

22. Other borrowings

	Year ended 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Other borrowings	–	56,818
Carrying amount repayable:		
Within one year	–	56,818
Carrying amount of borrowings shown under current liabilities	–	56,818

The borrowings carry effective interest at fixed rates 18% per annum (2017: Nil).

As at 31 December 2018, the other borrowings were secured by part of the investment properties with construction area of 20,840.62 square meters were pledged to an independence third party to secure for a loan to the PRC subsidiary. Details of pledge of assets as disclosed in Note 28 to the consolidated financial statements.

23. Share capital

	Number of shares	**Amount**
	'000	*HK$'000*
Issued and fully paid		
Issue at the date of incorporation	50	390
At 31 December 2017 and 31 December 2018	50	390

24. Deferred tax liabilities

The following are the major deferred tax liabilities recognised and movements thereon during the end of the reporting period:

	Revaluation on investment properties *HK$'000*
At 3 July 2017, 31 December 2017 and 1 January 2018	–
Arising from acquisition of subsidiaries	199,432
At 31 December 2018	199,432

25. Acquisition of assets through acquisition of a subsidiary

On 7 December 2018, the Target Company acquired the entire issued share capital of the Project Company for an aggregate consideration of HK$1. The Project Company is principally engaged in investment holding.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Fair value *HK$'000*
Investment Property	797,728
Trade receivables	380
Other receivables	9,973
Cash and bank balances	985
Tax recoverable	460
Other payables	(35,917)
Amounts due to shareholder	(11,254)
Amount due to related partes	(24,568)
Deferred tax liabilities	(199,432)
Net assets acquired	538,355

Net cash inflow on acquisition of the Project Company

Cash and bank balances acquired	985

26. Operating lease commitments

The Target Group as lessor

Property rental income earned during the year ended 31 December 2018 was HK$420,000 (2017: Nil). All of the properties held are with leases negotiated for terms ranging from 5 year to 6 years.

At the end of each of the reporting period, the Target Group had contracted with tenants for the following future minimum lease payments:

	Year ended 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Within one year		
In the second to fifth years inclusive	–	7,787
After five years	–	31,070
	–	38,857

27. Capital commitments

	Year ended 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Construction of properties contracted for but not provided in the consolidated financial statements	–	2,622

28. Pledge of assets

As at 31 December 2018, part of the investment properties with construction area of 16,035.1 square meters were pledged to an independence third party for secure a loan with principle amount of RMB230,000,000 to a company which the Vendor Guarantor is the sole director and shareholder. The carrying amount of the loan was approximately RMB60,000,000 as at 31 December 2018 which repaid on 4 March 2019.

As at 31 December 2018, part of the Properties with construction area of 20,840.62 square meters were pledged to an independence third party to secure for a loan to the PRC subsidiary. The carrying amount of the loan was approximately RMB50,000,000 as at 31 December 2018 which repayable by 9 July 2019.

29. Retirement benefits scheme

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits MPF Schemes operated by the PRC government. The PRC subsidiary are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Target Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the end of the reporting period, there was no significant amount of forfeited contributions available to reduce future contributions.

30. Particulars of subsidiaries

Name of subsidiary	Place and date of incorporation/ operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Target Company 2017	2018	Principal activities
Mimiro Industrial Co. Limited	Hong Kong 11 July 1991	HK$500,000	–	100%	Investment holdings
鳳珍實業發展(深圳)有限公司 Fengzhen Industrial Development (Shenzhen) Co. Limited	PRC 7 December 1992	HK$12,000,000	–	100%	Property investment and hotel operation

31. Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Target Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Amount due from related party	Amount due (from) to shareholders	Interest payable	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 3 July 2017	–	–	–	–	–
Financing cash outflows	–	–	(379)	–	(379)
At 31 December 2017 and 1 January 2018	–	–	(379)	–	(379)
Accrued interest	–	–	–	3,201	3,201
Interest paid	–	–	–	(3,201)	(3,201)
Acquisition of subsidiaries	–	24,568	11,254	–	35,822
Proceeds from financing cash flows	56,818	–	552	–	57,370
Financing cash outflows	–	(46,762)	–	–	(46,762)
At 31 December 2018	56,818	(22,194)	11,427	–	46,051

32. Subsequent financial statements

No audited financial statements of the Target Group, the Target Company or any of the companies now comprising the Target Group have been prepared in respect of any period subsequent to 31 December 2018.

ACCOUNTANT'S REPORT ON THE PROJECT GROUP

The following is the text of the accountant's report on the Project Group, prepared for the purpose of incorporation in this circular, received from the reporting accountants of the Project Group, HLM CPA Limited, Certified Public Accountants, Hong Kong.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF MIMIRO INDUSTRIAL CO. LIMITED TO THE DIRECTORS OF CHINA CITY INFRASTRUCTURE GROUP LIMITED

Introduction

We report on the historical financial information of Mimiro Industrial Co. Limited（鳳珍企業有限公司）(the "**Project Company**") and its subsidiaries (together, the "**Project Group**") set out on pages III-5 to III-60, which comprises the consolidated statements of financial position as at 31 December 2016, 2017 and 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2016, 2017 and 2018 (the "**Track Record Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages III-5 to III-60 forms an integral part of this report, which has been prepared for inclusion in the circular of China City Infrastructure Group Limited (the "**Company**") dated 21 June 2019 (the "**Circular**") in connection with the proposed acquisition of the entire equity interests of Precious Palace Enterprises Limited by the Company.

Directors' responsibility for the Historical Financial Information

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

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

Reporting accountants' responsibility

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

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

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

Opinion

In our opinion the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Project Group's consolidated financial position as at 31 December 2016, 2017 and 31 December 2018 and of the Project Group's consolidated financial performance and consolidated cash flows for the Track Record Periods in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

Emphasis of matter

Without qualifying our opinion, we draw attention in Note 2 to the Historical Financial Information of the Project Group which indicates that he Project Group had net current liabilities of approximately HK$42,510,000, HK$42,562,000 and HK$63,019,000 as at 31 December 2016, 2017 and 2018 respectively. Notwithstanding the above, the Historical Financial Information have been prepared on a going concern basis, the validity of which is dependent on the Project Group's ability to obtain external source of funding in order for the Project Group to meet its financial obligations as the fall due and to finance its future working capital and financial requirements. These conditions, along with other matters as set forth in Note 2 to the Historical Financial Information of the Project Group, indicate the existence of a material uncertainty which may cast significant doubt about the Project Group's ability to continue as a going concern.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Information have been made.

Dividends

We refer to Note 16 to the Historical Financial Information which states that no dividends have been paid or declared by the Project Group in respect of the Track Record Periods.

HLM CPA Limited
Certified Public Accountants
Chan Lap Chi
Practising Certificate Number: P04084
Hong Kong

21 June 2019

HISTORICAL FINANCIAL INFORMATION OF THE PROJECT GROUP

Preparation of Historical Financial Information

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

The consolidated financial statements of the Project Group for the Track Record Periods, on which the Historical Financial Information of the Project Group is based, were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statement**").

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2016	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*9*	5,526	6,556	8,880
Cost of services		(1,000)	(1,143)	(893)
Gross profit		4,526	5,413	7,987
Gain on change in fair value of investment properties		23,530	32,184	421,832
Other revenue	*10*	2	2	2
Other expense		(529)	–	(11)
Administrative expenses		(6,798)	(4,178)	(7,353)
Finance costs	*11*	–	–	(3,215)
Profit before taxation		20,731	33,421	419,242
Income tax expense	*12*	(6,786)	(8,046)	(111,310)
Profit for the year	*13*	13,945	25,375	307,932
Other comprehensive income (expense), net of income tax				
Items that have been reclassified or may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations		(13,395)	17,694	(29,392)
Total comprehensive income for the year		550	43,069	278,540

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		Year ended 31 December		
		2016	2017	2018
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*17*	3,368	2,913	–
Investment properties	*18*	337,079	395,181	797,728
		340,447	398,094	797,728
Current assets				
Trade and other receivables	*19*	615	20,056	8,699
Amounts due from related parties	*22*	–	–	22,194
Tax recoverable		–	–	916
Bank balances and cash	*20*	335	2,363	589
		950	22,419	32,398
Current liabilities				
Other payables and accruals	*21*	3,417	28,257	26,799
Amount due to shareholder	*22*	40,043	36,724	11,800
Other borrowings				
– due within one year	*23*	–	–	56,818
		43,460	64,981	95,417
Net current liabilities		(42,510)	(42,562)	(63,019)
Total assets less current liabilities		297,937	355,532	734,709
Non-current liability				
Deferred tax liabilities	*24*	84,269	98,795	199,432
Net assets		213,668	256,737	535,277
Capital and reserves				
Share capital	*25*	500	500	500
Reserves		213,168	256,237	534,777
Total equity		213,668	256,737	535,277

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$'000*	Translation Reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2016	500	(7,612)	220,230	213,118
Profit for the year	–	–	13,945	13,945
Translation exchange differences	–	(13,395)	–	(13,395)
At 31 December 2016 and 1 January 2017	500	(21,007)	234,175	213,668
Profit for the year	–	–	25,375	25,375
Translation exchange differences	–	17,694	–	17,694
At 31 December 2017 and 1 January 2018	500	(3,313)	259,550	256,737
Profit for the year	–	–	307,932	307,932
Translation exchange differences	–	(29,392)	–	(29,392)
At 31 December 2018	500	(32,705)	567,482	535,277

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Profit before tax	20,731	33,421	419,242
Adjustments for:			
Bank interest income	(2)	(2)	(2)
Depreciation of property, plant and equipment	690	666	345
Finance costs	–	–	3,215
Gain on change in fair value of investment properties	(23,530)	(32,184)	(421,832)
Operating cash flows before movements in working capital	(2,111)	1,901	968
(Increase) decrease in trade and other receivables	(92)	(18,547)	11,899
(Decrease) increase in other payables and accruals	(40,156)	23,698	(1,527)
Cash (used in) generated from operations	(42,359)	7,052	11,340
PRC income tax paid	(903)	–	(960)
Net cash (used in) generated from operating activities	(43,262)	7,052	10,380

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Investing activities			
Bank interest income received	2	2	2
Net cash generated from investing activities	2	2	2
Financing activities			
Borrowings raised	–	–	56,818
Interest paid	–	–	(3,215)
Advance from (to) shareholders	41,927	(3,166)	(26,111)
Advance to related parties	–	–	(21,137)
Net cash generated from (used in) financing activities	41,927	(3,166)	6,355
Net (decrease) increase in cash and cash equivalents	(1,333)	3,888	16,737
Effect of foreign exchange rate changes	1,569	(1,860)	(18,511)
Cash and cash equivalents at beginning of the year	99	335	2,363
Cash and cash equivalent at end of the year	335	2,363	589

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. General information

Mimiro Industrial Co. Limited (the "**Project Company**") is incorporated in the Hong Kong with limited liability.

The address of the registered office and principal place of business of the Project Company are Unit 2103, 21/F West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong. The principal activities of its subsidiaries are property investment and hotel operation in the People's Republic of China (the "**PRC**").

The Historical Financial Information is presented in Hong Kong Dollar ("**HK$**"), which is the functional currency of the Project Group.

2. Basis of preparation of the historical financial information

The Project Company is a company incorporated in the Hong Kong on 11 July 1991 with limited liability formerly held by 深圳市華策投資控股有限公司.

鳳珍實業發展(深圳)有限公司 ("**鳳珍深圳**") is incorporated in the PRC on 7 December 1992 with limited liability held by the Project Company.

