THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Lai Fung Holdings Limited**, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

LAI FUNG HOLDINGS

Lai Fung Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1125)

(1) MAJOR DISPOSAL – SUBSCRIPTION OF 16.68% EQUITY INTEREST IN A SUBSIDIARY BY AN INVESTOR; AND (2) MAJOR ACQUISITION – GRANT OF PUT OPTION

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular.

A letter from the Board is set out on pages 6 to 21 of this circular.

The Subscription and the grant of Put Option have been approved by written shareholder’s approval obtained from eSun, the controlling shareholder of the Company, pursuant to Rule 14.44(2) of the Listing Rules in lieu of an extraordinary general meeting of the Company. This circular is being despatched to the Shareholders for information only.

Hong Kong, 30 April 2020

CONTENTS

This circular in both English and Chinese is available in printed form and published on the respective websites of the Company at "http://www.laifung.com" and Hong Kong Exchanges and Clearing Limited at "https://www.hkexnews.hk". The English version will prevail in case of any inconsistency between the English and the Chinese versions of this circular.

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

"Agreement"	the agreement dated 19 January 2020 entered into between the Investor, Laisun Creative Culture and Winfield Concept in relation to, among other things, the Subscription, the Capital Injection and the grant of the Put Option and the Call Option;
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Call Option"	the call option granted to Winfield Concept and Laisun Creative Culture to acquire the Investor's equity interest in Laisun Creative Culture pursuant to the Agreement;
"Capital Injection"	the sum of actual injection made by the Investor in cash to the capital of Laisun Creative Culture pursuant to the Agreement;
"Company"	Lai Fung Holdings Limited (麗豐控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 1125);
"Completion of the Subscription"	the completion of the registration of change in the equity interest held by Winfield Concept and the Investor in Laisun Creative Culture as a result of the Capital Injection with the relevant department of administration for industry and commerce;
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;
"Da Hengqin Company"	珠海大橫琴集團有限公司 (Da Hengqin Group Co., Ltd.*), a state-owned company incorporated in the PRC with limited liability and the sole shareholder of the Investor;
"Days of Breach"	the number of days commencing from (i) the date of which Laisun Creative Culture and/or Winfield Concept commit(s) a breach under the Agreement or (ii) the Company commits a breach under the Framework Agreement (as the case may be) and ending on the date immediately before the date on which Laisun Creative Culture and/or Winfield Concept (as the case may be) pay(s) the Investor the price for acquiring all equity interest held by the Investor in Laisun Creative Culture;
"Director(s)"	the director(s) of the Company;

"eSun"	eSun Holdings Limited (豐德麗控股有限公司), an exempted company incorporated in Bermuda with limited liability and the issued shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 571);
"eSun Board"	the board of eSun Directors;
"eSun Directors"	the directors of eSun;
"eSun Group"	eSun and its subsidiaries;
"Framework Agreement"	the framework agreement entered into between 珠海市橫琴新區管理委員會 (Zhuhai Hengqin Management Committee*) and the Company dated 6 February 2013 (as amended and supplemented from time to time) in relation to the construction and development of one square kilometre site in Hengqin, Zhuhai City, the PRC;
"GFA"	gross floor area;
"Group"	the Company and its subsidiaries;
"Guarantee"	the guarantees provided by the Company and LSD in favour of the Investor to guarantee the due performance by, and the obligations of, Laisun Creative Culture and Winfield Concept under the Agreement;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Third Party(ies)"	any entity(ies) or person(s) who, together with its ultimate beneficial owner(s), as far as the Directors are aware after having made all reasonable enquiries, are independent of the Company and connected persons of the Company within the meaning under the Listing Rules;
"Investment Period"	thirty (30) years from the issue date of the new business licence of Laisun Creative Culture upon Completion of the Subscription;
"Investor"	珠海大橫琴置業有限公司 (Zhuhai Da Hengqin Real Estate Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of Da Hengqin Company;

"Laisun Creative Culture"	珠海橫琴麗新文創天地有限公司 (Zhuhai Hengqin Laisun Creative Culture City Co., Ltd.*), a company established in the PRC with limited liability which operates Novotown Phase I and a direct wholly-owned subsidiary of Winfield Concept prior to the Subscription;
"Latest Practicable Date"	28 April 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended and supplemented from time to time);
"LSD"	Lai Sun Development Company Limited (麗新發展有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 488);
"LSD Board"	the board of LSD Directors;
"LSD Directors"	the directors of LSD;
"LSD Group"	LSD and its subsidiaries;
"LSG"	Lai Sun Garment (International) Limited (麗新製衣國際有限公司), a company incorporated in Hong Kong with limited liability and the issued shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 191);
"LSG Board"	the board of LSG Directors;
"LSG Directors"	the directors of LSG;
"LSG Group"	LSG and its subsidiaries;
"Macau"	the Macau Special Administrative Region of the PRC;
"Minimum Investment Return"	an investment return to be paid to the Investor by Laisun Creative Culture, for each financial year which is equivalent to 0.5% per annum of the Capital Injection;
"Non Self-owned Properties"	any other properties held by Laisun Creative Culture apart from the Self-owned Properties;

"Novotown Phase I"	珠海橫琴創新方項目一期 (Zhuhai Hengqin Novotown Project (Phase I)*), a property comprising cultural related facilities in Zhuhai City, Guangdong Province of the PRC;
"Outstanding Payment Days"	the number of days commencing from the date on which Laisun Creative Culture should pay the Minimum Investment Return to the Investor pursuant to the Agreement and ending on the date immediately before the date on which Laisun Creative Culture and/or Winfield Concept (as the case may be) pay(s) the Investor the price for acquiring all of the equity interest held by the Investor in Laisun Creative Culture;
"percentage ratio(s)"	has the meaning ascribed to it in Rule 14.07 of the Listing Rules;
"PRC"	the People's Republic of China and for the purpose of this circular, excluding Hong Kong, Macau and Taiwan;
"PRC Business Day"	a day other than a Saturday or a Sunday or a public holiday in the PRC;
"PRC Valuer"	廣東公評房地產與土地估價有限公司 (Guangdong Gongping Real Estate and Land Valuation Company Limited*), an independent qualified valuation firm in the PRC appointed by the Investor and prepared the business valuation report for Laisun Creative Culture;
"Put Option"	the put option granted to the Investor to require Laisun Creative Culture or Winfield Concept (as the case may be) to acquire all equity interest held by the Investor in Laisun Creative Culture pursuant to the Agreement;
"RMB"	Renminbi, the lawful currency of the PRC;
"Self-owned Properties"	the cultural-related component of the properties held by Laisun Creative Culture that are not for sale, which includes hotel, performance halls, indoor themed attractions, workshops, commercial area and car-parking spaces;
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended and supplemented from time to time;
"Shareholder(s)"	the duly registered holder(s) of the Share(s);

"Share(s)"	the ordinary share(s) of HK$5.00 each in the share capital of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subscription"	the subscription of approximately 16.68% equity interest in Laisun Creative Culture by the Investor;
"subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules;
"US$" or "USD"	the United States dollars, the lawful currency of the United States of America;
"Winfield Concept"	Winfield Concept Limited (永輝基業有限公司), a company incorporated in Hong Kong with limited liability and an indirect non-wholly-owned subsidiary of the Company; and
"%"	per cent.

* *All the English translations of certain Chinese names or words in this circular are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

LAI FUNG HOLDINGS

Lai Fung Holdings Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1125)

Executive Directors:
Mr. Chew Fook Aun *(Chairman)*
Dr. Lam Kin Ming *(Deputy Chairman)*
Mr. Lam Kin Hong, Matthew *(Executive Deputy Chairman)*
Mr. Lam Hau Yin, Lester *(Chief Executive Officer)*
Mr. Cheng Shin How
Mr. Lee Tze Yan, Ernest
Mr. Tham Seng Yum, Ronald
Madam U Po Chu

Non-executive Directors:
Mr. Lucas Ignatius Loh Jen Yuh
Mr. Puah Tze Shyang
(also alternate to Mr. Lucas Ignatius Loh Jen Yuh)

Independent Non-executive Directors:
Mr. Ku Moon Lun
Mr. Lam Bing Kwan
Mr. Law Kin Ho
Mr. Mak Wing Sum, Alvin
Mr. Shek Lai Him, Abraham

Registered Office:
P.O. Box 309
Ugland House
Grand Cayman
KY1-1104
Cayman Islands

Principal Place of Business in Hong Kong:
11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Kowloon
Hong Kong

30 April 2020

To the Shareholders

Dear Sir or Madam,

(1) MAJOR DISPOSAL – SUBSCRIPTION OF 16.68% EQUITY INTEREST IN A SUBSIDIARY BY AN INVESTOR; AND (2) MAJOR ACQUISITION – GRANT OF PUT OPTION

1. INTRODUCTION

Reference is made to the joint announcement issued by the Company, LSD, eSun and LSG dated 19 January 2020 in relation to, among other things, the subscription of 16.68% equity interest in Laisun Creative Culture and the grant of Put Option.

Each of the Subscription and the grant of Put Option constitutes a major disposal and a major acquisition, respectively, for the Company as the relevant percentage ratios are more than 25% but less than 75% and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The purpose of this circular is to provide you with, among other things, further details of the Subscription, the grant of Put Option and other information as required under the Listing Rules.

2. THE SUBSCRIPTION

The principal terms of the Agreement are summarised below:

Date

19 January 2020

Parties

(1) the Investor;

(2) Laisun Creative Culture; and

(3) Winfield Concept.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Investor and its ultimate beneficial owners are Independent Third Parties.

Capital Injection

Pursuant to the terms and conditions of the Agreement, the Investor has agreed to make a total capital contribution of approximately RMB948.4 million in Novotown Phase I through Laisun Creative Culture. Out of the total capital contribution of approximately RMB948.4 million, RMB380.3 million and RMB568.1 million will be applied to each of the registered capital and capital reserve of Laisun Creative Culture, respectively.

Immediately prior to the Capital Injection, Winfield Concept wholly owns Laisun Creative Culture and the registered capital of Laisun Creative Culture is RMB1.9 billion.

Upon Completion of the Subscription, the registered capital of Laisun Creative Culture will be increased from RMB1.9 billion to approximately RMB2.28 billion, and RMB568.1 million will be contributed to the capital reserve of Laisun Creative Culture. As such, RMB1.9 billion and RMB380.3 million of the registered capital will be contributed by Winfield Concept and the Investor, respectively, and Laisun Creative Culture will be held as to approximately 83.32% by Winfield Concept and approximately 16.68% by the Investor.