In preparing the Historical Financial Information of the Project Group, the sole director of the Project Company has given careful consideration to the future liquidity of the Project Group notwithstanding that the Project Group had net current liabilities of approximately HK$42,510,000, HK$42,562,000 and HK$63,019,000 as at 31 December 2016, 2017 and 2018 respectively.

The Historical Financial Information of the Project Group have been prepared on a going concern basis as Mr. Yang Zhixiong, the ultimate shareholder of the Project Company has confirmed to provide continuing financial support to the Project Group to enable it to continue as a going concern and to settle its liabilities as and when they fall due. Accordingly, the sole director of the Project Company considers that the Historical Financial Information of the Project Group were prepared on a going concern basis. The Historical Financial Information does not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Project Group be unable to continue as a going concern.

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

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with HKFRSs issued by the HKICPA and complied with the disclosure requirements of the Hong Kong Companies Ordinance applicable for a PRC established company. All HKFRSs effective for the accounting period commencing from 1 January 2018, together with the relevant transitional provisions, have been adopted by the Project Company in the preparation of the Historical Financial Information throughout the Track Record Periods.

The Historical Financial Information has been prepared on the historical cost basis except for certain properties that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. New and revised HKFRSs in issue but not yet effective

At the date of this report, the following new standards, amendments and interpretation have been issued but not yet effective. The Project Group has not early adopted these standards, amendments and interpretations in the preparation of the Historical Financial Information for the Track Record Periods.

Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs Standards 2015 – 2017 Cycle[1]

[1] *Effective for annual periods beginning on or after 1 January 2019*

[2] *Effective for annual periods beginning on or after a date to be determined*

[3] *Effective for annual periods beginning on or after 1 January 2021*

Except as described below, the directors consider that the application of new standards, amendments and interpretation is unlikely to have a material impact on the Project Group's financial position and performance as well as disclosure in future.

HKFRS 16 Leases

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under HKAS 17 are presented as operating cash flows; whereas under the HKFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Project Group had non-cancellable operating lease commitments of HK$38,857,000, as disclosed in Note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Project Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. The directors of the Project Company anticipate that the application of HKFRS 16 would not have significant impact on the financial position and performance of the Project Group comparing with HKAS 17 currently adopted by the Project Group. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

4. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs, which is a collective term that includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the disclosures requirements of the Hong Kong Companies Ordinance.

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared on the historical cost basis except for certain properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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

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

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

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

The principal accounting policies adopted are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Project Company and entities (including structured entities) controlled by the Project Company and its subsidiaries. Control is achieved when the Project Company:

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

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

Consolidation of a subsidiary begins when the Project Group obtains control over the subsidiary and ceases when the Project Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Project Group gains control until the date when the Project Group ceases to control the subsidiary.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Project Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

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

Hotel operation income is recognised upon the provision of services and the utilisation of the hotel facilities by guests.

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

Borrowing costs

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

Property, plant and equipment

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

The principal annual rates used for this purpose are as follows:

Property and Plant	5%

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, which reflects market conditions at the end of each of the Relevant Periods. All of the Project Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

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

The Project Group transfers a property from inventories to investment property when there is a change of intention to hold the property to earn rentals or land for capital appreciation rather than for sale in the ordinary course of business, which is evidenced by the commencement of an operating lease to another party. Any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognised in profit or loss.

The Project Group transfers a property from investment property to inventories when, and only when, there is a change in use, evidenced by commencement of development with a view to sale. When an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the Statement of Financial Position) and does not treat it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment.

Leasing

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

The Project Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Project Group as lessee

Assets held under finance leases are initially recognised as assets of the Project Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Project Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

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

Exchange differences on monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Project Group's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Project Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Project Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary does not result in the Project Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Project Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

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

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

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

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Project Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, the Project Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Project Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

Provisions

Provisions are recognised when the Project Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Project Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

Financial instruments (before the adoption of HKFRS 9 as at 1 January 2018)

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Project Group's financial assets are classified into "loans and receivables" and "financial assets at fair value through profit or loss (FVTPL)". The classification depends on the nature and purpose of financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivables, deposits and other receivables, bank deposits with maturity over 3 months and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Project Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Project Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire consolidated contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as accounts receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Project Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

Derecognition of financial assets

The Project Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Project Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Project Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Project Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Project Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset other than in its entirety (e.g. when the Project Group retains an option to repurchase part of a transferred asset), the Project Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs. Repurchase of the Project Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Project Company's own equity instruments.

Other financial liabilities

Other financial liabilities (including other payables and accruals, rental deposits, amount due to shareholder and other borrowings) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Derecognition of financial liabilities

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

Financial instruments (under HKFRS 9)

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

Recognised financial assets and financial liabilities are initially measured at fair value except for trade receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised in profit or loss.

Financial assets

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Project Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically

a. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ("**SPPI**"), are subsequently measured at amortised cost;

b. Debt instruments that are held within a business model whose objective is both to collect and contractual cash flows and to sell the debt instruments, and what have contractual cash flows that are SPPI, are subsequently measured at FVTOCI; and

c. All other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Project Group may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

- The Project Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies, in other comprehensive income; and

- The Project Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("**ECLs**"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial instruments other than purchased or originated credit impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Interest income is recognised in profit or loss and is included in the "other income" line item.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Project Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the other income line item in profit or loss.

Impairment of financial assets

The Project Group assesses on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For financial assets measured at amortised cost that are considered to be of low credit risk, it is assumed that no significant increase in credit risk has occurred. Thus, the impairment provision recognised during the year was limited to 12-month expected losses.

For trade receivables only, the Project Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9. Management considers trade receivables do not contain a significant financing component. Thus, the impairment provision recognised during the period/year was equal to the lifetime expected losses.

When there is information (developed internally or obtained from external sources) indicating that a debtor is unlikely to pay its creditors, including the Project Group, in full, the Project Group may consider the related receivables are generally not recoverable and constitute as a default.

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

- Significant financial difficulty of the counterparty;
- It is becoming probable that the counterparty will enter bankruptcy or other financial reorganization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

The Project Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Project Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Classification and measurement of financial liabilities

Financial liabilities including short term borrowing, other payable and accrual are measured at amortised cost using the effective interest method. Interest expense are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In contrast, on derecognition of an equity investment which the Project Group has elected on initial recognition to measure at FVTOCI, the cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings.

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

Related parties

(a) A person, or a close member of that person's family, is related to the Project Group if that person:

(i) has control or joint control of the Project Group;

(ii) has significant influence over the Project Group; or

(iii) is a member of the key management personnel of the Project Group or of a parent of the Project Group.

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

(i) the entity and the Project Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

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

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Project Group or to the Project Group's parent.

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) dependents of that person or that person's spouse or domestic partner.

Cash and cash equivalents

Cash and cash equivalents represent cash at banks, short term deposits with banks that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

5. Critical accounting judgements and key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

Recognition of current taxes and deferred taxes

There were transactions and calculations for which the ultimate tax determination was uncertain during the ordinary course of business. As detailed in the Project Group's accounting policies, deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Where the final tax outcomes of these matters are different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the periods in which such determination is made.

Estimation of fair value of investment properties

As disclosed in Note 18, the Project Group's investment properties were revalued at end of the reporting period on an open market value basis by an independent professional valuer. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgment, the Project Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period. At 31 December 2018, the fair value of investment properties are approximately HK$797,728,000 (2017: HK$395,181,000).

6. Capital risk management

The Project Group manages its capital to ensure that entities in the Project Group will be able to continue as a going concern while maximising the return to shareholders and benefits for other stakeholders through the optimisation of the debt and equity balances. The Project Group's overall strategy remains unchanged throughout the Track Record Periods.

The capital structure of the Project Group consists of net debt (which includes borrowings, amount due to a director and net of bank balances) and equity of the Project Group, comprising issued share capital and retained earnings.

The management of the Project Group reviews and manages its capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital, and will take appropriate actions to balance its overall capital structure.

7. Financial instruments

(a) Categories of financial instruments

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Loans and receivables (including cash and cash equivalents):			
Trade and other receivables	615	20,056	8,699
Amount due from related parties	–	–	22,194
Bank balances and cash	335	2,363	589
	950	22,419	31,482
Financial liabilities			
Amortised cost:			
Other payable and accruals	3,417	28,257	26,799
Amount due to shareholder	40,043	36,724	11,800
Other borrowing	–	–	56,818
	43,460	64,981	95,417

(b) Financial risk management objectives and policies

The Project Group's major financial instruments include trade and other receivables, amount due from related parties, bank balances and cash, other payable and accruals, amount due to shareholder and other borrowing. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (represented by currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

i. Currency risk

The Project Group mainly operated in their local jurisdiction with all transactions settled in their functional currencies of the operations and did not have exposure to risk resulting from changes in foreign currency exchange rates. The Project Group currently 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.

ii. Interest rate risk

The Project Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 23 for details of these borrowings). The Project Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

The Project Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable rate bank deposits and borrowings at the end of the reporting period. The analysis is prepared assuming the amounts of bank deposits and borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 100 basis point (2017: 100 basis points) increase or decrease 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 100 basis points (2017: 100 basis points) higher/lower and all other variables were held constant, the Project Group's post-tax profit for the year ended 31 December 2018 would increase/ decrease by HK$562,000 (2017: profit increase/decrease by approximately HK$24,000).

Credit risk

At the end of each of the Track Record Period, the Project Group's maximum exposure to credit risk which will cause a financial loss to the Project Group due to failure to repay for the other loans due within one year.

In order to minimise the credit risk, the management of the Project Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Project Group reviews the recoverable amount of each individual accounts receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Project Company consider that the Project Group's credit risk is significantly reduced.

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

The Project Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100% (2017: 100%) of the total accounts receivables as at 31 December 2018.

Liquidity risk

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

The directors of the Project Company have given careful consideration to the going concern of the Project Group. The directors of the Project Company is of the opinion that, taking into account (i) the value of the Project Group's investment properties and properties held for sale pledged for its borrowings, (ii) presently available internal financial resources of the Project Group, and (iii) the sales of properties estimated to be completed and delivered to the buyers within twelve months from the end of the reporting period, the Project Group has sufficient working capital for its present requirements within one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

The following table details the Project Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Project Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each year during the Track Record Period.

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2016							
Non-derivative financial liabilities							
Accruals and other payables	–	3,417	–	–	–	3,417	3,417
Amount due to a shareholder	–	40,043	–	–	–	40,043	40,043
		43,460	–	–	–	43,460	43,460

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2017							
Non-derivative financial liabilities							
Accruals and other payables	–	28,257	–	–	–	28,257	28,257
Amount due to a shareholder	–	36,724	–	–	–	36,724	36,724
		64,981	–	–	–	64,981	64,981

	Weighted average effective interest rate	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2018							
Non-derivative financial liabilities							
Bank and other borrowing	18%	56,818	–	–	–	56,818	56,818
Accruals and other payables	–	26,799	–	–	–	26,799	26,799
Amount due to a shareholder	–	11,800	–	–	–	11,800	11,800
		95,417	–	–	–	95,417	95,417

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each year during the Track Record Period.

8. Segment reporting

The Project Group is mainly engaged in property investment in the PRC.

The Project Group currently operates property investment. Accordingly, the Project Group does not have separately reportable segments.

Geographical information

All the Project Group's operations and non-current assets are located in the PRC, no geographical analysis is presented.

Information about major customers

Revenue from customers during the Track Record Periods contributing over 10% of the total revenue of the Project Group is as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Customer A	2,376	3,714	4,231
Customer B	2,986	2,842	3,034

Customer A and Customer B of the Target Group for the Track Record Periods are 深圳市寧佳置業有限公司 (Shenzhen Ningjia Real Estate Co,. Ltd.*) ("**Shenzhen Ningjia**") and 深圳市九雁物業管理有限公司 (Shenzhen Jiu Yan Property Management Co., Ltd.*) ("**Shenzhen Jiu Yan**") respectively. The major customers are companies established in the PRC with limited liabilities. The principal activities of the major customers of the Target Group are property investment and property management.

Shenzhen Ningjia is the major tenant of Huajiang Building and Shenzhen Jiu Yan is the major tenant of the Industrial Property.

Shenzhen Ningjia is wholly owned by 華融國際信託有限責任公司 (Huarong International Trust Co., Ltd.) ("**Huarong International Trust**"). Shenzhen Ningjia was owned as to 10% by 深圳市金益創科技有限公司 (Shenzhen Jin Yi Chuang Technology Co., Ltd.*) ("**Shenzhen Jin Yi Chuang**") and as to 90% by 深圳市全晟利實業有限公司 (Shenzhen Quan Sheng Li Enterprise Co., Ltd.*) ("**Shenzhen Quan Sheng Li**") respectively, prior to the transfer to Huarong International Trust on 10 July 2017. 珠海市華策集團有限公司(Zhuhai Huace Group Limited*) ("**Zhuhai Huace**") only owns 7.3% equity interests in Huarong International Trust and is neither a substantial shareholder nor controlling shareholder of Huarong International Trust. As such, the tenant of Huajiang Building is an independent third party to the Vendor and an Independent Third Party.

According to the search results, Shenzhen Jin Yi Chuang was owned as to 99% by Zhuhai Huace and 1% by a related company of the Vendor in 2016 and the 99% shareholding of Shenzhen Jin Yi Chuang was transferred by Zhuhai Huace to 渤海國際信托股份有限公司 (Bohai International Trust Co., Ltd.) ("**Bohai International Trust**") on 23 May 2016. On 22 November 2017, the 99% shareholding of Shenzhen Jin Yi Chuang was transferred by Bohai International Trust to Zhuhai Huace.

According to the search results, Shenzhen Quan Sheng Li was owned as to 99% by Zhuhai Huace and 1% by a related company of the Vendor in 2016 and the 99% shareholding of Shenzhen Quan Sheng Li was transferred by Zhuhai Huace to Bohai International Trust on 23 May 2016. On 22 November 2017, the 99% shareholding of Shenzhen Quan Sheng Li was transferred by Bohai International Trust to Zhuhai Huace.

To the best of the Directors' knowledge and information having made all reasonable enquiry, save as disclosed above, Shenzhen Jin Yi Chuang and Shenzhen Quan Sheng Li has no prior/current relationship with the Vendor or the Company and its connected persons.

中國華融資產管理股份有限公司(China Huarong Asset Management Co., Ltd.) ("**China Huarong**") is the controlling shareholder of Huarong International Trust and owns and has control over approximately 48.7% in the equity interests in Huarong International Trust. Zhuhai Huace owns approximately 7.3% in the equity interests in Huarong International Trust. China Huarong and the other independent investors holding an aggregate of approximately 92.7% equity interests of Huarong International Trust are Independent Third Parties. China Huarong is a joint stock limited liability company established in the PRC and a listed company on the Main Board of the Stock Exchange (stock code: 2799).

Zhuhai Huace is owned as to 83% by the Vendor Guarantor, 9% by the Vendor Guarantor's father and as to 8% by 余道群 (Yu Daoqun) who is an Independent Third Party.

Save as disclosed above, there is no other prior/current relationship between ShenZhen Ning Jia, the Vendor or the Company and its connected persons.

Shenzhen Jiu Yan is wholly owned by Mr. Ke Fushui（柯福水）who has no prior/current relationship with the Vendor or the Company and its connected persons.

9. Revenue

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Rental income	5,361	6,556	8,051
Hotel service income	165	–	829
	5,526	6,556	8,880

10. Other revenue

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	2	2	2

11. Finance costs

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Interests on:			
Other borrowings	–	–	3,215

12. Income tax expense

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Current tax			
Under – provision for prior year	(903)	–	–
Deferred taxation *(note 24)*	(5,883)	(8,046)	(111,310)
	(6,786)	(8,046)	(111,310)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit arising in Hong Kong for both years.

The Project Group's PRC EIT is calculated based on the applicable tax rates on assessable profits, if applicable.

No provision for Hong Kong Profits Tax has been made as the Project Group did not have any assessable profits subject to Hong Kong Profits Tax during the Track Record Periods.

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

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	20,731	33,421	419,242
Tax calculated at applicable PRC corporate income tax rate (25%)	5,183	8,355	104,810
Tax effect of expenses not deductible for tax purpose	6	7	9
Tax effect of income not taxable for tax purpose	(5,189)	(8,362)	(105,458)
Timing different not recognised	5,883	8,046	111,310
Under – provision for prior years	903	–	–
Tax loss not recognised	–	–	639
Tax charge for the year	6,786	8,046	111,310

13. Profit for the year

Profit for the year has been arrived at after charging (crediting):

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Director's remuneration:			
Salaries and allowance	–	–	–
Retirement benefits scheme	–	–	–
Other staff costs:			
Salaries and allowance	43	249	96
Retirement benefits scheme	6	1	11
Rental income from investment properties*	(5,361)	(6,556)	(8,051)
Depreciation of property, plant and equipment	690	666	345
Auditor's remuneration	7	11	11
Gain on change in fair value of investment properties	(23,530)	(32,184)	(421,832)

* *There is no direct outgoings incurred for investment properties as no property management services has been provided for the Track Record Periods*

14. Director and senior management's emolument

Name of directors	**Director's fees**	**Salaries, allowances and other benefits in kind**	**Discretionary bonus**	**Retirement benefit scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2016					
Yang Zhixiong	–	–	–	–	–
For the year ended 31 December 2017					
Yang Zhixiong	–	–	–	–	–
For the year ended 31 December 2018					
Yang Zhixiong	–	–	–	–	–

(a) Director's emoluments and other benefits

The Director's emoluments disclosed above include their services in connection with the management of the affairs of the Project Company. No Directors had waived any emoluments as at 31 December 2016, 2017 and 2018. Save as disclosed above, no other emoluments were paid or payable to any Director.

(b) Director's termination benefits

During the Track Record Periods, no termination benefits were paid to the director.

(c) Consideration provided to third parties for making available director's services

During the Track Record Periods, no consideration was paid for making available the services of the directors of the Project Group.

(d) Information about loans, quasi-loans and other dealings in favour of director, controlled bodies corporate by and connected entities with such director

During the Track Record Periods, there was no loans, quasi-loans or other dealings entered into by the Project Company or subsidiaries undertaking of the Project Company, where applicable, in favour of director.

(e) Director's material interests in transactions, arrangements or contracts

No significant transactions, arrangements or contracts in relation to which the Project Company was a party and in which a director of the Project Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Track Record Periods.

15. Five highest paid employees

The five highest paid employees of the Project Group during the Track Record Period included one director, details of whose remuneration are set out in Note 14 above. Details of the remuneration for the Track Record Period of the remaining four highest paid employees who are neither a director nor chief executive of the Project Group are as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances, and other benefits	43	249	96
Discretionary bonus	–	–	–
Retirement benefits scheme	6	1	11
	49	250	107

The number of the highest paid employees who are not the directors of the Project Company whose remuneration fell within the following bands is as follows:

	Number of employees Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Nil to HK$1,000,000	4	4	4

During the Track Record Periods, no emoluments were paid by the Project Group to any of the directors or the five highest paid individuals of the Project Group (including directors and employees) as an inducement to join or upon joining the Project Group or as compensation for loss of office. None of the director has waived any emoluments during the year.

16. Dividends

No dividend was paid or declared during the Track Record Period, nor has any dividend been declared since the end of each reporting period.

17. Property, plant and equipment

	Leasehold improvement *HK$'000*	Plant and equipment *HK$'000*	Total *HK$'000*
COST			
At 1 January 2016	–	15,270	15,270
Exchange differences	–	(858)	(858)
At 31 December 2016 and 1 January 2017	–	14,412	14,412
Exchange differences	–	1,042	1,042
At 31 December 2017 and 1 January 2018	–	15,454	15,454
Addition	20,873	–	20,873
Transfer to Investment Property *(Note 18)*	(20,873)	(15,270)	(36,143)
Exchange differences	–	(184)	(184)
At 31 December 2018	–	–	–
ACCUMULATED DEPRECIATION			
At 1 January 2016	–	11,012	11,012
Charge for the period	–	690	690
Exchange differences	–	(658)	(658)
At 31 December 2016 and 1 January 2017	–	11,044	11,044
Charge for the period	–	666	666
Exchange differences	–	831	831
At 31 December 2017 and 1 January 2018	–	12,541	12,541
Charge for the period	–	345	345
Transfer to Investment Property *(Note 18)*	–	(12,736)	(12,736)
Exchange differences	–	(150)	(150)
At 31 December 2018	–	–	–
CARRY AMOUNTS			
At 31 December 2018	–	–	–
At 31 December 2017	–	2,913	2,913
At 31 December 2016	–	3,368	3,368

18. Investment Properties

	Investment properties in the PRC
	HK$'000
At fair value	
At 1 January 2016	333,334
Fair value change recognised in profit or loss	23,530
Exchange difference	(19,785)
At 31 December 2016 and 1 January 2017	337,079
Fair value change recognised in profit or loss	32,184
Exchange difference	25,918
At 31 December 2017 and 1 January 2018	395,181
Transfer from property, plant and equipment *(note 17)*	23,407
Fair value change recognised in profit or loss	421,832
Exchange difference	(42,692)
At 31 December 2018	797,728

The Project Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties. All of these investment properties are located in China.

As at 31 December 2016, 2017 and 2018, the Project Group's investment properties of approximately HK$337,079,000, HK$395,181,000 and HK$797,728,000 have been pledged to secure other borrowings granted to the Project Group are set out in Note 23.

The fair value of the Project Group's investment properties situated in PRC as at 31 December 2016, 2017 and 2018 has been arrived at on the basis of a valuation carried out on the respective dates by AP Appraisal Limited, independent qualified professional valuer not connected to the Project Group and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The fair value of each investment property is individually determined at the end of each reporting period based on direct comparison method and investment method as appropriate. The direct comparison method assumes the sale of the property interest in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. The investment method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate investment yields to arrive at the capital value. The rental value and capitalisation rate to be adopted for the valuation are derived from an analysis of market transactions.

On 4 July 2017, 鳳珍深圳 signed an agreement of compensation for demolish building (the "**Demolition Compensation Agreement**") with an Independent Third Party, Shenzhen Rongce Real Estate Company Limited* ("**Shenzhen Rongce**"). According to the Demolition Compensation Agreement, a land with total area of approximately 11,880.8 square meters (total gross floor area of approximately 20,592.08 square meters) will be exchanged for a property with gross floor area of 15,000 square meters together with compensation of RMB97,481,780. As at 31 December 2017 and 2018, 鳳珍深圳 has received RMB19,496,356 which was recorded as other payable in the consolidated statements of financial position. The Demolition Compensation Agreement has been terminated in April 2019.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Project Group's investment properties and information about the fair value hierarchy as at 31 December 2016, 31 December 2017 and 31 December 2018 are as follows:

	2016
	Level 3
	HK$'000
Properties located in PRC	337,079

	2017
	Level 3
	HK$'000
Properties located in PRC	395,181

	2018
	Level 3
	HK$'000
Properties located in PRC	797,728

There were no transfers into or out of Level 3 during both years.