Payment terms and basis of determining the amount of Capital Injection

In respect of the total capital contribution of RMB948.4 million by the Investor in Laisun Creative Culture, (i) RMB825.6 million shall be paid by the Investor within ten (10) PRC Business Days after the Investor has obtained the relevant fund and the necessary approval for the relevant fund from 珠海市橫琴新區國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Hengqin Zhuhai*), and (ii) the remaining RMB122.8 million shall be paid by the Investor on a later date depending on the progress of development of Novotown Phase I and subject to the shareholders' approval of Laisun Creative Culture.

The total amount of Capital Injection was determined based on the Group's total investment that have been made for the development and operation of the Self-owned Properties up to 31 March 2019 of approximately RMB3.2 billion, including construction costs of the Self-owned Properties and capital expenditures on furniture, fixtures and equipment in relation to Hyatt Regency Hengqin, Lionsgate Entertainment World® and National Geographic Ultimate Explorer Hengqin. The Group has been committed to investing in Novotown Phase I as a creative-cultural tourism destination in Hengqin since the land acquisition in September 2013. As Novotown Phase I has yet to commence its operation in full capacity and may or may not be cash flow positive in the near term, the Directors considered the Capital Injection which represents approximately 30% of total investment of the Group in the Self-owned Properties up to 31 March 2019 will strengthen the cash position of Laisun Creative Culture and support on-going operation of Novotown Phase I. The respective percentage of the equity interest to be held by the parties on a fully paid-up and enlarged basis was calculated based on the total amount of Capital Injection of approximately RMB948.4 million and reference was made to the valuation performed by an independent third party valuer as at 31 March 2019. The aforementioned valuation is a business valuation performed by the PRC Valuer, an independent qualified valuation firm in the PRC, using asset-based approach, which focuses on the net asset value of a company. The net asset value ("**NAV**") of Laisun Creative Culture as at 31 March 2019 was approximately RMB1,096.6 million. The PRC Valuer adjusted the book value of individual assets and liabilities of Laisun Creative Culture, where necessary to reflect the fair value of Laisun Creative Culture. The adjusted NAV of Laisun Creative Culture as at 31 March 2019 was approximately RMB4,737.5 million and the adjustments of approximately RMB3,640.9 million in total were made to reflect the market value of properties owned by Laisun Creative Culture. The PRC Valuer was appointed by the Investor and is a qualified asset appraisal firm authorised by the Ministry of Finance of the PRC to perform valuation works in the PRC. The Directors considered the PRC Valuer has the professional knowledge and experience as recognised by the Investor to perform the valuation works and the business valuation for Laisun Creative Culture formed a reasonable basis amongst the parties to the Agreement when determining the Investor's percentage of the equity interest in Laisun Creative Culture. The Investor's equity interest in Laisun Creative Culture, being approximately 16.68%, was calculated by dividing the Investor's total capital contribution (being approximately RMB948.4 million) with the aggregate value of the business valuation amount of Laisun Creative Culture as at 31 March 2019 (being approximately RMB4,737.5 million) and the Investor's total capital contribution.

Board of Directors

The board of directors of Laisun Creative Culture shall at all times consist of seven (7) directors. After Completion of the Subscription, the Investor has the right to nominate one (1) director and Winfield Concept has the right to nominate six (6) directors to the board of directors of Laisun Creative Culture. All resolutions of the board of directors of Laisun Creative Culture must be passed by a simple majority, except that unanimous consent is required for certain major decisions to be made, for example, alteration of the articles of association, change in registered capital, winding-up, dissolution or liquidation, any material change of the scope of business and provision of external financing and guarantees.

Guarantee

Pursuant to the Agreement, before the Investor pays the Capital Injection, Laisun Creative Culture and Winfield Concept will procure each of the Company and LSD to provide the Guarantee in favour of the Investor to guarantee the due performance by, and the obligations of, Laisun Creative Culture and Winfield Concept under the Agreement. Such obligations include the payment of (a) investment return to the Investor in each financial year which is not less than the Minimum Investment Return (i.e. approximately RMB4.74 million); and (b) put option price in the event that the Investor exercise such option pursuant to the Agreement. The maximum put option price pursuant to the Agreement is estimated to be approximately RMB959.4 million. The maximum amount of Guarantee to be provided by the Company and LSD, which includes the annual investment return and maximum put option price, will be up to 80% and 20% of the total amount payable by Laisun Creative Culture and Winfield Concept under the Agreement, respectively. The Guarantee is effective from the date of the Guarantee and will expire two years from the date of termination or expiration of the Agreement.

As certain properties owned by Laisun Creative Culture were/will be used as securities for bank loan financing for Novotown Phase I, upon Laisun Creative Culture repays all of its bank loans relating to Novotown Phase I, the Investor may serve notice to Laisun Creative Culture and elect for the Guarantee to be replaced with a legal mortgage of the Self-owned Properties to be given by Laisun Creative Culture in favour of the Investor in an amount which is equivalent to 120% of the Capital Injection, representing approximately RMB1.138 billion. All the bank loans relating to Novotown Phase I are expected to be repaid by Laisun Creative Culture on or before October 2028.

The replacement of the Guarantee with a legal mortgage of the Self-owned Properties in an amount which is equivalent to 120% of the Capital Injection is to allow certain flexibility for the Investor to take pledge of properties as collateral and all necessary costs, including but not limited to, legal expenses, attorney's fees and taxes to be incurred when the Investor takes possession of the collaterals and needs to sell the properties in foreclosure if Laisun Creative Cultural defaults. Hence, the provision of property mortgage is in line with the Investor's interest in Laisun Creative Culture and is considered to be in line with the normal market practice in the PRC.

Save as disclosed, the Company is not in negotiation, or has not entered into any arrangement or understanding in respect of the formation of strategic alliances or exploring other financing activities for Laisun Creative Culture.

Investment return

Subject to the applicable law requirements and after the Investor has paid the first instalment of the total capital contribution, during the Investment Period, Laisun Creative Culture shall pay the Investor an investment return in each financial year which is not less than 0.5% per annum of its Capital Injection to Laisun Creative Culture.

The said investment return will be payable by way of dividend which shall payable in cash each year to the Investor and Winfield Concept within one (1) month after the financial statements of Laisun Creative Culture have been approved by its board of directors or shareholders.

The dividend distribution will be made out of distributable profits of Laisun Creative Culture generated from the operations in respect of the Self-owned Properties only to the Investor and Winfield Concept at a 30:70 ratio. Winfield Concept is entitled to all the remaining distributable profits of Laisun Creative Culture generated from the operations in respect of Non Self-owned Properties. The Self-owned Properties refer to the cultural-related component of the properties owned by Laisun Creative Culture under the overall development plan for Novotown Phase I as approved by local authorities of Hengqin New District government and the Group's current intention of which is to keep for long term operation of Novotown Phase I. The Non Self-owned Properties include studios and workshops that have been launched for sale, the office tower, the pre-sale permit of which have been granted by relevant authority of Hengqin New District government, as well as the commercial area that has been categorised as commercial usage but not cultural-related. For the avoidance of doubt, the Investor does not have any entitlement to the distribution of any profits generated from the operations in respect of Non Self-owned Properties in Novotown Phase I. Save for the Investor's dividend entitlement in the Self-owned Properties in Novotown Phase I and the Put Option, the Investor does not have any other economic benefits under the Agreement.

After the signing of the Agreement but no later than one month after the Completion of the Subscription, Laisun Creative Culture will establish a business management department exclusively for managing the operations of the Self-owned Properties. A separate bank account will be opened, and the management accounts will be prepared separately with respect to the Self-owned Properties, which will be audited by an independent accounting firm in the PRC on a yearly basis for the Self-owned Properties to form the basis of determining the dividend distribution. Such financial information will be also reviewed by Winfield Concept and the Investor. The dividend distribution will be approved by the board and/or the shareholders of Laisun Creative Culture based on the said financial information. Any dispute arising from the dividend distribution shall be settled through friendly negotiations between the parties.

The Foreign Investment Law of the PRC which took effect on 1 January 2020 replaced the Sino-foreign Equity Joint Ventures Law, Wholly Foreign-owned Enterprise Law and Sino-foreign Cooperative Joint Ventures Law to govern the foreign-invested enterprises in the PRC. The Foreign Investment Law of the PRC provides that foreign-invested enterprises should follow the PRC Company Law and other applicable laws and under the PRC Company Law, profit distribution shall be in accordance with the actual contribution ratio among shareholders or as otherwise agreed by all shareholders, therefore with the Foreign Investment Law of the PRC coming into effect on 1 January 2020, profits in foreign investment entities can be allocated in proportions different from the paid-in registered capital. After arm's length negotiations between Winfield Concept and the Investor, and taking into account the fact that any dividend distribution to the Investor will be subject to the actual performance and profitability of the Self-owned Properties while all profits generated from the property sales of the Non Self-owned Properties will be allocated to Winfield Concept only, the Directors considered that the sharing of 30% profit from the Self-owned Properties with the Investor is acceptable.

In the event that the investment return payable by Laisun Creative Culture by way of distribution of dividend to the Investor in a particular year is less than the Minimum Investment Return for that year, Winfield Concept has to make up for the shortfall in the Investor's entitlement to the Minimum Investment Return.

Winfield Concept could make up for the shortfall to the Investor using its internal resources and the amount could be deducted from the distributable profit of Laisun Creative Culture to Winfield Concept in coming financial years. This would be payable within one month after the relevant distribution is approved by the board and shareholders of Laisun Creative Culture.

Put Option

Pursuant to the Agreement, the Investor has been granted the Put Option pursuant to which, the Investor has the right (but not an obligation) to require Laisun Creative Culture and/or Winfield Concept to acquire all equity interest held by the Investor in Laisun Creative Culture upon the occurrence of the following events:

(a) if Laisun Creative Culture is unable to pay the Minimum Investment Return to the Investor and Winfield Concept is unable to make up for the shortfall in the Investor's entitlement to the Minimum Investment Return during the Investment Period; in such case, the Investor may exercise the Put Option to require Laisun Creative Culture and/or Winfield Concept to acquire all equity interest held by the Investor in Laisun Creative Culture, within sixty (60) days upon receipt of notice from the Investor, at a price calculated as follows:

    Capital Injection + (Capital Injection x 7% x Outstanding Payment Days)/365 days

(b) if, one (1) month before the expiration of the Investment Period, the Investor and Winfield Concept are unable to agree on the extension of the Investment Period and any party does not agree to wind up Laisun Creative Culture voluntarily; in such case, the Investor has the right (but not an obligation) to require Laisun Creative Culture and/or Winfield Concept to acquire all equity interest held by the Investor in Laisun Creative Culture at a price calculated as follows:

Capital Injection + outstanding Minimum Investment Return payable to the Investor

(c) if there is a change in the regulatory requirements or government policy in the PRC which causes the Investor unable to perform its obligations under the Agreement; in such case, the Investor has the right (but not an obligation) to require Laisun Creative Culture and/or Winfield Concept to acquire all equity interest held by the Investor in Laisun Creative Culture at a price calculated as follows:

Capital Injection + outstanding Minimum Investment Return payable to the Investor

(d) if each of Laisun Creative Culture and Winfield Concept fails to perform its obligations to procure the Company and LSD to provide the Guarantee; in such case, the Investor may exercise the Put Option to require Laisun Creative Culture and/or Winfield Concept to acquire, within sixty (60) days upon receipt of notice from the Investor, all equity interest held by the Investor in Laisun Creative Culture at a price calculated as follows:

Capital Injection + (Capital Injection x 7% x Days of Breach)/365 days

As at the Latest Practicable Date, the Company and LSD had respectively executed the Guarantee in favour of the Investor.

(e) if the Company commits any material breach of any of its obligations under the Framework Agreement; in such case, the Investor may exercise the Put Option to require Laisun Creative Culture and/or Winfield Concept to acquire all equity interest held by the Investor in Laisun Creative Culture, within sixty (60) days, at a price calculated as follows:

Capital Injection + (Capital Injection x 7% x Days of Breach)/365 days

Generally, the Company's obligations under the Framework Agreement refer to the obligations to comply with the relevant laws and regulations and obtain relevant approvals from authorities of Hengqin New District government (if any) for the land acquisition, development plan, construction works, sales and operation of Novotown project in Hengqin, including Phase I, Phase II and the following phases which will be subject to land acquisition.

Winding-up

In the event of voluntary winding up of Laisun Creative Culture (whether it is agreed by both Winfield Concept and the Investor or it is unilaterally determined by the Investor), if the amount distributed to the Investor falls short of the aggregate of the Capital Injection and the outstanding Minimum Investment Return payable to the Investor, then Winfield Concept has to make up for such shortfall to the Investor.

Call Option

Before the expiration of the Investment Period, Laisun Creative Culture and/or Winfield Concept have/has the right to (but not an obligation), at its discretion, to acquire the Investor's equity interest in Laisun Creative Culture at a price which is equivalent to the Capital Injection together with the outstanding Minimum Investment Return payable to the Investor.

Default

If Laisun Creative Culture and/or Winfield Concept fail(s) to acquire all equity interest held by the Investor pursuant to the Put Option under the Agreement, the Investor has the right (but not an obligation) to request Laisun Creative Culture and/or Winfield Concept to pay a daily penalty in the sum of 0.05% of the price payable but unpaid to the Investor pursuant to the Put Option.

Pre-emptive rights

Any transfer of an equity interest in Laisun Creative Culture by the Investor or Winfield Concept to any third party is subject to a right of first refusal in favour of the other shareholder.

Conditions precedents

Completion of the Subscription is conditional upon the fulfilment of the following conditions on or before a date no later than one hundred and eighty (180) days after the Investor made the Capital Injection:

(a) each of the Directors, the LSD Directors, the eSun Directors and the LSG Directors having approved the entering into of the Agreement and the transactions contemplated thereunder, including without limitation, the Subscription and the grant of the Put Option; and

(b) the shareholders of the Company, eSun and LSG having respectively passed the resolutions approving the entering into of the Agreement and the transactions contemplated thereunder, including without limitation, the Subscription and the grant of the Put Option.

Completion

Completion of the Subscription shall take place on a date no later than the tenth (10th) PRC Business Day after (i) each of the Directors, the LSD Directors, the eSun Directors and the LSG Directors having approved the entering into of the Agreement and the transactions contemplated thereunder, including without limitation, the Subscription and the grant of the Put Option; and (ii) the shareholders of the Company, eSun and LSG having respectively passed the resolutions approving the entering into of the Agreement and the transactions contemplated thereunder, including without limitation, the Subscription and the grant of the Put Option.

Termination

The Agreement may be terminated if:

(a) the approvals of (i) the Directors, the LSD Directors, the eSun Directors and the LSG Directors; (ii) the shareholders of the Company, eSun and LSG; and (iii) the Stock Exchange, on the transactions contemplated under the Agreement have not been obtained within one hundred and eighty (180) days after the payment date of the Capital Injection by the Investor or within a longer period of time as otherwise agreed by the parties to the Agreement, the Investor may terminate the Agreement and Laisun Creative Culture shall return the Capital Injection paid together with an interest at a rate of 7% per annum which shall be calculated on the actual number of days elapsed and on the basis of a 365-day year;

(b) any government authority issues an order, decree or ruling, or has taken any other action, restricts, blocks or otherwise prohibits the transactions contemplated under the Agreement, and such order, decree, ruling or other action becomes final, any party thereunder is entitled to terminate the Agreement;

(c) the occurrence of events in the nature of force majeure events, or material breach of contract by any party thereunder which render the performance of obligations of either party under the Agreement impossible; or

(d) there is unanimous written consent from all parties to the Agreement to terminate.

3. REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS

Novotown Phase I is an integrated tourism and entertainment project located in the heart of Hengqin, being one of the core cities in Guangdong province within the Greater Bay Area of the PRC, with close proximity to Macau and Hong Kong. The major property portfolio of Novotown Phase I includes three high-rise towers of hotel, office and workshop sitting on a common commercial podium that providing shopping and leisure facilities, including the two indoor themed attractions, namely Lionsgate Entertainment World® and National Geographic Ultimate Explorer Hengqin, as well as cultural studios and car-parking spaces.

Other than the office tower and certain commercial areas that have been designated as for office and commercial usage respectively, properties of Novotown Phase I are for cultural usage as approved by 珠海市橫琴新區管理委員會規劃國土局 (The Planning and Land Bureau of the Administrative Committee of Zhuhai Hengqin*). Out of those cultural-related properties held by Laisun Creative Culture, cultural studios and cultural workshop units on 7/F-22/F of the workshop tower have been launched for sale. The Capital Injection from the Investor was to support long term operation of the Self-owned Properties which refer to cultural-related properties of Novotown Phase I that are not for sale. The breakdown of GFA as at 31 January 2020 of the Self-owned Properties and Non Self-owned Properties in Novotown Phase I is set out below:

Properties	**Usage** *(Note 1)*	**GFA** *(square feet)*	**Classification in the statement of financial position of Laisun Creative Culture as at 31 January 2020**
Self-Owned Properties			
Hotel	Cultural	594,756	Completed property, plant and equipment
Commercial area	Cultural	252,235	Completed investment properties
Performance halls	Cultural	155,959	Completed investment properties
Indoor themed attractions	Cultural	293,292	Completed investment properties
Workshop (1/F-8/F)	Cultural	115,572	Properties under development *(Note 2)*
Subtotal:		**1,411,814**	
Non Self-Owned Properties			
Office (for sale)	Office	543,020	Investment properties under construction *(Note 3)*
Workshop (9/F-22/F) (for sale)	Cultural	316,453	Properties under development *(Note 2)*
Commercial area	Commercial	273,882	Completed investment properties
Studios (for sale)	Cultural	198,391	Completed properties for sale and Properties under development
Subtotal:		**1,331,746**	
Total:		**2,743,560**	

Notes:

1. *The usage of the properties was approved by* 珠海市横琴新區管理委員會規劃國土局 *(The Planning and Land Bureau of the Administrative Committee of Zhuhai Hengqin*).*

2. *Construction has been completed by end of 2019 and upon completion of the filing of as-built inspection with the relevant construction administrative department of the PRC government, cultural workshop tower that was designated as for-sale property will be classified as "completed properties for sale" in the consolidated statement of financial position of the Group. 1/F to 8/F of the cultural workshop tower will be reclassified as "completed investment properties" once leased out.*

3. *Construction has been completed by end of 2019 and upon completion of the filing of as-built inspection with the relevant construction administrative department of the PRC government, the office tower will be classified as "completed investment properties" in the consolidated statement of financial position of the Group.*

Construction works of Novotown Phase I have been completed by end of 2019 pending for the filing of as-built inspection of office tower and cultural workshop tower with relevant construction administrative department of the Chinese government. Cultural studios and certain units in cultural workshop tower have been launched for sale. The pre-sale permit of the office tower has been granted by relevant authority of Hengqin New District government. Upon completion of sale of all cultural studios and cultural workshop units and the office tower of Novotown Phase I, the commercial area of approximately 273.9 square feet will be the only Non Self-owned Property in Novotown Phase I. Lionsgate Entertainment World® and National Geographic Ultimate Explorer Hengqin, commenced operations on 31 July 2019 and 9 September 2019, respectively. The hotel, known as "Hyatt Regency Hengqin" soft opened on 31 December 2019. Leasing of the commercial area of Novotown Phase I is underway with approximately 76% of the leasable area having been leased. Despite the temporary closure of the project as part of preventive and protective measures in light of the outbreak of novel coronavirus in the PRC since 24 January 2020, the Group remains confident that the resumption of operations will make Novotown Phase I a new engine to boost the tourism industry in Hengqin.

The Group's investment in Novotown as a creative-cultural tourism destination in Hengqin is in line with the overall development plan of the Hengqin New Area that has been designed as a green, health and tourism island supporting neighboring Macau's ambition to become an international leisure and tourism center and is aligned with the PRC's policy of promoting the development of the Guangdong-Hong Kong-Macau Greater Bay Area. The Investor, being a wholly-owned subsidiary of Da Hengqin Company which in turn is wholly owned by 珠海市橫琴新區國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Hengqin Zhuhai*) will be a passive investor in Laisun Creative Culture and will not involve in any day-to-day business operations and management of Laisun Creative Culture. The Capital Injection from the Investor will strengthen the cash position of Laisun Creative Culture and support on-going operation of Novotown Phase I, in particular the two indoor themed attractions, Hyatt Regency Hengqin hotel as well as shopping and leisure facilities in Novotown Phase I, which will in turn help promoting Hengqin as an island for international leisure and tourism in long run. The Capital Injection from the Investor is also considered a favorable financing option for Laisun Creative Culture as the financing cost is much lower than the prevailing interest rate available to Laisun Creative Cultural from other financial institutions in the PRC. Winfield Concept will continue to operate and manage the Self-owned Properties and Non Self-owned Properties. The Group has been committed to cultivating the cultural and entertainment development in Hengqin, and will continue to explore and evaluate financing alternatives and potential strategic alliances catering to the financing and business needs of Laisun Creative Culture from time to time.