Details of valuation techniques used and key inputs to valuation on investment properties are as follows:

As at 31 December 2016:

	Fair value 2016 *HK$'000*	Valuation techniques	Significant unobservable inputs	Relationship unobservable inputs to fair value
Investment properties located in PRC	337,079	Combination of direct comparison method and investment method	Estimated market unit sales price per square metre: RMB7,850-RMB54,000	An increase in the market unit rent and/ or sales price would result in an increase in the fair value of the properties and vice versa

As at 31 December 2017:

	Fair value 2017 *HK$'000*	Valuation techniques	Significant unobservable inputs	Relationship unobservable inputs to fair value
Investment properties located in PRC	395,181	Combination of direct comparison method and investment method	Estimated market unit sales price per square metre: RMB6,500-RMB54,700	An increase in the market unit rent and/ or sales price would result in an increase in the fair value of the properties and vice versa

As at 31 December 2018:

	Fair value 2018 *HK$'000*	Valuation techniques	Significant unobservable inputs	Relationship unobservable inputs to fair value
Investment properties located in PRC	797,728	Combination of direct comparison method and investment method	Estimated market unit sales price per square metre: RMB6,500-RMB54,700	An increase in the market unit rent and/ or sales price would result in an increase in the fair value of the properties and vice versa

19. Trade and other receivables

The Project Group's trading terms with its customers are mainly on credit, where payment in advance is normally required. The Project Company allows an average credit period of 30 days to its customers.

An aging analysis of the Project Group's trade receivables after deducting the allowance for doubtful debts presented based on invoice dates at the end of the reporting period.

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables within 0-60 days	615	–	380
Prepayments	–	18,539	7,802
Other receivables	–	1,517	517
	615	20,056	8,699

The Project Group does not hold any collateral or other credit enhancements over these balances.

Trade receivables that were neither past due nor impaired related to customer for whom there were no recently history of default. The Director consider that the carrying amount of trade receivables approximates to their fair value.

Other receivables included approximately HK$511,000 (2017: approximately HK$1,415,000) of deposits paid for construction work. The deposits paid will be refunded upon the completion of the construction work.

20. Bank balances and cash

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Bank balances and cash	335	2,363	589

The bank balances carried prevailing market rates at 0.01% per annum on average as at 31 December 2017 and 2018.

21. Other payables and accruals

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Other payables	3,417	4,767	4,644
Deposit received in respect of the proposed disposal of investment properties	–	23,490	22,155
	3,417	28,257	26,799

Other payables included approximately HK$1,393,000, HK$1,494,000 and HK$2,398,000 of deposits received from contractors for rental deposit for the year ended 31 December 2016, 2017 and 2018 respectively. The rental deposit will be refunded to the tenant upon the expiry date of the lease. The remaining balance is the payable of construction work and accrued expenses. The average credit period taken for other payables is 30 to 60 days.

As a result of the termination of the Demolition Compensation Agreement in April 2019, the deposit received in respect of the proposed disposal of investment properties will be return by the PRC Subsidiary to Shenzhen Rongce.

22. Amount due from (to) related parties/shareholder

The amount due from (to) related parties/shareholder are unsecured, non-interest bearing and repayable on demand. The carrying amount approximates to its fair value.

23. Other borrowings

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Other borrowings	–	–	56,818
	–	–	56,818
Carrying amount repayable:			
Within one year	–	–	56,818
Carrying amount of other borrowing shown under current liabilities	–	–	56,818

The borrowings carry effective interest at fixed rates 18% per annum (2017: NIL).

As at 31 December 2018, the other borrowings were secured by part of the investment properties with construction area of 20,840.62 square meters were pledged to an independence third party to secure for a loan to the PRC subsidiary. Details of pledge of assets as disclosed in Note 28 to the consolidated financial statements.

24. Deferred tax liabilities

The following are the major deferred tax liabilities recognised and movements thereon during the Track Record Period:

	Revaluation on investment properties *HK$'000*
At 1 January 2016	83,333
Charged to the consolidated statement of profit or loss for the year *(note 12)*	5,883
Exchange difference	(4,947)
At 31 December 2016 and 1 January 2017	84,269
Charged to the consolidated statement of profit or loss for the year *(note 12)*	8,046
Exchange difference	6,480
At 31 December 2017 and 1 January 2018	98,795
Charged to the consolidated statement of profit or loss for the year *(note 12)*	111,310
Exchange difference	(10,673)
At 31 December 2018	199,432

25. Share capital

The Project Group

	Numner of share	Amount
	'000	*HK'000*
Issued and fully paid		
At 1 Janaury 2016, 31 December 2016, 31 December 2017 and 31 December 2018	500	500

26. Operating lease commitments

The Project Group as lessor

Property rental income earned during the year ended 31 December 2016, 2017 and 2018 was approximately HK$5,361,000, HK$6,556,000 and HK$8,051,000 respectively. All of the properties held are with leases negotiated for terms ranging from 5 year to 6 years.

At the end of each of the reporting period, the Project Group had contracted with tenants for the following future minimum lease payments:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	5,557	7,721	7,787
In the second to fifth years inclusive	18,302	11,904	31,070
	23,859	19,625	38,857

27. Capital commitments

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Construction of properties contracted for but not provided in the consolidated financial statements	–	14,545	2,622

28. Pledge of assets

As at 31 December 2018, part of the investment properties with construction area of 16,035.1 square meters were pledged to an independence third party for secure a loan with principle amount of RMB230,000,000 to a company which the Vendor Guarantor is the sole director and shareholder. The carrying amount of the loan was approximately RMB60,000,000 as at 31 December 2018 which repaid on 4 March 2019.

As at 31 December 2018, part of the Properties with construction area of 20,840.62 square meters were pledged to an independence third party to secure for a loan to the PRC subsidiary. The carrying amount of the loan was approximately RMB50,000,000 as at 31 December 2018 which repayable by 9 July 2019.

29. Retirement benefits scheme

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits MPF Schemes operated by the PRC government. The PRC subsidiary are required to contribute a certain percentage of their payroll to the retirement benefits schemes to fund the benefits. The only obligation of the Project Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

At the end of the reporting period, there was no significant amount of forfeited contributions available to reduce future contributions.

30. Particulars of subsidiaries

Name of subsidiary	Place and date of incorporation/operation	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Project Company 2016	2017	2018	Principal activities
鳳珍實業發展(深圳)有限公司 Fengzhen Industrial Development (Shenzhen) Co. Limited	PRC 7 December 1992	HK$12,000,000	100%	100%	100%	Property development

31. Reconciliation of liabilities arising from financing activities

The table below details changes in the Project Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Project Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Amount due (from) to related party	Amount due (from) to shareholders	Interest payable	Total
	HK'000	*HK'000*	*HK'000*	*HK'000*	*HK'000*
At 1 January 2016	–	–	–	–	–
Proceeds from financing cash flows	–	–	41,927	–	41,927
Financing cash outflows	–	–	–	–	–
Exchange difference	–	–	(1,884)	–	(1,884)
At 31 December 2016 and 1 January 2017	–	–	40,043	–	40,043
Financing cash outflows	–	–	(3,166)	–	(3,166)
Exchange difference	–	–	(153)	–	(153)
At 31 December 2017 and 1 January 2018	–	–	36,724	–	36,724
Accrued interest	–	–	–	3,215	3,215
Interest paid	–	–	–	(3,215)	(3,215)
Proceeds from financing cash flows	56,818	–	–	–	56,818
Financing cash outflows	–	(21,137)	(26,111)	–	(47,248)
Exchange difference	–	(1,057)	1,187	–	130
At 31 December 2018	56,818	(22,194)	11,800	–	46,424

32. Statements of financial position of the Project Company

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Investment in subsidiary	3,724	3,724	3,724
Current liabilities			
Amount due to shareholder	14,137	14,159	14,194
Other payables and accruals	19	25	26
	14,156	14,184	14,220
Net liabilities	(10,432)	(10,460)	(10,496)
Capital and reserves			
Share capital	500	500	500
Reserve	(10,932)	(10,960)	(10,996)
Total equity	(10,432)	(10,460)	(10,496)

33. Subsequent financial statements

No audited financial statements of the Project Group, the Project Company or any of the companies now comprising the Project Group have been prepared in respect of any period subsequent to 31 December 2018.

1. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for the period from 3 July 2017 (being the date of incorporation) to 31 December 2018.

Unless stated otherwise, terms used herein shall have the same meanings as those defined in the circular.

Business and operations of the Target Group

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The Target Company is the legal and beneficial owner of the entire equity interests of the Hong Kong Subsidiary, which in turn holds the entire equity interests of the PRC Subsidiary. The PRC Subsidiary is the legal and beneficial owner of the Properties. Immediately prior to the entering into of the Sale and Purchase Agreement, the Target Company is held as to 100% by the Vendor. After Completion of the Acquisition, the Purchaser shall be interested in the entire issued share capital of the Target Company and the Target Company shall become an indirect wholly owned subsidiary of the Company.

The PRC Subsidiary is currently holding the Properties located in Shenzhen, the PRC. The Properties comprise property complex in Shenzhen, the PRC with land area of approximately 14,971.1 square meters and total gross floor area of approximately 36,875.72 square meters. The Properties consist of two factories with total gross floor area of approximately 15,251.76 square meters, two staff houses with total gross floor area of 5,588.86 square meters, one commercial buildings with total gross floor area of 12,248.64 square meters and a commercial and residential complex with total gross floor area of approximately 3,786.46 square meters. The Properties are the only significant assets of the Target Group.

For the period from 3 July 2017 to 31 December 2017

Financial results

The Target Group did not record any revenue during the period from 3 July 2017 to 31 December 2017. The net loss after tax for the period amounted to HK$11,000 due to the administrative expenses including the business registration fee.

Liquidity and financial resources

As at 31 December 2017, the Target Group's net assets amounted to approximately HK$379,000. The current ratio, representing current assets divided by current liabilities, was approximately 1.00.

As at 31 December 2017, the Target Group had no secured and interest bearing loans.

Charge of assets

As at 31 December 2017, the Target Group did not have any charge of assets.

Contingent liabilities

As at 31 December 2017, the Target Group had no material contingent liabilities.

Employees

The Target Group had no employees as at 31 December 2017.

Foreign currency exposure

During the year ended 31 December 2017, there were no transactions dominated in any currency other than RMB and the Target Group did not have any foreign currency hedging policy.

Significant investments

During the year ended 31 December 2017, the Target Group did not have any significant investments.

Material acquisitions and disposals

During the year ended 31 December 2017, the Target Group did not have any material acquisitions and disposals.

For the year ended 31 December 2018

Financial results

The Target Group did not record any revenue during the period from 1 January 2018 to 6 December 2018 (being the date before the acquisition of the Project Group by the Target Company). The Target Group recorded revenue of approximately HK$420,000 during the period from 7 December to 31 December 2018. Revenue was solely generated from property investment. The Target Group incurred cost of sales, finance costs, administrative costs and other operating costs in an aggregate amount of approximately HK$3.7 million during the year ended 31 December 2018. The gain on bargain purchase of the Project Group was HK$538.4 million during the year ended 31 December 2018. The net profit after tax for the year ended 31 December 2018 amounted to approximately HK$535.1 million.

Liquidity and financial resources

As at 31 December 2018, the Target Group's net assets amounted to approximately HK$535.6 million. The current ratio, representing current assets divided by current liabilities, was approximately 0.34.