Taking into consideration of the aforesaid, the Directors consider that the terms of the Subscription are fair and reasonable and are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

4. INFORMATION OF PARTIES

Information of the Company

The Company is an exempted company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed and traded on the Main Board of the Stock Exchange. The principal activities of the Group include property development for sale, property investment, and development and operation of and investment in cultural, leisure, entertainment and related facilities in the PRC.

Information of LSD

LSD is a company incorporated in Hong Kong with limited liability, the issued shares of which are listed and traded on the Main Board of the Stock Exchange. The principal activities of the LSD Group include property investment, property development, investment in and operation of hotels and restaurants, media and entertainment, music production and distribution, films, video format products and television programmes production and distribution, cinema operation, cultural, leisure, entertainment and related facilities and investment holding. LSD owns approximately 74.62% of the total issued shares of eSun as at the Latest Practicable Date.

Information of eSun

eSun is an exempted company incorporated in Bermuda with limited liability, the issued shares of which are listed and traded on the Main Board of the Stock Exchange. eSun acts as an investment holding company and the principal activities of the eSun Group include the development, operation of and investment in media and entertainment, music production and distribution, the investment in and production and distribution of television programmes, films and video format products, cinema operation, property development for sale, property investment, and development and operation of and investment in cultural, leisure, entertainment and related facilities. eSun owns approximately 50.99% of the total issued shares of the Company as at the Latest Practicable Date.

Information of LSG

LSG is a company incorporated in Hong Kong with limited liability, the issued shares of which are listed and traded on the Main Board of the Stock Exchange. The principal activities of the LSG Group include property development, property investment, investment in and operation of hotels and restaurants, media and entertainment, music production and distribution, films, video format products and television programmes production and distribution, cinema operation, cultural, leisure, entertainment and related facilities and investment holding. LSG owns approximately 56.30% of the total issued shares of LSD as at the Latest Practicable Date.

Information of the Investor

The Investor is a company incorporated in the PRC with limited liability and principally engaged in property development and property investment in Hengqin region of the PRC. It is a wholly-owned subsidiary of Da Hengqin Company, a state-owned company incorporated in the PRC with limited liability, principally engaged in property investment and development in the PRC.

Da Hengqin Company is in turn wholly owned by 珠海市横琴新區國有資產監督管理委員會 (the State-owned Assets Supervision and Administration Commission of Hengqin Zhuhai*).

To the best knowledge of the Directors, Da Hengqin Company together with its subsidiaries have investments in cultural and entertainment business, and hotels in Hengqin, the PRC. Considering the background and expertise of the Investor, the Directors believe the introduction of the Investor will strengthen the cash position of Laisun Creative Culture and strive for long-term business development in Hengqin, and is therefore, in the interest of the Company and the Shareholders as a whole.

To their respective best knowledge, information and belief, having made all reasonable enquiries, the Directors confirm that the Investor and its ultimate beneficial owner(s) are independent of the Company and its connected persons under the Listing Rules.

Information of Winfield Concept and Laisun Creative Culture

Winfield Concept is a company incorporated in Hong Kong with limited liability which is an indirect subsidiary of each of the Company, LSD, eSun and LSG. As at the Latest Practicable Date, Winfield Concept was indirectly owned as to 80% by the Company and 20% by LSD, and, Winfield Concept, through its direct wholly-owned subsidiary, Laisun Creative Culture, is principally engaged in the design, development and operation of Novotown Phase I, which is an integrated tourism and entertainment project in Hengqin, Zhuhai City, Guangdong province of the PRC, comprising of 493-room Hyatt Regency hotel, offices, cultural workshops, cultural studios, shopping and leisure facilities and 1,844 car-parking spaces. The total GFA of Novotown Phase I is approximately 2.7 million square feet excluding car-parking spaces and ancillary facilities.

5. FINANCIAL INFORMATION OF LAISUN CREATIVE CULTURE

According to the audited financial statements of Laisun Creative Culture prepared in accordance with Hong Kong Financial Reporting Standards, net assets and total assets of Laisun Creative Culture as at 31 July 2019 were approximately RMB2,678,850,000 and RMB5,628,988,000, respectively. Net profit before and after tax of Laisun Creative Culture for the year ended 31 July 2019 were approximately RMB524,163,000 and RMB391,814,000, respectively. Net profit before and after tax of Laisun Creative Culture for the year ended 31 July 2018 were approximately RMB579,507,000 and RMB434,626,000, respectively.

6. FINANCIAL EFFECTS OF THE SUBSCRIPTION

Upon Completion of the Subscription, Laisun Creative Culture will remain as a subsidiary of the Company. The financial results of Laisun Creative Culture will continue to be consolidated into the financial statements of the Group. Upon Completion of the Subscription, assets and liabilities will both increase by the amount of capital contribution received from the Investor by cash, no material gain or loss will be recorded in the consolidated income statement of the Group and no material change in its consolidated net assets is expected.

In addition, the Put Option will have no impact to the Group's financial results and financial position upon Completion of the Subscription.

7. LISTING RULES IMPLICATIONS

Following Completion of the Subscription, the equity interest held by Winfield Concept in Laisun Creative Culture will be diluted from 100% to approximately 83.32%. The dilution of Winfield Concept's equity interest in Laisun Creative Culture will constitute a deemed disposal for the Company pursuant to Rule 14.29 of the Listing Rules. Laisun Creative Culture will remain as a subsidiary of the Company.

For the purpose of Rule 14.74 of the Listing Rules, given the exercise of the Put Option is not at the discretion of Laisun Creative Culture or Winfield Concept, the Put Option is treated as if it has been exercised upon its grant. Based on the Agreement, the grant of the Put Option, which is treated as if it has been exercised upon its grant, would constitute a major acquisition for the Company under Chapter 14 of the Listing Rules. The Company will comply with the relevant requirements under the Listing Rules as and when appropriate should the Investor exercise the Put Option.

For the purpose of Rule 14.75 of the Listing Rules, given the exercise of the Call Option is at the discretion of Winfield Concept, only the premium for the grant of the Call Option (which is nil) shall be taken into consideration for the purpose of determining the applicable percentage ratios under Chapter 14 of the Listing Rules. The Company will comply with applicable requirements under the Listing Rules upon exercise of the Call Option.

8. WRITTEN SHAREHOLDER'S APPROVAL

This circular is despatched to the Shareholders for information only. No extraordinary general meeting will be convened to approve the Subscription and the grant of Put Option as the Company had obtained the written Shareholder's approval from eSun, the controlling Shareholder holding approximately 50.99% of the issued share capital of the Company as at the date of such approval, for approving the Subscription and the grant of Put Option pursuant to Rule 14.44(2) of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders has a material interest in the Subscription and the grant of Put Option, accordingly, no Shareholder would be required to abstain from voting if the Company were to convene an extraordinary general meeting for approval of the Subscription and the grant of Put Option.

9. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the transactions contemplated under the Agreement, the Subscription and the grant of Put Option are fair and reasonable and believe that entering into the Agreement is in the interests of the Company and the Shareholders as a whole. Although an extraordinary general meeting will not be convened by the Company to approve the Subscription and the grant of Put Option, if such an extraordinary general meeting were to be convened by the Company, the Directors (including the independent non-executive Directors) would recommend the Shareholders to vote in favour of the resolution approving, confirming and ratifying the Agreement, the Subscription and the grant of Put Option and the transactions contemplated thereunder.

10. ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board of
Lai Fung Holdings Limited
Chew Fook Aun
Chairman

1. SUMMARY OF FINANCIAL RESULTS AND CONDITIONS OF THE GROUP

Financial information of the Group for each of the three years ended 31 July 2017, 2018 and 2019 and the six months ended 31 January 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange at "https://www.hkexnews.hk" and the Company at "http://www.laifung.com":

- annual report of the Company for the year ended 31 July 2017 published on 15 November 2017 (pages 95 to 190);
- annual report of the Company for the year ended 31 July 2018 published on 21 November 2018 (pages 98 to 194);
- annual report of the Company for the year ended 31 July 2019 published on 20 November 2019 (pages 98 to 198); and
- interim report of the Company for the six months ended 31 January 2020 published on 9 April 2020 (pages 2 to 25).

2. INDEBTEDNESS OF THE GROUP

As at 29 February 2020, being the latest practicable date for ascertaining certain information relating to this indebtedness statement, the Group had outstanding consolidated total borrowings (after intra-group elimination) of approximately HK$9,948 million comprising bank loans of approximately HK$6,750 million, unsecured guaranteed notes of approximately HK$2,714 million, unsecured and unguaranteed advances from a former substantial shareholder of approximately HK$52 million, unsecured and unguaranteed other borrowings of approximately HK$41 million, unsecured and unguaranteed loans from a fellow subsidiary of approximately HK$382 million and lease liabilities of approximately HK$9 million.

As at 29 February 2020, the Group had bank loans of approximately HK$6,750 million in aggregate, of which approximately HK$3,722 million were secured while the remaining HK$3,028 million were unsecured. Certain properties (including investment properties, completed properties for sale and serviced apartments (including related leasehold improvements)) and certain bank balances were pledged to banks to secure bank loan facilities granted to the Group. Equity interests in certain subsidiaries of the Company were pledged to banks to secure certain bank loan facilities granted to the Group. In addition, LSD (an intermediate holding company of the Company), eSun (an intermediate holding company of the Company), the Company and certain of its subsidiaries have also provided corporate guarantees in favour of the banks in respect of certain bank loan facilities granted to the Group.

The Group had provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of property units developed by the Group. Pursuant to the terms of the guarantees, upon default in mortgage payments by these end-buyers, the Group will be responsible to repay the outstanding mortgage loan principal amounts together with accrued interest owed by the end-buyers in default. The Group's obligation in relation to such guarantees has been gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. Such obligation will also be relinquished when the property ownership certificates for the relevant properties are issued and/or the end-buyers have fully repaid the mortgage loans. As at 29 February 2020, in respect of these guarantees, the contingent liabilities of the Group are estimated to be approximately HK$620 million.

Save as aforesaid and apart from intra-group liabilities, the Group did not, as at 29 February 2020, have any material outstanding (i) debt securities, whether issued and outstanding, authorised or otherwise created but unissued, or term loans, whether guaranteed, unguaranteed, secured (whether the security is provided by the Group or by third parties) or unsecured; (ii) other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, whether guaranteed, unguaranteed, secured or unsecured; (iii) mortgage or charges; or (iv) guarantees or other contingent liabilities.

3. MATERIAL ADVERSE CHANGE

The Directors confirm that save for the following matters, there has been no material adverse change in the financial or trading position or outlook of the Group subsequent to 31 July 2019, the date to which the latest audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

(i) recognition of a fair value loss on investment properties for the six months ended 31 January 2020 arising from revaluation of the Group's investment properties, which negatively impacted the Group's results for the six months ended 31 January 2020; and

(ii) the decline in occupancy rates for the Group's commercial properties, in particular for hotels and service apartments, from approximately 78%-90% as at 31 July 2019 to approximately 31%-34% as at 31 March 2020, and the corresponding rental income thereof, as well as the interruptions of the construction and sales of properties caused by the outbreak of the COVID-19 epidemic in the PRC from January to March 2020.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Chinese economy has been predominantly shadowed by the uncertainties around the trade disputes with the United States. Coupled with the anti-speculation measures by the government, home prices across China grew at a much slower pace than in recent years. The Lunar New Year holiday in 2020 was extended in the PRC because of the outbreak of the novel coronavirus (COVID-19). Containment measures including, but not limited to, restrictions on group gatherings and public events, closure of unnecessary public communal space and amenities, designated drop-off and pick-up points for parcel and food delivery to minimise contact, quarantine controls and denial of access for certain individuals, lockdown of residential communities, etc. were imposed by local governments. As a result, factories were closed, travels were restricted, and cities were effectively in lockdown for an extended period of time. Many developers in China were faced with suspension of sales and construction. On 12 March 2020, the World Health Organisation officially declared the outbreak of the novel coronavirus a pandemic as confirmed cases surged to over 118,000 in 114 countries, posing a threat to the global supply chain. While the long term impact of such a global pandemic remains difficult to predict, the Group has been proactive in preparing for the challenges ahead, and will work closely with its stakeholders, and continue to prudently manage its financial position to weather the storm.

The regional focus in Shanghai, Guangzhou, Zhongshan and Hengqin and rental-led strategy of the Group continued to demonstrate resilience, which is of particular significance in times of uncertainty. Upon completion of the construction works of the combined redevelopment of Shanghai Northgate Plaza I, Northgate Plaza II and the Hui Gong Building, the development of Guangzhou Haizhu Plaza, and Phase II of the Novotown project in Hengqin ("**Novotown**"), the Group will have a rental portfolio of approximately 9.3 million square feet.

Aside from rental GFA growth, the Group also strives to strengthen its rental portfolio through operational enhancements. The two themed indoor experience centres in Novotown Phase I, namely "Lionsgate Entertainment World®" and "National Geographic Ultimate Explorer Hengqin", commenced operations on 31 July 2019 and 9 September 2019, respectively. The hotel, known as "Hyatt Regency Hengqin" soft opened on 31 December 2019. Leasing of the commercial area of Novotown Phase I is under way with approximately 76% of the leasable area having been leased. Despite the temporary closure of Novotown Phase I since 24 January 2020 as part of preventive and protective measures in light of the outbreak of COVID-19, the Group remains confident that the resumption of operations will make Novotown a new contributor its results in the long run. The Group is carefully monitoring the evolving situation, stays in close contact with local officials and will announce the reopening date upon confirmation. On 23 January 2020, the Group renewed the management agreement with Ascott Group with respect to the serviced residences in Shanghai. Through extending the longstanding partnership with Ascott, the Group wishes to continue to leverage on the Ascott Group's extensive experience and expertise in operating and branding serviced residences to enhance the value of the serviced residence to the Group.

The Group is in the process of obtaining the sales permit for the Shanghai Wuli Bridge Project, which is a high-end luxury residential project located by the Huangpu River in Huangpu District. Upon the grant of sales permit, the Group will reassess the market conditions in preparation for the launch. Development of Phase III and Phase IV of Zhongshan Palm Spring is on track and expected to be completed in the third quarter of 2020 and the third quarter of 2021 respectively. Construction work of Novotown Phase I has been completed by end of 2019 pending for the filing of as-built inspection of office tower and cultural workshop tower with relevant construction administrative department of the Chinese government and the cultural workshops have been launched for sale during the six-month period ended 31 January 2020. The residential units in Shanghai Wuli Bridge project, serviced apartment units and remaining residential units in Zhongshan Palm Spring as well as the cultural studios and cultural workshops of Hengqin Novotown Phase I are expected to contribute to the income of the Group in the coming financial years.

The Group will consider replenishing its landbank in the PRC as and when opportunities arise, and will take into account, amongst other factors, overall macroeconomic conditions, its existing presence in the relevant cities, and allocation of risks.

5. WORKING CAPITAL

The Directors are of the opinion that, in the absence of any unforeseen circumstances and after taking into account (i) the internal resources of the Group; (ii) the Group's presently available banking facilities and other borrowings; (iii) the expected refinancing of certain bank loans; and (iv) Completion of the Subscription and the receipt of relevant capital contribution from the Investor as described in the Circular, the Group has sufficient working capital for its requirements for at least 12 months from the date of this circular.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. Terms defined herein apply to this report only.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Lai Fung Holdings Limited

Dear Sirs,

We report on the historical financial information of Zhuhai Hengqin Laisun Creative Culture City Co., Ltd. (the "**Target Company**") comprising the income statements, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows of the Target Company for each of the years ended 31 July 2017, 2018 and 2019 and the six months ended 31 January 2020 (the "**Relevant Periods**"), and the statements of financial position of the Target Company as at 31 July 2017, 2018 and 2019 and 31 January 2020 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-61 forms an integral part of this report, which has been prepared for inclusion in the circular of Lai Fung Holdings Limited dated 30 April 2020 (the "**Circular**") in connection with the subscription of 16.68% equity interest in the Target Company by Zhuhai Da Hengqin Real Estate Co., Ltd. and the grant of put option (the "**Proposed Transaction**").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

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 2.1 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 purposes of the accountants' report, a true and fair view of the financial position of the Target Company as at 31 July 2017, 2018 and 2019 and 31 January 2020 and of the financial performance and cash flows of the Target Company for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Target Company which comprises the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 31 January 2019 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Target Company are responsible for the preparation of the Interim Comparative Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

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 Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 10 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Periods.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

30 April 2020

I. HISTORICAL FINANCIAL INFORMATION

Preparation of the Historical Financial Information

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

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

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

I. HISTORICAL FINANCIAL INFORMATION *(Continued)*

Income Statements

		Year ended 31 July			Six months ended 31 January	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
TURNOVER	*5*	—	—	106,029	—	86,171
Cost of sales		—	—	(41,901)	—	(45,047)
Gross profit		—	—	64,128	—	41,124
Other income and gains	*5*	—	—	970	2	3,970
Selling and marketing expenses		—	(17)	(568)	(386)	(3,027)
Administrative expenses		—	—	(10,155)	(2,455)	(19,818)
Other operating expenses		—	—	—	—	(5,374)
Fair value gains/(losses) on investment properties		681,744	579,524	469,788	41,854	(337,913)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	*7*	681,744	579,507	524,163	39,015	(321,038)
Finance costs	*6*	—	—	—	—	(16,824)
PROFIT/(LOSS) BEFORE TAX		681,744	579,507	524,163	39,015	(337,862)
Tax	*9*	(170,436)	(144,881)	(132,349)	(10,464)	(61,004)
PROFIT/(LOSS) FOR THE YEAR/PERIOD		511,308	434,626	391,814	28,551	(398,866)

I. HISTORICAL FINANCIAL INFORMATION *(Continued)*

Statements of Comprehensive Income

	Year ended 31 July			Six months ended 31 January	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
PROFIT/(LOSS) FOR THE YEAR/PERIOD AND TOTAL COMPREHENSIVE INCOME/(EXPENSES) FOR THE YEAR/PERIOD	511,308	434,626	391,814	28,551	(398,866)

I. HISTORICAL FINANCIAL INFORMATION *(Continued)*

Statements of Financial Position

		As at 31 July			As at 31 January
		2017	2018	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*12*	143,103	346,972	792,786	1,218,979
Right-of-use asset	*15*	111,495	111,495	111,495	111,222
Investment properties	*14*	1,506,100	2,542,995	3,558,763	3,520,581
Properties under development	*13*	204,722	—	—	—
Total non-current assets		1,965,420	3,001,462	4,463,044	4,850,782
CURRENT ASSETS					
Properties under development	*13*	167,968	610,742	560,689	662,877
Completed properties for sale		—	—	299,856	256,587
Inventories		—	—	—	468
Debtors, deposits and prepayments	*16*	31,929	67,263	133,128	143,833
Due from fellow subsidiaries	*17*	119,002	87,211	269	958
Prepaid tax		—	3,527	1,497	—
Restricted bank balances	*18*	18,521	225,067	120,560	216,765
Cash and cash equivalents	*18*	307,640	67,746	49,945	15,320
Total current assets		645,060	1,061,556	1,165,944	1,296,808
CURRENT LIABILITIES					
Creditors and accruals	*19*	243,367	774,989	1,017,911	1,225,542
Contract liabilities and deposits received	*20*	43,126	142,199	317,196	300,497
Interest-bearing bank loans	*21*	—	—	58,669	461,798
Due to a fellow subsidiary	*17*	—	—	376	473
Tax payable		—	—	13,614	19,732
Total current liabilities		286,493	917,188	1,407,766	2,008,042
NET CURRENT ASSETS/(LIABILITIES)		358,567	144,368	(241,822)	(711,234)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,323,987	3,145,830	4,221,222	4,139,548

I. HISTORICAL FINANCIAL INFORMATION *(Continued)*

Statements of Financial Position *(Continued)*

		As at 31 July			As at 31 January
		2017	**2018**	**2019**	**2020**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		2,323,987	3,145,830	4,221,222	4,139,548
NON-CURRENT LIABILITIES					
Interest-bearing bank loans	*21*	399,440	641,776	1,085,379	1,113,922
Due to a fellow subsidiary	*17*	—	—	—	214,000
Deferred tax liabilities	*22*	196,137	341,018	456,993	509,242
Total non-current liabilities		595,577	982,794	1,542,372	1,837,164
Net assets		1,728,410	2,163,036	2,678,850	2,302,384
EQUITY					
Share capital	*23*	1,140,000	1,140,000	1,264,000	1,286,400
Reserves	*24*	588,410	1,023,036	1,414,850	1,015,984
		1,728,410	2,163,036	2,678,850	2,302,384