As at 31 December 2018, the Target Group had secured and interest bearing loans at a rate of 18% per annum of approximately HK$56.8 million from an independent third party. The loans will be settled prior the Completion by way of shareholder's advance (i.e. the Vendor's advance), which shall be unsecured, interest fee and repayable upon demand.

As at 31 December 2018, the Target Group had unsecured and interest free loans of HK$11.4 million from shareholder. The amount has not yet been settled up to the Latest Practicable Date.

Charge of assets

As at 31 December 2018, part of the Properties with construction area of 16035.1 square meters were pledged to an independence third party to secure for a loan with principle amount of RMB230,000,000 to a company which the Vendor Guarantor is the sole director and shareholder. The carrying amount was RMB60,000,000 as at 31 December 2018. The charge has not yet been released up to the Latest Practicable Date.

As at 31 December 2018, part of the Properties with construction area of 20,840.62 square meters were pledged to an independence third party to secure for a loan to the PRC subsidiary. The carrying amount was RMB50,000,000 as at 31 December 2018. The charge has not yet been released up to the Latest Practicable Date.

Contingent liabilities

As at 31 December 2018, the Target Group had no material contingent liabilities.

Employees

The Target Group had 4 employees as at 31 December 2018. The employees were remunerated based on their working performance and experiences, taking into account the prevailing market conditions. The Target Group also provided mandatory social insurance and other benefits to its relevant employees. The work scope of the employees include administrative and finance operation of the Target Group. The Target Group did not provide any property management services to the tenants. Once there is any repair and maintenance requested by the tenants, the employees will obtain the approval from the management and arrange constructor to provide services.

Foreign currency exposure

During the year ended 31 December 2018, there were no transactions dominated in any currency other than RMB and the Target Group did not have any foreign currency hedging policy.

Significant investments

During the year ended 31 December 2018, the Target Group did not have any significant investments.

Material acquisitions and disposals

On 7 December 2018, the Target Company acquired the entire issued Share capital of the Project Company for an aggregate consideration of HK$1.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PROJECT GROUP

Set out below is the management discussion and analysis of the Project Group for each of the three years ended 31 December 2016, 2017 and 2018.

Unless stated otherwise, terms used herein shall have the same meanings as those defined in the circular.

For the year ended 31 December 2016

Financial results

The Project Group consists of two companies. The holding company is a company with limited liability incorporated in Hong Kong and the subsidiary company is a company with limited liability incorporated in the PRC. The holding company is principally engaged in investment holding and the subsidiary company is principally engaged in investment property business and hotel operation. The Project Group recorded revenue of approximately HK$5.5 million and incurred cost of sales, finance costs, administrative costs and other operating costs in an aggregate amount of approximately HK$8.3 million during the year ended 31 December 2016. The fair value gain in respect of investment properties revaluation was HK$23.5 million during the year ended 31 December 2016. Revenue was generated from property investment and hotel operation. The net profit after tax for the year ended 31 December 2016 amounted to approximately HK$13.9 million.

Liquidity and financial resources

As at 31 December 2016, the Project Group's net assets amounted to approximately HK$213.7 million. The current ratio, representing current assets divided by current liabilities, was approximately 0.02.

As at 31 December 2016, the Project Group had unsecured and interest free loans of approximately 40.0 million from Shareholder.

Charge of assets

As at 31 December 2016, part of the Properties with construction area of 16035.1 square meters were pledged to an independence third party to secure for a loan with principle amount of RMB230,000,000 to a company which the Vendor Guarantor is the sole director and the shareholder. The carrying amount was RMB180,000,000 as at 31 December 2016.

Contingent liabilities

As at 31 December 2016, the Project Group had no material contingent liabilities.

Employees

The Project Group had 4 employees as at 31 December 2016. The employees were remunerated based on their working performance and experiences, taking into account the prevailing market conditions. The Project Group also provided mandatory social insurance and other benefits to its relevant employees. The work scope of the employees include administrative and finance operation of the Target Group.

Foreign currency exposure

During the year ended 31 December 2016, there were no transactions dominated in any currency other than RMB and the Project Group did not have any foreign currency hedging policy.

Significant investments

During the year ended 31 December 2016, the Project Group did not have any significant investments.

Material acquisitions and disposals

During the year ended 31 December 2016, the Project Group did not have any material acquisitions and disposals.

For the year ended 31 December 2017

Financial results

The Project Group recorded revenue of approximately HK$6.6 million and incurred cost of sales, finance costs, administrative costs and other operating costs in an aggregate amount of approximately HK$5.3 million during the year ended 31 December 2017. The fair value gain in respect of investment properties revaluation was HK$32.2 million during the year ended 31 December 2017. Revenue was generated from property investment and operation business. The net profit after tax for the year ended 31 December 2017 amounted to approximately HK$25.4 million.

Liquidity and financial resources

As at 31 December 2017, the Project Group's net assets amounted to approximately HK$256.7 million. The current ratio, representing current assets divided by current liabilities, was approximately 0.35.

As at 31 December 2017, the Project Group had unsecured and interest free loans of approximately HK$36.7 million from shareholders.

Charge of assets

As at 31 December 2017, part of the Properties with construction area of 16035.1 square meters were pledged to an independence third party to secure for a loan with principle amount of RMB230,000,000 to a company which the Vendor Guarantor is the sole director and the shareholder. The carrying amount was RMB120,000,000 as at 31 December 2017.

Contingent liabilities

As at 31 December 2017, the Project Group had no material contingent liabilities.

Employees

The Project Group had 4 employees as at 31 December 2017. The employees were remunerated based on their working performance and experiences, taking into account the prevailing market conditions. The Project Group also provided mandatory social insurance and other benefits to its relevant employees. The work scope of the employees include administrative and finance operation of the Target Group.

Foreign currency exposure

During the year ended 31 December 2017, there were no transactions dominated in any currency other than RMB and the Project Group did not have any foreign currency hedging policy.

Significant investments

During the year ended 31 December 2017, the Project Group did not have any significant investments.

Material acquisitions and disposals

During the year ended 31 December 2017, the Project Group did not have any material acquisitions and disposals.

For the year ended 31 December 2018

Financial results

The Project Group recorded revenue of approximately HK$8.9 million and incurred cost of sales, finance costs, administrative costs and other operating costs in an aggregate amount of approximately HK$11.5 million during the year ended 31 December 2018. The fair value gain in respect of investment properties revaluation was HK$421.8 million during the year ended 31 December 2018. Revenue was solely generated from property investment and hotel operation. The net gain after tax for the year ended 31 December 2018 amounted to approximately HK$307.9 million.

Liquidity and financial resources

As at 31 December 2018, the Project Group's net assets amounted to approximately HK$535.3 million. The current ratio, representing current assets divided by current liabilities, was approximately 0.34.

As at 31 December 2018, the Project Group had secured and interest bearing loans at a rate of 18% per annum of approximately HK$56.8 million from an independent third party. The loans will be settled prior the Completion by way of shareholder's advance (i.e. the Vendor's advance), which shall be unsecured, interest fee and repayable upon demand.

As at 31 December 2018, the Project Group had unsecured and interest free loans of approximately HK$11.8 million from shareholder. As at 31 December 2018, the Target Group had unsecured and interest free loans of HK$11.4 million from shareholder. The amount has not yet been settled up to the Latest Practicable Date.

Charge of assets

As at 31 December 2018, part of the Properties with construction area of 16035.1 square meters were pledged to an independence third party to secure for a loan with principle amount of RMB230,000,000 to a company which the Vendor Guarantor is the sole director and shareholder. The carrying amount was RMB60,000,000 as at 31 December 2018. The charge has not yet been released up to the Latest Practicable Date.

As at 31 December 2018, part of the Properties with construction area of 20,840.62 square meters were pledged to an independence third party to secure for a loan to the PRC subsidiary. The carrying amount was RMB50,000,000 as at 31 December 2018. The charge has not yet been released up to the Latest Practicable Date.

Contingent liabilities

As at 31 December 2018, the Project Group had no material contingent liabilities.

Employees

The Project Group had 4 employees as at 31 December 2018. The employees were remunerated based on their working performance and experiences, taking into account the prevailing market conditions. The Project Group also provided mandatory social insurance and other benefits to its relevant employees. The work scope of the employees include administrative and finance operation of the Target Group. The Project Group did not provide any property management services to the tenants. Once there is any repair and maintenance requested by the tenants, the employees will obtain the approval from the management and arrange constructor to provide services.

Foreign currency exposure

During the year ended 31 December 2018, there were no transactions dominated in any currency other than RMB and the Project Group did not have any foreign currency hedging policy.

Significant investments

During the year ended 31 December 2018, the Project Group did not have any significant investments.

Material acquisitions and disposals

During the year ended 31 December 2018, the Project Group did not have any material acquisitions and disposals.

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

	Unaudited condensed consolidated statement of assets and liabilities of the Group as at 31 December 2018	Consolidated statement of assets and liabilities of the Target Group as at 31 December 2018	Pro-forma adjustment		Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 December 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note (1))	*(Note (2))*	*(Note (3))*	*(Note (4))*	
Non-current assets					
Property, plant and equipment	1,924	–			1,924
Investment Properties	1,988,636	797,728			2,786,364
Goodwill	48,605	–		162,677	211,282
Interest in a joint venture	2,139	–			2,139
	2,041,304	797,728			3,001,709
Current assets					
Inventories	136	–			136
Inventory of properties	393,484	–			393,484
Trade and other receivables	382,931	8,699			391,630
Amount due from related parties	–	22,194			22,194
Tax recoverable	–	916			916
Bank balances and cash	49,980	589			50,569
	826,531	32,398			858,929
Current liabilities					
Trade and other payable	192,854	26,801	(22,155)		197,500
Contract liabilities	122,908	–			122,908
Tax payable	74,201	–			74,201
Amount due to shareholder	–	11,427	78,973	(90,400)	–
Borrowings - due within one year	333,502	56,818	(56,818)		333,502
Convertible notes - due within one year	22,260	–			22,260
Promissory notes	–	–		357,225	357,225
	745,725	95,046			1,107,596
Non-current liabilities					
Deferred tax liabilities	232,307	199,432			431,739
Borrowings - due after one year	615,588	–			615,588
Deposits received for sale and lease of properties-non-current portion	12,852	–			12,852
Convertible notes – due after one year	–	–		351,796	351,796
	860,747	199,432			1,411,975
Net assets	1,261,363	535,648			1,341,067

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The amounts are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 31 December 2018 as set out in the published annual result announcement on 21 March 2019.

2. The amounts were derived from the consolidated financial information of the Target Group as at 31 December 2018 as set out in Appendix II to this circular.

3. The Target Group has received RMB19,496,356 in relation to the Demolition Compensation Agreement as at 31 December 2018. The Target Group, the Vendor and the counterparty had agreed to terminate the Demolition Compensation Agreement as at the Latest Practicable Date and the Target Group is required to return the proceeds of RMB19,496,356 received from the counterparty prior to the Completion of the Acquisition as a result of termination of the Demolition Compensation Agreement. The Vendor Guarantor will enter into a shareholder loan agreement with the Target Group, pursuant to which the Vendor Guarantor will provide to the Target Group shareholder's loan equivalent to the borrowings and the proceeds to be returned of the Target Group and such shareholder loan shall be unsecured, interest-free and repayable on demand. The Target Group will utilize such shareholder loan to fully settle the other borrowings of the Target Group and to return the proceeds received from the counterparty under the Demolition Compensation Agreement in the sum of approximately HK$78,973,000.

4. Upon Completion, the Group will own the entire interest in the Targe Company. Upon initial recognition, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Group at their fair values as of the date of Completion under acquisition method of accounting, in accordance with Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" ("HKFRS 3").

Assuming that the Acquisition had been completed on 31 December 2018, the accounting impact of the Acquisition on the Group's assets and liabilities as at 31 December 2018 would be as follows:

	Note	*HK'000*
Pro forma fair value of consideration – Liability Component of Convertible Bonds	*(a)*	351,796
Pro forma fair value of consideration – Equity Component of Convertible Bonds	*(a)*	79,704
Pro forma fair value of consideration – Promissory Note	*(b)*	357,225
Less: Pro forma fair value of identifiable net assets acquired	*(c)*	(535,648)
Less: Pro forma adjustment – waiver of shareholder's loan	*(d)*	(90,400)
Goodwill arising from the Acquisition	*(e)*	162,677

The fair values of Convertible Notes, Promissory Note and the identifiable assets and liabilities of Target Group are subject to change upon the finalisation of the valuation for the completion date of the Transaction, which may be different from their estimated amounts used in the preparation of this Unaudited Pro Forma Financial Information.

(a) The Convertible Bonds included the debt and equity components of the Convertible Bonds with principal amount of HK$431,500,000 issued for the Acquisition as if it was issued on 31December 2018. The Directors have engaged an independent valuer, Peak Vision Appraisals Limited ("Peak Vision"), to determine the fair value of the liability component of the Convertible Note as at 31 December 2018 for the purpose of preparation of the Unaudited Pro Forma Financial Information. The fair value of the liability component as appraised by Peak Vision is approximately HK$351,796,000, which was determined after considering the terms and conditions of the Convertible Note.

(b) The Promissory Note is a three-year, interest-bearing at 5% per annum with principal amount of HK$363,500,000 to be issued by the Company to the Vendor, or its nominee(s) upon Completion for partial settlement of the consideration for the Acquisition.

The assumed fair value of the Promissory Note of approximately HK$357,225,000 represents the carrying amount of the Promissory Note carried at amortised cost with effective interest rate determined by the Directors with reference to the valuations performed by Peak Vision.

(c) In accordance with the HKFRS 3, the Group will apply acquisition method to account for the Acquisition. In applying the acquisition method, the identifiable assets and liabilities of the Target Group have to be recorded at their fair values. For the purpose of the preparation of the unaudited pro forma statement of assets and liabilities, the carrying amounts of the identifiable assets and liabilities of the Target Group as estimated by the directors as at 31 December 2018 are assumed to be approximate to their fair values.

(d) The Vendor Guarantor will waive the total amount of the shareholder loan of approximately HK$90,400,000 before Completion such that the Target Group will have no outstanding borrowings as at Completion.

(e) The Directors have assessed whether there is any impairment indicator in respect of the goodwill expected to arise from the Acquisition following the principles set out in Hong Kong Accounting Standard 36 "Impairment of Assets". Based on the Directors' assessment on the valuation reports prepared by AP Appraisals Limited and the audited financial statements prepared by HLM CPA Limited, the Directors consider that there is no impairment indicator on the goodwill. The Company will adopt consistent accounting policies and valuation method (as used in the Unaudited Pro Forma Financial Information of the Enlarged Group and which are consistent with relevant Hong Kong Accounting Standard) to assess the impairment of the Enlarged Group's goodwill in the future. The Company will prepare the annual consolidated financial statements (including goodwill impairment) in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

HLM CPA Limited has assessed the impairment of the goodwill under HKAS 36 with reference to the valuation report prepared by AP Appraisals Limited and agreed with the impairment assessment on the goodwill made by the Board. The fair value assessment of the goodwill is determined by using the discount cash flow method. The assessment depends on discounting a series of projected cash flow ("DCF") by a predetermined discount rate. The key assumptions for the DCF calculations include discount rate, growth rate, and expected changes to contracted rental prices with reference to the current market rental price, current selling price and related direct costs during the 5 years period. After the review, HLM CPA Limited considered that there is no indication that any impairment of goodwill is needed.

B. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the text of an accountant's report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountant, HLM CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Appendix V.

恒健會計師行有限公司
HLM CPA LIMITED
Certified Public Accountants

Rooms 1501-8, 15th Floor, Tai Yau Building,
181 Johnston Road, Wanchai, Hong Kong
香港灣仔莊士敦道181號大有大廈15樓1501-8室
Tel 電話: (852) 3103 6980
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The Board of Directors
China City Infrastructure Group Limited
Suite 6208, 62nd Floor
Central Plaza, 18 Harbour Road,
Wan Chai, Hong Kong.

Dear Sirs,

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

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of China City Infrastructure Group Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2018 and related notes as set out in Appendix V to the circular issued by the Company dated 21 June 2019 (the "**Circular**"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix V of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed acquisition of entire equity interests of Precious Palace Enterprises Limited (the "**Proposed Acquisition**") on the Group's financial position as at 31 December 2018 as if the Proposed Acquisition had taken place at 31 December 2018. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the year ended 31 December 2018, on which no auditor's report or review reports has been published.

DIRECTORS' RESPONSIBILITIES 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 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" (the "**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

OUR INDEPENDENCE AND QUALITY CONTROL

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

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

REPORTING ACCOUNTANT'S RESPONSIBILITIES

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

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant 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 purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2018 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 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 accountant's judgement, having regard to the reporting accountant's 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 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.

Yours faithfully,

HLM CPA Limited
Certified Public Accountants
Chan Lap Chi
Practicing Certificate Number: P04084
Hong Kong
21 June 2019

AP Appraisal Limited
Unit 2202, 22/F.,
West Exchange Tower
322 Des Voeux Road Central
Sheung Wan, Hong Kong
T 852 2218 5180
www.apa.com.hk

8 April 2019

China City Infrastructure Group Limited
Suite 6208, 62/F, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

Dear Sir or Madam,

RE: Property Valuation of Properties located in Longgang District, Shenzhen City, Guangdong Province, the People's Republic of China

We, AP Appraisal Limited, refer to the instructions from China City Infrastructure Group Limited (the "**Instructing Party**") to conduct a valuation for captioned Properties (the "**Properties**") located at Longgang District, Shenzhen City, Guangdong Province, the People's Republic of China. Details of which are set out in the attached valuation certificates. We confirm that we have carried our inspections, made relevant enquiries 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 as at 31 March 2019 (the "**Valuation Date**") for announcement and circular purposes of the Instructing Party.

Our valuation is prepared in accordance with the International Valuation Standards published by International Valuation Standards Council, the RICS Valuation – Professional Standard issued by the Royal Institution of Chartered Surveyors, and the Hong Kong Stock Exchange Listing Rule Chapter 5 and Practice Note 12.

Our valuation is our opinion of Market Value which is defined by the International Valuation Standards to mean "the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion."

According to the International Valuation Standard, the market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. When reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach. Therefore, market approach is adopted in the valuation as we found reliable, verifiable and relevant market information is available.

Unless otherwise stated, all property interests are valued by market approach – the Comparable Transactions Method, also known as the guideline transactions method, utilises information on transactions involving assets that are the same or similar to the subject asset to arrive at an indication of value. The Comparable Transactions Method is based on prices realized in actual transactions and/or asking prices of comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of value. Physical condition, location and economic characteristics are important criteria to be analysed when comparing to the Property.

In the course of our valuation for the property interests in the PRC, we have been provided with extracts from title documents relating to such property interests. However, we have relied considerably on the information given by the Company's PRC legal advisor 廣東瀛尊律師事務所, concerning the validity of the Company's title to the property interests located in the PRC, and the opinion that the current use of the property is in line with the permitted use set out in the land use certificate. All legal documents provided by the Company have been used for reference only. No responsibility regarding legal title to the property interests is assumed in this valuation. We have not, however, searched the original documents to verify ownership or any amendment which did not appear on the copies handed to us.

Our valuation has been made on the assumption that the owner sells the property on the open markets without any benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the property interests.

We have relied to a considerable extent on information given by the Instructing Party, in particular, but not limited to, planning approvals, development schemes and schedule, incurred and outstanding development costs, statutory notices, easements, tenancies, floor areas, gross floor areas, site area, construction cost, expected building completion date, etc. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation certificate are only approximations. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party, which is material to the valuation. We were also advised by the Instructing Party that no material facts have been omitted from the information provided to us. We do not commission site surveys and a site survey has not been provided to us.

We had committed site visit in March 2019 by Mr. Paul Hung, a director of our firm who has over 10 years of experience in the valuation of properties in the Greater China Region. We have assumed there are no encroachments by or on the property, and the Instructing Party should confirm this status by obtaining a current survey report and/or advice from a registered surveyor. If any encroachments are noted by the survey report, this valuation must not be relied upon before first consulting us to reassess any effect on the valuation.

We do not commission site investigations to determine the suitability of ground conditions and services, nor do we undertake environmental or geotechnical surveys. We have assumed that these aspects are satisfactory and also that the site is clear of underground mineral or other workings, methane gas or other noxious substances. In the case of property which may have redevelopment potential, we proceed on the basis that the site has load bearing capacity suitable for the anticipated form of redevelopment without the need for additional and expensive foundations or drainage systems (unless stated otherwise).

We have assumed that the site is free of elevated levels of contaminants. Our visual inspection is an inconclusive indicator of the actual condition of the site. We make no representation as to the actual environmental status of the Properties. If a test is undertaken at some time in the future to assess the degree, if any, of contamination of the site and this is found to be positive, this valuation must not be relied upon before first consulting us to reassess any effect on the valuation.

Unless otherwise noted, we have assumed that the improvements are free of Asbestos and Hazardous Materials, or should these materials be present then they do not pose significant risk to human health, nor require immediate removal. We assume the site is free of subsoil asbestos and have made no allowance in our valuation for site remediation works. Our visual inspection is an inconclusive indicator of the actual condition/presence of asbestos/hazardous materials within the property. We make no representation as to the actual status of the Properties. If a test is undertaken at some time in the future to assess the degree, if any, of the presence of any asbestos/hazardous materials on site and this is found to be positive, this valuation must not be relied upon before first consulting us to reassess any effect on the valuation.

The market value of the Properties are based on the exiting status of the Properties as at the valuation date. The Demolition Compensation Agreement and the termination of the Demolition Compensation Agreement have not been considered during the calculation of the market value of the Properties.

No allowance has been made in our valuation neither for any charges, mortgages or amounts owing on the property interests nor for any expenses, government rent or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free of encumbrances, restrictions and outgoings of onerous nature which could affect their values.

The monetary amounts are stated in Renminbi (RMB). We enclose herewith our valuation certificates.

We hereby certify that we have neither present nor prospective interests in the Instructing Party or the value reported.

Yours faithfully,
For and on behalf of
AP Appraisal Limited

Paul Hung
MRICS ASA
Director – Valuation & Advisory Services
Encl.