I. HISTORICAL FINANCIAL INFORMATION *(Continued)*

Statements of Changes in Equity

Year ended 31 July 2017

	Share capital *RMB'000* *(Note 23)*	**Retained earnings** *RMB'000*	**Total** *RMB'000*
At 1 August 2016	1,140,000	77,102	1,217,102
Profit for the year and total comprehensive income for the year	—	511,308	511,308
At 31 July 2017	1,140,000	588,410	1,728,410

Year ended 31 July 2018

	Share capital *RMB'000* *(Note 23)*	**Retained earnings** *RMB'000*	**Total** *RMB'000*
At 1 August 2017	1,140,000	588,410	1,728,410
Profit for the year and total comprehensive income for the year	—	434,626	434,626
At 31 July 2018	1,140,000	1,023,036	2,163,036

Year ended 31 July 2019

	Share capital *RMB'000* *(Note 23)*	**Retained earnings** *RMB'000*	**Total** *RMB'000*
At 1 August 2018	1,140,000	1,023,036	2,163,036
Profit for the year and total comprehensive income for the year	—	391,814	391,814
Capital injection	124,000	—	124,000
At 31 July 2019	1,264,000	1,414,850	2,678,850

I. HISTORICAL FINANCIAL INFORMATION *(Continued)*

Statements of Changes in Equity *(Continued)*

Six months ended 31 January 2019

	Share capital	**Retained earnings**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 August 2018	1,140,000	1,023,036	2,163,036
Profit for the period and total comprehensive income for the period	—	28,551	28,551
At 31 January 2019 (unaudited)	1,140,000	1,051,587	2,191,587

Six months ended 31 January 2020

	Share capital	**Retained earnings**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
	(Note 23)		
At 1 August 2019	1,264,000	1,414,850	2,678,850
Loss for the period and total comprehensive expenses for the period	—	(398,866)	(398,866)
Capital injection	22,400	—	22,400
At 31 January 2020	1,286,400	1,015,984	2,302,384

I. HISTORICAL FINANCIAL INFORMATION *(Continued)*

Statements of Cash Flows

		Year ended 31 July			Six months ended 31 January	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax		681,744	579,507	524,163	39,015	(337,862)
Adjustments for:						
Fair value losses/(gains) on investment properties	*14*	(681,744)	(579,524)	(469,788)	(41,854)	337,913
Finance costs	*6*	—	—	—	—	16,824
Bank interest income		—	—	(4)	(2)	(6)
Depreciation of property, plant and equipment	*12*	431	521	743	334	5,595
Depreciation of right-of-use asset	*15*	—	—	—	—	273
		431	504	55,114	(2,507)	22,737
Decrease in completed properties for sales		—	—	41,901	—	43,269
Increase in properties under development		(168,344)	(231,618)	(282,355)	(106,804)	(110,081)
Increase in debtors, deposits and prepayments		(49,418)	(35,334)	(65,865)	(245,846)	(10,705)
Increase in inventories		—	—	—	—	(468)
Increase/(decrease) in creditors and accruals, and contract liabilities and deposits received		44,080	130,008	250,053	(125,067)	(192,352)
Decrease/(increase) in due from fellow subsidiaries		(92,232)	31,791	86,942	87,211	(689)
Increase in due to fellow subsidiaries		—	—	376	—	97
Cash generated from/(used in) operations		(265,483)	(104,649)	86,166	(393,013)	(248,192)
Mainland China taxes paid, net		—	(3,527)	(730)	(275)	(1,140)
Net cash flows from/(used in) operating activities		(265,483)	(108,176)	85,436	(393,288)	(249,332)

I. HISTORICAL FINANCIAL INFORMATION *(Continued)*

Statements of Cash Flows *(Continued)*

		Year ended 31 July			Six months ended 31 January	
		2017	**2018**	**2019**	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash flows from/(used in) operating activities		(265,483)	(108,176)	85,436	(393,288)	(249,332)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received		—	—	4	2	6
Purchases of items of property, plant and equipment		(47,665)	(30,050)	(317,389)	(145,159)	(22,597)
Additions to investment properties		(67,615)	(113,976)	(485,908)	(26,592)	(422,835)
Decrease/(increase) in restricted bank balances		81,479	(206,546)	104,507	119,975	(96,205)
Net cash flows used in investing activities		(33,801)	(350,572)	(698,786)	(51,774)	(541,631)
CASH FLOWS FROM FINANCING ACTIVITIES						
Capital injection		—	—	124,000	—	22,400
New bank loans		300,000	361,060	1,733,383	1,655,000	462,570
Repayments of bank loans		(560)	(118,724)	(1,231,111)	(1,201,776)	(30,898)
Increase in due to a fellow subsidiary		—	—	—	—	214,000
Amount received from a potential shareholder		—	—	—	—	100,000
Interest paid		(8,678)	(23,482)	(30,723)	(43,204)	(11,734)
Net cash flows from financing activities		290,762	218,854	595,549	410,020	756,338
NET DECREASE IN CASH AND CASH EQUIVALENTS		(8,522)	(239,894)	(17,801)	(35,042)	(34,625)
Cash and cash equivalents at beginning of year/period		316,162	307,640	67,746	67,746	49,945
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		307,640	67,746	49,945	32,704	15,320
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	*18*	307,640	67,746	49,945	32,704	15,320

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Zhuhai Hengqin Laisun Creative Culture City Co., Ltd. (the "**Target Company**") is a limited liability company incorporated in the People's Republic of China (the "**PRC**") on 3 January 2014 under the Companies Law of PRC. The registered office of the Target Company is located at Room 105-7, No. 6 Baohua Road, Hengqin New District, Zhuhai City, the PRC.

During the Relevant Periods, the principal activities of the Target Company mainly consisted of property development for sale, property investment for rental purposes and hotel operation.

2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 August 2016, 2017, 2018 and 2019, together with the relevant transitional provisions, have been early adopted by the Target Company in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

Notwithstanding that the Target Company recorded a net current liabilities of RMB711,234,000 as at 31 January 2020, the Historical Financial Information has been prepared on a going concern basis as intermediate holding companies of the Target Company, Lai Fung Holdings Limited and Lai Sun Development Company Limited have agreed to provide adequate funds in proportion to their respective shareholdings to enable the Target Company to meet its liabilities as and when they fall due for a future period up to 30 April 2021.

The Historical Financial Information has been prepared under the historical cost convention except for investment properties which have been measured at fair value.

The Historical Financial Information has also been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

2.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Target Company has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in the Historical Financial Information.

HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 1	*Definition of Material*[1]

1 Effective for annual periods beginning on or after January 1, 2020
2 Effective for annual periods beginning on or after January 1, 2021
3 No mandatory effective date yet determined but available for adoption

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.2 ISSUED BUT NOT YET EFFECTIVE HKFRSs *(Continued)*

The Target Company is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Target Company is not yet in a position to state whether they would have a significant impact on the Target Company's results of operations and financial position.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

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

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

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

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than completed properties for sale, properties under development, inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

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

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

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

or

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

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

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(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); and

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

Property, plant and equipment and depreciation

Property, plant and equipment including owner-operated hotel, other than investment properties, properties under development and construction in progress are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

Hotel	Over the remaining lease terms of the land
Furniture, fixtures and equipment	20%
Motor vehicles	20% - 25%
Computers	20% - 25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interests held as a right-of-use asset which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. These include land held for a currently undetermined future use and properties which are constructed for future use as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions as at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the period of the retirement or disposal.

Properties under construction for future use as investment properties are accounted for in the same way as completed investment properties. Specifically, construction costs incurred for investment properties under construction are capitalised as part of the carrying amounts of the investment properties under construction. Investment properties under construction are measured at fair value as at the end of the reporting period. Any difference between the fair values of the investment properties under construction and their carrying amounts is recognised in the income statement in the period in which it arises.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

If the fair value of an investment property under construction is at present not reliably determinable but is expected to be reliably determinable when construction is completed, such investment property under construction is stated at cost until either its fair value becomes reliably determinable or construction is completed, whichever is earlier.

A transfer from investment property under construction to property under development/construction in progress shall be made when, and only when, there is a change in use, evidenced by commencement of development with a view to sale/owner-occupation.

Properties under development

Properties under development represent properties being developed for sale and are stated at the lower of cost and net realisable value. Cost comprises the prepaid land lease payments or cost of land together with any other direct costs attributable to the development of the properties and other related expenses capitalised during the development period. Net realisable value is determined by the directors based on the prevailing market prices on an individual property basis less estimated costs of completion and costs to be incurred in selling the property.

Once the development of these properties is completed, these properties are transferred to completed properties for sale.

If a property under development is intended to be redeveloped into an owner-occupied property, it is transferred to construction in progress at carrying amount.

Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Cost is determined by an apportionment of the total costs of land and buildings attributable to unsold properties. Net realisable value is determined by the directors based on the prevailing market prices on an individual property basis less costs to be incurred in selling the property.

If an item of completed property for sale becomes owner-occupied, it is transferred to property, plant and equipment at carrying amount.

For a transfer from an item of completed property for sale to investment property that will be carried at fair value as its use has changed as evidenced by commencement of an operating lease, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in the income statement.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

The Target Company as a lessee

The Target Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Target Company's policy for "Completed properties for sale". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Target Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life or the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Target Company's policy for "Investment properties".

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Target Company and payments of penalties for termination of a lease, if the lease term reflects the Target Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Target Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate), a change in the in-substance fixed lease payments or a change in assessment of an option to purchase the underlying asset.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Target Company as a lessee *(Continued)*

(c) Short-term leases and leases of low-value assets

The Target Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). When the Target Company enters into a lease in respect of a low-value asset, the Target Company decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Target Company as a lessor

When the Target Company acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Target Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Target Company allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee, are accounted for as financing leases.

Investments and other financial assets

Initial recognition and measurement

At initial recognition, financial assets are classified as subsequently measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Company initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Target Company has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement *(Continued)*
In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Target Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)
The Target Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Target Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Target Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Target Company has transferred substantially all the risks and rewards of the asset, or (b) the Target Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

When the Target Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Target Company continues to recognise the transferred asset to the extent of the Target Company's continuing involvement. In that case, the Target Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Target Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Target Company could be required to repay.

Impairment of financial assets

The Target Company recognises an allowance for expected credit loss ("**ECL**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach
ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Target Company considers a financial asset in default when internal or external information indicates that the Target Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach *(Continued)*
Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach
For trade receivables that do not contain a significant financing component or when the Target Company applies the practical expedient of not adjusting the effect of a significant financing component, the Target Company applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Target Company chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Target Company's financial liabilities include creditors and accruals, deposits received, interest-bearing bank loans and amounts due to fellow subsidiaries.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement
The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Target Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Target Company measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost for merchandise, food, beverages and supplies used is determined on the weighted average cost basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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

Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Mainland China land appreciation tax ("LAT")

LAT is levied at prevailing progressive rates on the appreciation of land value, being the proceeds from the sale of properties less deductible costs.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Target Company expects to be entitled in exchange for those goods or services.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers *(Continued)*
When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Target Company and the customer at contract inception. When the contract contains a financing component which provides the Target Company a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) *Sale of completed properties*
Revenue from the sale of completed properties is recognised upon the signing of the property handover letter, which is taken to be the point in time when the control of the property is transferred to the purchaser.

(b) *Revenue from hotel operation*
Revenue from hotel operation is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Target Company.

Revenue from other sources
Rental income is recognised on a time proportion basis over the lease terms.

Other income
Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Target Company has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Target Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Target Company performs under the contract.

Contract costs

Costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the income statement on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Employee benefits

Pension schemes

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

Borrowing costs

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

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Target Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information.

(i) Classification between investment properties and owner-occupied properties

The Target Company determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or for both. Therefore, the Target Company considers whether a property generates cash flows largely independently of the other assets held by the Target Company.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Target Company accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

(ii) Income tax

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

The Target Company's deferred taxes in relation to investment properties including investment properties under construction stated at fair value are provided based on a rebuttable presumption that the carrying amount of the investment properties will be recovered through sale. In previous years, the presumption for all of the investment properties was rebutted and only CIT is provided for the relevant revaluation surplus. However, having obtained a pre-sale permit for certain investment property during the six months ended 31 January 2020, which gives a flexibility for the Target Company to recover the carrying amount of the investment properties through either sale or lease, it is considered that the presumption may no longer be rebutted. Therefore, deferred tax liabilities for both the LAT and CIT were considered for the provision of deferred taxes related to those investment properties as at 31 January 2020.

Estimation uncertainty

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

(i) Estimation of fair value of investment properties

The best evidence of fair value is current prices in an active market for properties in the same location and condition and subject to similar lease and other contracts. In the absence of such information, the Target Company considers information from a variety of sources, including (i) by reference to independent valuations; (ii) current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the dates of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

(ii) Estimation of total budgeted costs and costs to completion for properties under development/ investment properties under construction

The total budgeted costs for properties under development/investment properties under construction comprise (i) prepaid land lease payments, (ii) building costs, and (iii) any other direct costs attributable to the development of the properties. In estimating the total budgeted costs for properties under development/investment properties under construction, management makes reference to information such as (i) current offers from contractors and suppliers, (ii) recent offers agreed with contractors and suppliers, and (iii) professional estimation on construction and material costs.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

(iii) Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Target Company has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Target Company with similar assets that is used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

(iv) Impairment of non-financial assets (other than goodwill)

In determining whether an asset is impaired or the events previously causing the impairment no longer exists, the Target Company has to exercise judgement in the area of asset impairment, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(v) Provision for LAT and corporate income tax ("CIT")

The Target Company is subject to LAT in the PRC. The provision for LAT is based on management's best estimates according to its understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon the completion of the property development projects. The Target Company has not finalised its LAT calculations and payments with the tax authorities for its property development projects. The final tax outcome could be different from the amounts that were initially recorded, and any differences will impact the LAT expenses and the related LAT provision in the period in which such taxes are finalised with the tax authorities.

The Target Company is subject to CIT in the PRC. As a result of the fact that certain matters relating to the CIT have not been confirmed by the tax authorities, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for CIT. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact on the CIT and related CIT provision in the period in which such taxes are finalised with the tax authorities.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

4. OPERATING SEGMENT INFORMATION

For management purposes, the Target Company is organised into business units based on its products and services and has three reportable operating segments as follows:

(a) the property development segment engages in the development of properties for sale in Mainland China;

(b) the property investment segment invests in commercial and office buildings for their rental income potential in Mainland China; and

(c) the hotel segment engages in operation of hotel in Mainland China.

Management monitors the results of the Target Company's operating segments for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is measured by means of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Target Company's profit/(loss) before tax except that interest income, finance costs and other unallocated gains and expenses are excluded from such measurement.

Segment assets exclude prepaid tax, restricted bank balances, cash and cash equivalents, due from fellow subsidiaries and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank loans, tax payable, due to a fellow subsidiary, deferred tax liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

No further geographical segment information is presented as 100% of the Target Company's revenue was derived from Mainland China and 100% of the Target Company's non-current assets were located in Mainland China.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Property development			Property investment			Hotel			Consolidated		
	Year ended 31 July 2017	**Year ended 31 July 2018**	**Year ended 31 July 2019**	**Year ended 31 July 2017**	**Year ended 31 July 2018**	**Year ended 31 July 2019**	**Year ended 31 July 2017**	**Year ended 31 July 2018**	**Year ended 31 July 2019**	**Year ended 31 July 2017**	**Year ended 31 July 2018**	**Year ended 31 July 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue/results:												
Segment revenue												
Sales to external customers	—	—	106,029	—	—	—	—	—	—	—	—	106,029
Other revenue	—	—	—	—	—	—	—	—	—	—	—	—
Total	—	—	106,029	—	—	—	—	—	—	—	—	106,029
Segment results	—	—	63,492	681,744	579,524	469,788	—	—	(10,087)	681,744	579,524	523,193
Interest income from bank deposits										—	—	4
Unallocated gains										—	—	966
Unallocated expenses, net										—	(17)	—
Profit from operating activities										681,744	579,507	524,163
Finance costs										—	—	—
Profit before tax										681,744	579,507	524,163
Tax										(170,436)	(144,881)	(132,349)
Profit for the year										511,308	434,626	391,814
Other segment information:												
Fair value gains on investment properties	—	—	—	681,744	579,524	469,788	—	—	—	681,744	579,524	469,788

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

4. OPERATING SEGMENT INFORMATION *(Continued)*

	Property development		Property investment		Hotel		Consolidated	
	Six months ended 31 January		Six months ended 31 January		Six months ended 31 January		Six months ended 31 January	
	2019	2020	2019	2020	2019	2020	2019	2020
	RMB'000 (Unaudited)	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Segment revenue/results:								
Segment revenue								
Sales to external customers	—	79,967	—	1,186	—	5,018	—	86,171
Other revenue	—	—	—	—	—	—	—	—
Total	—	79,967	—	1,186	—	5,018	—	86,171
Segment results	—	42,292	41,854	(336,727)	(2,841)	(30,573)	39,013	(325,008)
Interest income from bank deposits							2	6
Unallocated gains							—	3,964
Unallocated expenses, net							—	—
Profit/(loss) from operating activities							39,015	(321,038)
Finance costs							—	(16,824)
Profit/(loss) before tax							39,015	(337,862)
Tax							(10,464)	(61,004)
Profit/(loss) for the period							28,551	(398,866)
Other segment information:								
Fair value gains/(losses) on investment properties	—	—	41,854	(337,913)	—	—	41,854	(337,913)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

4. OPERATING SEGMENT INFORMATION *(Continued)*

	As at 31 July			As at 31 January
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets/liabilities:				
Segment assets				
Property development	372,690	610,742	869,764	926,503
Property investment	1,522,292	2,567,151	3,570,323	3,531,382
Hotel	253,038	456,703	906,206	1,331,453
	2,148,020	3,634,596	5,346,293	5,789,338
Unallocated assets	462,460	428,422	282,695	358,252
Total assets	2,610,480	4,063,018	5,628,988	6,147,590
Segment liabilities				
Property development	96,503	295,425	320,459	348,534
Property investment	189,990	621,763	637,137	431,620
Hotel	—	—	377,511	645,885
	286,493	917,188	1,335,107	1,426,039
Unallocated liabilities	595,577	982,794	1,615,031	2,419,167
Total liabilities	882,070	1,899,982	2,950,138	3,845,206

5. TURNOVER, OTHER INCOME AND GAINS

The Target Company's turnover represents revenue from sale of properties, investment properties and hotel operation.

An analysis of the Target Company's turnover, other income and gains is as follows:

	Year ended 31 July			Six months ended 31 January	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Turnover	—	—	106,029	—	86,171
Other income and gains	—	—	970	2	3,970
	—	—	106,999	2	90,141

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

5. TURNOVER, OTHER INCOME AND GAINS *(Continued)*

	Year ended 31 July			Six months ended 31 January	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Turnover, other income and gains from contracts with customers					
Sale of properties	—	—	106,029	—	79,967
Hotel operation	—	—	—	—	5,018
	—	—	106,029	—	84,985
Turnover, other income and gains from other resources					
Rental income from investment properties	—	—	—	—	1,186
Interest income from bank deposits	—	—	4	2	6
Government grants	—	—	—	—	3,590
Others	—	—	966	—	374
	—	—	970	2	5,156
Total turnover, other income and gains	—	—	106,999	2	90,141
Timing of recognition of turnover, other income and gains from contracts with customers:					
At a point in time	—	—	106,029	—	79,967
Over time	—	—	—	—	5,018
Total	—	—	106,029	—	84,985

Information about the Target Company's performance obligations is summarised below:

Sale of properties

Revenue from the sale of properties is recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property. Payment in advance is normally required.

Hotel operation

The performance obligation is satisfied over time as services are rendered. Contracts for hotel services are for certain periods and are billed based on the time incurred.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

5. TURNOVER, OTHER INCOME AND GAINS *(Continued)*

Transaction price allocated to the remaining performance obligations

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) regarding contracts for sale of properties as at 31 July 2018, 31 July 2019 and as at 31 January 2020 were RMB107,104,000, RMB66,932,000 and RMB81,442,000, respectively and expected to be recognised as revenue within one year.

The Target Company did not have transaction price allocated to the remaining performance obligation as at 31 July 2017.

The Target Company elected to apply the practical expedient under HKFRS 15 and does not disclose the amount of the transaction price allocated to the remaining obligations for contracts with an original expected duration for one year or less as well as contracts for hotel operation for which the Target Company bills the amount according to service provided and recognise revenue in the amount to which the Target Company has right to invoice.