Note: Mr. Hung is a Registered Surveyor of Royal Institution of Chartered Surveyors. He has over 10 year's valuation experience in the Greater China Region

SUMMARY OF VALUES

No.	Property	Market Value as at 31 March 2019 RMB
1.	中國廣東省深圳市龍崗區龍崗鎮深惠路957號華江大樓全棟 (Whole Block, Huajiang Building, located at No. 957 Shenhui Road, Longgang Town, Longgang District, Shenzhen City, Guangdong Province, the PRC)	133,000,000
2.	中國廣東省深圳市龍崗區龍崗鎮愛聯村龍騰工業城之三塊土地及四座樓宇 (3 parcels of land and 4 buildings at Longteng Industrial City, located at Ailian Village, Longgang Town, Longgang District, Shenzhen City, Guangdong Province, the PRC)	195,000,000
3.	中國廣東省深圳市龍崗區龍崗鎮深惠路957號美洲大廈全棟 (Whole Block, Meizhou Building located at No. 957 Shenhui Road, Longgang Town, Longgang District, Shenzhen City, Guangdong Province, the PRC)	374,000,000
	Total:	702,000,000

VALUATION CERTIFICATE

No.	Property	Description and tenure	Details of occupancy	Market Value as at 31 March 2019
1.	中國廣東省深圳市龍崗區龍崗鎮深惠路957號華江大樓全棟 (Whole Block, Huajiang Building, located at No. 957 Shenhui Road, Longgang Town, Longgang District, Shenzhen City, Guangdong Province, the PRC)	Completed in July 2002, the 10-storey property is with total Gross Floor Area ("**GFA**") of 1,542.21 sq.m. from 1st to 3rd floor for commercial use, and a total Gross Floor Area ("**GFA**") of 2,244.25 sq.m. from 4th to 10th floor for residential use. The building is erected on a land parcel for commercial/residential use with a site area of approximately 1,120 sq.m. The land use rights of the site were granted to 鳳珍實業發展(深圳)有限公司 for commercial/residential use for a term of 70 years to be expired on 29 December 2062.	The property is subject to a tenancy for a term of 5 years commencing on 1 May 2018 and expiring on 30 April 2023 for commercial/residential purpose.	RMB133,000,000 (RENMINBI ONE HUNDRED THIRTY-THREE MILLION ONLY) (100% interests attributable to 鳳珍實業發展(深圳)有限公司: RMB133,000,000)

Notes:

1. Pursuant to 33 Real Estate Ownership Certificates, the registered owner of the property is 鳳珍實業發展(深圳)有限公司 ("**鳳珍實業**"). The land use rights of the land parcel with a total site area of approximately 1,120 sq.m. have been granted to 鳳珍實業 for terms of 70 years expiring on 29 December 2062. The property is being held for investment purpose. Details of the certificates are as follows:

#	Unit	Certificate No.	GFA *sq.m.*	Date of registration
1.	101	深房地字第6000085061號	510.01	24 February 2003
2.	201	深房地字第6000085058號	512.12	24 February 2003
3.	301	深房地字第6000085056號	520.08	24 February 2003
4.	401	深房地字第6000085054號	88.67	25 February 2003
5.	402	深房地字第6000085052號	88.67	24 February 2003
6.	403	深房地字第6000085048號	66.29	24 February 2003
7.	405	深房地字第6000085046號	66.29	24 February 2003
8.	406	深房地字第6000085044號	73.1	24 February 2003
9.	407	深房地字第6000085073號	65.83	27 February 2003
10.	501	深房地字第6000085023號	88.67	26 February 2003

#	Unit	Certificate No.	GFA *sq.m.*	Date of registration
11.	502	深房地字第6000085018號	88.67	24 February 2003
12.	503	深房地字第6000085017號	66.29	24 February 2003
13.	505	深房地字第6000085016號	66.29	24 February 2003
14.	506	深房地字第6000085864號	73.1	10 March 2003
15.	507	深房地字第6000085862號	65.83	10 March 2003
16.	601	深房地字第6000085863號	88.67	10 March 2003
17.	602	深房地字第6000085861號	88.67	10 March 2003
18.	603	深房地字第6000085860號	66.29	10 March 2003
19.	605	深房地字第6000085795號	66.29	10 March 2003
20.	606	深房地字第6000085796號	73.1	10 March 2003
21.	607	深房地字第6000085859號	65.83	10 March 2003
22.	701	深房地字第6000085857號	88.67	10 March 2003
23.	702	深房地字第6000085858號	88.67	10 March 2003
24.	703	深房地字第6000085856號	66.29	10 March 2003
25.	705	深房地字第6000085855號	66.29	10 March 2003
26.	706	深房地字第6000085854號	73.1	10 March 2003
27.	707	深房地字第6000085853號	65.83	10 March 2003
28.	801	深房地字第6000085850號	88.67	10 March 2003
29.	802	深房地字第6000085852號	88.67	10 March 2003
30.	803	深房地字第6000085797號	66.29	10 March 2003
31.	805	深房地字第6000085849號	66.29	10 March 2003
32.	806	深房地字第6000085851號	73.1	10 March 2003
33.	807	深房地字第6000085060號	65.83	24 February 2003
		Total:	3,786.46	

2. According to Business License No. 440307503310056 dated 26 January 2016, 鳳珍實業 was established on 7 December 1992 as a limited liability company.

3. In undertaking our valuation of the Property, we have made reference to various sales transactions of similar developments which have characteristics comparable to the Property. The prices of those comparables are about RMB33,000/sq.m. to 54,700/sq.m. for residential buildings. Due adjustments to the unit prices of those comparables have been made to reflect factors including but not limited to time, location, size, accessibility, building management, building age and building quality in arriving at the key assumptions. In our valuation, we have assumed an average price of RMB33,000/sq.m. for the Property.

4. The property is located in the area with steady and reasonable supply and demand information, occupancy rates, trends in property yield, sales prices, and rental rates.

5. Details of the current rental information are as follows:

Period	Area *(sq.m.)*	Monthly Rent *(RMB)*
5/1/2018 to 4/30/2019	3,786.46	372,553
5/1/2019 to 4/30/2020	3,786.46	404,625
5/1/2020 to 4/30/2021	3,786.46	439,903
5/1/2021 to 4/30/2022	432.00	51,840
5/1/2022 to 4/30/2023	432.00	51,840

VALUATION CERTIFICATE

No.	Property	Description and tenure	Details of occupancy	Market Value as at 31 March 2019
2.	中國廣東省深圳市龍崗區龍崗鎮愛聯村龍騰工業城之三塊土地及四座樓宇 (3 parcels of land and 4 buildings at Longteng Industrial City, located at Ailian Village, Longgang Town, Longgang District, Shenzhen City, Guangdong Province, the PRC)	Completed in October 1999, the property is an industrial building with a total Gross Floor Area ("**GFA**") of 20,840.62 sq.m. erected on a land parcel for industrial use with a site area of approximately 11,880.8 sq.m. The land use rights of the site were granted to 鳳珍實業發展(深圳)有限公司 for industrial use for a term of 50 years to be expired on 9 May 2041.	The property is subject to a tenancy for a term of a year commencing on 1 February 2019 and expiring on 31 January 2020 for industrial purpose.	RMB195,000,000 (RENMINBI ONE HUNDRED NINETY-FIVE MILLION ONLY) (100% interests attributable to 鳳珍實業發展(深圳)有限公司: RMB195,000,000)

Notes:

1. Pursuant to the 3 Real Estate Ownership Certificates No. 10142517, 10142515 & 10087353(深房地字第6000071261、6000071263 及 6000071355 號), dated 19 August 2002, the registered owner of the Property is 鳳珍實業. The land use rights of the real property with a total site area of 11,880.8 sq.m. have been granted to 鳳珍實業 for three terms with expiry date on 9 May 2041 and the building ownership rights of the real property with a total GFA of approximately 20,840.62 sq.m. are legally owned by 鳳珍實業 for industrial warehouse purpose. The property is being held for investment purpose.

2. According to Business License No. 440307503310056 dated 26 January 2016, 鳳珍實業 was established on 7 December 1992 as a limited liability company.

3. Pursuant to various Real Estate Registration Certificates(深圳市不動產證明), the property no. 2 is subject to a mortgage in favour of 徐凱, for a consideration of RMB200,000,000. The outstanding amount of such loan is RMB200,000,000 as at the valuation date.

4. In undertaking our valuation of the Property, we have made reference to various sales transactions of similar developments which have characteristics comparable to the Property. The prices of those comparables are about RMB6,500/sq.m. to 14,000/sq.m. for industrial buildings. Due adjustments to the unit prices of those comparables have been made to reflect factors including but not limited to time, location, size, accessibility, building management, building age and building quality in arriving at the key assumptions. In our valuation, we have assumed an average price of RMB9,350/sq.m. for the Property.

5. The property is located in the area with steady and reasonable supply and demand information, occupancy rates, trends in property yield, sales prices, and rental rates.

6. Details of the current rental information are as follows:

Period	Area *(sq.m.)*	Monthly Rent *(RMB)*
2/1/2019 to 1/31/2020	20,840	250,080

VALUATION CERTIFICATE

No.	Property	Description and tenure	Details of occupancy	Market Value as at 31 March 2019
3.	中國廣東省深圳市龍崗區龍崗鎮深惠路957號美洲大廈全棟 (Whole Block, Meizhou Building located at No. 957 Shenhui Road, Longgang Town, Longgang District, Shenzhen City, Guangdong Province, the PRC)	Completed in May 1998, the property is an office building with a total Gross Floor Area ("GFA") of 12,248.64 sq.m. erected on a land parcel for commercial use with a site area of approximately 1,970.2 sq.m. The land use rights of the site were granted to 鳳珍實業發展(深圳)有限公司 for commercial use for a term of 40 years to be expired on 10 December 2036.	The property is subject to a tenancy for a term of 6 years commencing on 1 January 2019 and expiring on 30 June 2024 for commercial purpose.	RMB374,000,000 (RENMINBI THREE HUNDRED SEVENTY-FOUR MILLION ONLY) (100% interests attributable to 鳳珍實業發展(深圳)有限公司: RMB374,000,000)

Notes:

1. Pursuant to the Real Estate Ownership Certificate No. 1948383(深房地字第6000453930號), dated 7 December 2010, the land use rights of the land parcel with a total site area of approximately 1,970.2 sq.m. have been granted to 鳳珍實業 for terms of 40 years expiring on 10 December 2036. The property is being held for investment purpose.

2. Pursuant to the Real Estate Ownership Certificate, the registered owner of the Property is 鳳珍實業.

3. According to Business License No. 440307503310056 dated 26 January 2016, 鳳珍實業 was established on 7 December 1992 as a limited liability company.

4. In undertaking our valuation of the Property, we have made reference to various sales transactions of similar developments which have characteristics comparable to the Property. The prices of those comparables are about RMB30,500/sq.m. to 43,000/sq.m. for commercial buildings. The unit price assumed by us is consistent with the said prices. Due adjustments to the unit prices of those comparables have been made to reflect factors including but not limited to time, location, size, accessibility, building management, building age and building quality in arriving at the key assumptions. In our valuation, we have assumed an average price of RMB30,500/sq.m. for the Property.

5. The property is located in the area with steady and reasonable supply and demand information, occupancy rates, trends in property yield, sales prices, and rental rates.

6. Details of the current rental information are as follows:

Period	Area *(sq.m.)*	Monthly Rent *(RMB)*
1/1/2019 to 6/30/2019	9,784.64	135,615.11
7/1/2019 to 6/30/2020	9,784.64	240,799.99
7/1/2020 to 6/30/2021	9,784.64	290,799.50
7/1/2021 to 6/30/2022	9,784.64	340,799.01
7/1/2022 to 6/30/2023	9,784.64	390,798.52
7/1/2023 to 6/30/2024	9,784.64	440,798.03

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particular 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 is not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date is as follows:

Authorised		***HK$***
5,000,000,000	Shares	500,000,000
Issued and to be issued, fully paid or credited as fully paid		
3,082,278,542	Shares in issue as at the Latest Practicable Date	308,227,854.20
46,000,000	Conversion share to be allotted and issue upon full conversion of the convertible note with principal amount of HK$23,000,000 issued on 28 June 2016	4,600,000.00
863,000,000	Conversion Shares to be allotted and issued upon full conversion of the Convertible Bonds	86,300,000.00
3,991,278,542	Shares	399,127,854.20

As at the Latest Practicable Date, save and except for 29,845,948 outstanding share options entitling the holders thereof to subscribe for 29,845,948 Shares and the convertible notes with principal amount of HK$23,000,000 entitling the holder(s) thereof to convert the same into 46,000,000 Shares, the Company has no other securities convertible or exchangeable into Shares.

3. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in Shares, underlying shares and debentures

As at the Latest Practicable Date, save as disclosed below, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code.

(i) Long positions in Shares

Name of Director	Capacity	*Notes*	Number of underlying shares	Approximate percentage of shareholding
Mr. Li Chao Bo	Beneficial owner	*(1)*	678,992,000	22.02%
Mr. Ji Jiaming	Beneficial owner	*(2)*	100,000,000	3.24%

(ii) Long positions in underlying Shares

Name of Director	Capacity	*Notes*	Number of underlying shares	Approximate percentage of shareholding
Mr. Wang Jian	Beneficial owner	*(3)*	700,000	0.02%
		(4)	700,000	0.02%
			1,400,000	0.04%

Notes:

(1) Mr. Li Chao Bo is the sole beneficial owner of Linkway Investment Holdings Limited and Asia Unite Limited which in turn owns 668,912,000 shares and 10,080,000 shares of the Company respectively. Mr. Li Chao Bo was appointed as the Chairman and an Executive Director of the Company with effect from 31 March 2016.

(2) Mr. Ji Jiaming holds 50% of Double Joy Developments Limited and is a director of Double Joy Developments Limited, with in turn overs 100,000,000 shares of the Company.

(3) These share options were granted on 29 May 2013 at an exercise price of HK$0.64 per share of the Company with exercise period from 29 May 2013 to 28 May 2023.

(4) These share options were granted on 22 January 2015 at an exercise price of HK$0.668 per share of the Company with exercise period from 22 January 2015 to 21 January 2025.

(b) Substantial Shareholders' and other persons' interests in Shares and underlying shares

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Long positions in the Shares

Name of substantial Shareholder	*Notes*	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
Linkway Investment Holdings Limited ("LIHL")	*(1)*	Beneficial owner and interest of controlled corporation	668,912,000	21.70%
Good Outlook Investments Limited	*(2)*	Beneficial owner and interest of controlled corporation	215,683,681	7.00%
China Financial International Investments Limited ("CFIIL")	*(3)*	Beneficial owner	558,735,429	18.13%
China Financial International Investments and Managements Limited	*(4)*	Investment manager	196,735,429	6.38%
Capital Focus Asset Management Limited	*(4)*	Investment manager	196,735,429	6.38%
Century Forum Development Limited	*(5)*	Beneficial owner	200,000,000	6.49%
Trikey Investments Limited	*(5)*	Beneficial owner	160,000,000	5.19%

(ii) Long positions in the underlying shares at 31 December 2018

Name of substantial Shareholder	*Notes*	Capacity/ Nature of interest	Number of ordinary shares	Approximate percentage of shareholding
CFIIL	*(6)*	Beneficial owner	46,000,000	1.49%

Notes:

(1) These Shares were held by LIHL. Mr. Li Chao Bo ("Mr. Li") is the sole beneficial owner of LIHL. Therefore, Mr. Li has beneficially interested in the said Shares.

(2) The company is a company incorporated in the British Virgin Island with limited liability.

(3) These Shares were held by CFIIL (Stock Code: 721). Therefore, CFIIL have beneficially interested in the said Shares.

(4) These Shares were held by CFIIL. China Financial International Investments and Managements Limited ("CFIIM") is 51% owned by Capital Focus Asset Management Limited ("Capital Focus") and 29% by owned CFIIL. Accordingly, for the purposes of the SFO, CFIIM and Capital Focus are deemed to have the same interests in the Company as CFIIL, being in the capacity of investment manager of CFIIL.

(5) The company is a company incorporated in the British Virgin Island with limited liability.

(6) Convertible notes in the principal amount of HK$73,000,000 carrying the rights to subscribe for Shares at conversion price of HK$0.50 per share was issued by the Company to CFIIL on 28 June 2016. On 30 June 2017, partial of the convertible notes with principal amount of HK$50,000,000 were converted into 100,000,000 Shares at the conversion price of HK$0.5 If the remaining conversion rights attached to the convertible notes had been fully exercised, 46,000,000 Shares would be issued at the conversion price of HK$0.50 per share.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares, which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 member of the Group.

4. MATERIAL LITIGATION

As at the Latest Practicable Date, so far as known to the Directors, there was no litigation, arbitration or claim of material importance in which any member of the Enlarged Group is engaged or pending or threatened against any member of the Enlarged Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract or management agreement, proposed or otherwise with any member of the Enlarged Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

6. MATERIAL CONTRACTS

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

(i) the three subscription agreements all dated 27 April 2017 and entered into between the Company as issuer and each of Gold Wealth International Holdings Limited ("**GWIHL**"), Trikey Investments Limited and Century Forum Development Limited respectively as subscribers in relation to the subscription of an aggregate 460,000,000 new Shares by the subscribers at the subscription price of HK$0.5 per Share;

(ii) the deed of termination dated 24 May 2017 and entered into between the Company and GWIHL in relation to the termination of the subscription of 100,000,000 Shares by GWIHL;

(iii) the subscription agreement dated 26 May 2017 and entered into between the Company as issuer and Double Joy Developments Limited as subscriber in relation to the subscription of 100,000,000 Shares by the subscriber at the subscription price of HK$0.5 per Share;

(iv) the sale and purchase agreement dated 23 November 2017 and entered into between China Water Property Investment Limited, a wholly owned subsidiary of the Company as vendor and Genview International Limited as purchaser in relation to the sale and purchase of the entire issued share capital of Create Capital Development Limited and the shareholder's loan of Create Capital Development Limited at the consideration of HK$65,000,000;

(v) the sale and purchase agreement dated 11 September 2018 and entered into among China Water Real Property Limited, a wholly owned subsidiary of the Company as vendor, (交通投資發展集團有限公司) Chunan County Transportation Investment and Development Group Limited* as purchaser, and the other two shareholders of (杭州普天房地產開發有限公司) Hangzhou Pu Tian Property Development Company* as vendors in relation to, among others, the disposal of 60% equity interests in (杭州普天房地產開發有限公司) Hangzhou Pu Tian Property Development Company* by the Group for a cash consideration of RMB43,200,000; and

(vi) the Sale and Purchase Agreement.

7. INTEREST IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, no contract or arrangement of significance in relation to the Enlarged Group's business to which the Enlarged Group or any of its subsidiaries was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

None of the Directors has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Enlarged Group or any of its subsidiaries during the period since 31 December 2018, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

8. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, to the best knowledge and belief of the Directors after having made all reasonable enquiries, none of the Directors and their respective associates were considered to have any interest in business which competed or were likely, either directly or indirectly, with the business of the Enlarged Group.

9. EXPERTS

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

Name	Qualification
HLM CPA Limited	Certified public accountants
AP Appraisal Limited	Independent valuer

As at the Latest Practicable Date, each of the above experts did not have any interests, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

As at the Latest Practicable Date, each of the above experts was not interested beneficially or non-beneficially in any Shares in any member of the Enlarged Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or report and/or reference to its name in the form and context in which it respectively appears.

10. MISCELLANEOUS

(a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company in Hong Kong is at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

(b) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(c) The company secretary and compliance officer of the Company is Mr. Chan Hoi Yin Anthony who is a member of the Hong Kong Institute of Certified Public Accountants.

(d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on any business day (Saturdays, Sundays and public holidays excepted) at the principal place of business of the Company in Hong Kong at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

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

(b) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(c) the written consents referred to in the paragraph headed "Experts" in this Appendix;

(d) the annual reports of the Company for the two financial years ended 31 December 2017 and 31 December 2018;

(e) the accountants' reports on the Target Group and Project Group as set out in Appendices II and III to this circular;

(f) the report on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular;

(g) the valuation report issued by independent valuer in respect of the Properties as set out in Appendix VI to this circular; and

(h) this circular.

中國城市基礎設施集團有限公司
China City Infrastructure Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2349)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**Meeting**") of China City Infrastructure Group Limited (the "**Company**") will be held at Suite 6208, 62nd Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong on Tuesday, 9 July 2019 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the conditional sale and purchase agreement dated 3 January 2019 (the "**Sale and Purchase Agreement**") entered into among Green City Development Limited, a wholly owned subsidiary of the Company, as the purchaser (the "**Purchaser**"), Sky Climber Development Limited as the vendor (the "**Vendor**"), the Company as purchaser guarantor and 楊智雄 (Yang Zhixiong)* as vendor guarantor (the "**Vendor Guarantor**") in relation to, among other things, the sale and purchase of the 50,000 shares in the issued share capital of Precious Palace Enterprises Limited (the "**Target Company**"), which represents the entire issued share capital of the Target Company and the transactions contemplated thereunder be and are ratified, confirmed and approved and any directors of the Company (the "**Directors**") be and are hereby authorised to do all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible bonds (as defined below) and the Promissory Note (as defined below));

(b) the issue of the convertible bonds in the principal amount of HK$431,500,000 (the "**Convertible Bonds**") by the Company to the Vendor (or as it may direct) to settle part of the consideration under the Sale and Purchase Agreement in accordance with the terms and conditions of the Sale and Purchase Agreement and all transactions contemplated be and is hereby approved, confirmed and ratified; and the allotment and issue of new ordinary shares (the "**Conversion Share(s)**") of HK$0.10 each in the share capital of the Company at the initial conversion price of HK$0.50 per Conversion Share which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Bonds to the relevant holder(s) of the Convertible Bonds be and are hereby approved, confirmed and ratified;

(c) the issue of the promissory note in the principal amount of HK$363,500,000 (the "**Promissory Note**") by the Company to the Vendor (or as it may direct) to settle part of the consideration under the Sale and Purchase Agreement in accordance with the terms and conditions of the Sale and Purchase Agreement and all transactions contemplated be and is hereby approved, confirmed and ratified;

(d) subject to the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares to be allotted and issued, the Directors be and are hereby granted a specific mandate (the "**Specific Mandate**") to allot and issue the Conversion Shares to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds pursuant to the Sale and Purchase Agreement. The Specific Mandate is in addition to, and shall not prejudice nor revoke any existing or such other general or special mandates which may from time to time be granted to the Directors prior to passing of this resolution; and

(e) any Director be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements (whether under common seal or not) and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in the Sale and Purchase Agreement and the transactions contemplated thereunder as he/she/they may in his/her/their absolute discretion consider necessary, desirable or expedient to give effect to the Sale and Purchase Agreement and the implementation of all transactions contemplated thereunder and to agree with such variation, amendment or waiver as, in the opinion of the Directors, in the interests of the Company and its shareholders as a whole."

By order of the Board
China City Infrastructure Group Limited
Li Chao Bo
Chairman and Chief Executive Officer

Hong Kong, 21 June 2019

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Suite 6208, 62nd Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Notes:

1. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, in the event of a poll, vote in his/her stead. A proxy needs not be a member of the Company.

2. In order to be valid, the form of proxy must be duly lodged at the Company's branch registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is duly signed or a certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or any adjourned meeting.

3. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish, and in such event, the form of proxy shall be deemed to be revoked.