The ultimate consideration for those contracts will depend on the occurrence or non-occurrence of future customer's fulfillment of contracts. Accordingly, the above may not reflect the actual performance of the Target Company in the future. The analysis is solely for compliance with HKFRS 15 disclosure requirement in respect of transaction price allocated to the remaining performance obligations.

6. FINANCE COSTS

An analysis of finance costs is as follows:

		Year ended 31 July			Six months ended 31 January	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on bank loans		10,770	24,745	34,004	46,341	13,164
Less: Capitalised in properties under development	*13*	(2,800)	(6,434)	(9,349)	(11,693)	7,893
Capitalised in investment properties under construction	*14*	(5,708)	(13,115)	(17,659)	(24,815)	4,231
Capitalised in construction in progress	*12*	(2,262)	(5,196)	(6,996)	(9,833)	(8,464)
		(10,770)	(24,745)	(34,004)	(46,341)	3,660
Total finance costs		—	—	—	—	16,824

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

7. PROFIT/LOSS FROM OPERATING ACTIVITIES

The Target Company's profit/loss from operating activities is arrived at after charging/(crediting):

		Year ended 31 July			Six months ended 31 January	
		2017	2018	2019	2019	2020
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cost of completed properties sold		—	—	—	41,901	37,195
Outgoings in respect of rental income and hotel operation		—	—	—	—	7,852
Auditor's remuneration to the auditor of the Target Company		48	68	88	44	62
Depreciation of property, plant and equipment#	12	431	521	743	334	5,595
Depreciation of right-of-use asset#		—	—	—	—	273
Capitalised in properties under development/investment properties under construction/construction in progress		(431)	(521)	(743)	(334)	(494)
		—	—	—	—	5,374
Amortisation of prepaid land lease payments included in property under development		3,180	3,180	2,634	2,244	2,244
Capitalised in properties under development	13	(3,180)	(3,180)	(2,634)	(2,244)	(2,244)
		—	—	—	—	—
Employee benefit expense: Wages and salaries and pension scheme contributions		8,343	24,027	31,800	14,523	27,798
Capitalised in properties under development/investment properties under construction/construction in progress		(8,343)	(24,027)	(25,966)	(12,715)	(17,480)
		—	—	5,834	1,808	10,318

The depreciation charge of hotel and right-of-use asset of RMB5,101,000 and RMB273,000, respectively for the six months ended 31 January 2020 are included in "Other operation expenses" on the face of the income statement.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

8. DIRECTORS' REMUNERATION

There was no director remuneration paid by the Target Company during the Relevant Periods and six months ended 31 January 2019.

9. TAX

The Target Company is subject to CIT at a rate of 25% on its taxable income.

		Year ended 31 July			Six months ended 31 January	
		2017	**2018**	**2019**	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current — Mainland China CIT		—	—	—	—	—
LAT — charge for the year/period		—	—	16,374	—	8,755
Deferred	22	170,436	144,881	115,975	10,464	52,249
Total tax charge for the year/period		170,436	144,881	132,349	10,464	61,004

A reconciliation of the tax expense applicable to profit/loss before tax at the statutory rate of 25% are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rate, are as follows:

	Year ended 31 July			Six months ended 31 January	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit/(loss) before tax	681,744	579,507	524,163	39,015	(337,862)
Tax at the statutory tax rate	170,436	144,877	131,041	9,754	(84,466)
Provision for LAT	—	—	16,375	—	8,755
Tax effect of provision for LAT	—	—	(4,094)	—	(2,189)
Effect on deferred tax due to the change of intention for the usage of investment properties	—	—	—	—	130,244
Expenses not deductible for tax	—	4	—	710	8,660
Utilisation of tax losses not previously recognised	—	—	(10,973)	—	—
Tax charged at the Target Company's effective tax rate	170,436	144,881	132,349	10,464	61,004

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

10. DIVIDENDS

No dividends have been paid or declared by the Target Company since the date of its incorporation.

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE TARGET COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful to the Proposed Transaction and the preparation of the results of the Target Company for the Relevant Periods and six months ended 31 January 2019.

12. PROPERTY, PLANT AND EQUIPMENT

	Notes	Hotel	Furniture, fixtures and equipment	Motor vehicles	Computers	Construction in progress	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 July 2017							
Cost:							
As at 1 August 2016		—	649	35	1,198	69,847	71,729
Finance costs capitalised	*6*	—	—	—	—	2,262	2,262
Additions		—	344	—	215	69,434	69,993
As at 31 July 2017		—	993	35	1,413	141,543	143,984
Accumulated depreciation:							
As at 1 August 2016		—	147	10	293	—	450
Depreciation provided during the year	*7*	—	136	6	289	—	431
As at 31 July 2017		—	283	16	582	—	881
Net carrying amount		—	710	19	831	141,543	143,103

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Notes	Hotel	Furniture, fixtures and equipment	Motor vehicles	Computers	Construction in progress	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 July 2018							
Cost:							
As at 1 August 2017		—	993	35	1,413	141,543	143,984
Finance costs capitalised	6	—	—	—	—	5,196	5,196
Additions		—	353	79	293	198,469	199,194
As at 31 July 2018		—	1,346	114	1,706	345,208	348,374
Accumulated depreciation:							
As at 1 August 2017		—	283	16	582	—	881
Depreciation provided during the year	7	—	220	18	283	—	521
As at 31 July 2018		—	503	34	865	—	1,402
Net carrying amount		—	843	80	841	345,208	346,972

	Notes	Hotel	Furniture, fixtures and equipment	Motor vehicles	Computers	Construction in progress	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 July 2019							
Cost:							
As at 1 August 2018		—	1,346	114	1,706	345,208	348,374
Finance costs capitalised	6	—	—	—	—	6,996	6,996
Additions		—	555	254	1,316	437,436	439,561
As at 31 July 2019		—	1,901	368	3,022	789,640	794,931
Accumulated depreciation:							
As at 1 August 2018		—	503	34	865	—	1,402
Depreciation provided during the year	7	—	267	62	414	—	743
As at 31 July 2019		—	770	96	1,279	—	2,145
Net carrying amount		—	1,131	272	1,743	789,640	792,786

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

12. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Notes	Hotel	Furniture, fixtures and equipment	Motor vehicles	Computers	Construction in progress	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
31 January 2020							
Cost:							
As at 1 August 2019		—	1,901	368	3,022	789,640	794,931
Finance costs capitalised	*6*	—	—	—	—	8,464	8,464
Additions		—	86	1,206	483	421,549	423,324
Transfers		1,219,653	—	—	—	(1,219,653)	—
As at 31 January 2020		1,219,653	1,987	1,574	3,505	—	1,226,719
Accumulated depreciation:							
As at 1 August 2019		—	770	96	1,279	—	2,145
Depreciation provided during the period	*7*	5,101	159	79	256	—	5,595
As at 31 January 2020		5,101	929	175	1,535	—	7,740
Net carrying amount		1,214,552	1,058	1,399	1,970	—	1,218,979

The Target Company's buildings are situated in Mainland China.

As at 31 July 2017 and 2018, the Target Company's construction in progress with carrying amounts of approximately RMB141,543,000 and RMB345,208,000, respectively, were pledged to bank to secure bank borrowings as further set out in note 21 to the Historical Financial Information. Save as disclosed above, the Target Company did not pledge property, plant and equipment to secured bank borrowings as at 31 July 2019 and 31 January 2020.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

13. PROPERTIES UNDER DEVELOPMENT

		As at 31 July			As at 31 January
		2017	**2018**	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period		201,546	372,690	610,742	560,689
Finance costs capitalised	6	2,800	6,434	9,349	(7,893)
Additions*		171,524	234,798	284,989	112,325
Amortisation of prepaid land lease payments		(3,180)	(3,180)	(2,634)	(2,244)
Transfer to completed properties for sale		—	—	(341,757)	—
Carrying amount at end of year/period		372,690	610,742	560,689	662,877
Amount classified as current assets		(167,968)	(610,742)	(560,689)	(662,877)
Non-current portion		204,722	—	—	—

* Including capitalisation of prepaid land lease payments of RMB3,180,000, RMB3,180,000, RMB2,634,000 and RMB2,244,000 for each of the Relevant Periods, respectively.

As at 31 July 2017 and 2018, certain properties under development with an aggregate carrying amount of RMB372,690,000 and RMB319,334,000, respectively, were pledged to bank to secure bank borrowings of the Target Company as further set out in note 21 to the Historical Financial Information. Save as disclosed above, the Target Company did not pledge properties under development to secure bank borrowings as at 31 July 2019 and 31 January 2020.

Included in properties under development were prepaid land lease payments, the movements of which during the year/period are as follows:

		As at 31 July			As at 31 January
		2017	**2018**	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period		118,972	115,792	112,612	67,330
Amortisation during the year/period	7	(3,180)	(3,180)	(2,634)	(2,244)
Transfer to completed properties for sale		—	—	(42,648)	—
Carrying amount at end of year/period		115,792	112,612	67,330	65,086

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

14. INVESTMENT PROPERTIES

	As at 31 July			As at 31 January
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Completed investment properties	—	—	322,483	2,059,578
Investment properties under construction, at fair value	1,506,100	2,542,995	3,236,280	1,461,003
Total	1,506,100	2,542,995	3,558,763	3,520,581

		As at 31 July			As at 31 January
		2017	**2018**	**2019**	**2020**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period		611,607	1,506,100	2,542,995	3,558,763
Finance costs capitalised	*6*	5,708	13,115	17,659	(4,231)
Other additions		207,041	444,256	528,321	303,962
Net gain/(loss) from fair value adjustments		681,744	579,524	469,788	(337,913)
Carrying amount at end of year/period		1,506,100	2,542,995	3,558,763	3,520,581

As at 31 July 2017 and 2018, investment properties with an aggregate carrying amount of RMB1,506,100,000 and RMB2,542,995,000, respectively were pledged to bank to secure certain bank borrowings of the Target Company as further set out in note 21 to the Historical Financial Information. Save as disclosed above, the Target Company did not pledge investment properties to secure bank borrowings as at 31 July 2019 and 31 January 2020.

Valuation processes of the Target Company

Each year, the Target Company's management appoints an external valuer to be responsible for the external valuations of the Target Company's properties (the "**Property Valuers**"). Selection criteria of an external valuer include market knowledge, reputation, independence and whether professional standards are maintained. The Target Company's management has discussions with the Property Valuers on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The valuation techniques have been consistently applied year by year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Target Company's completed investment properties and investment properties under construction stated at fair value were revalued by Knight Frank Petty Limited, an independent professionally qualified valuer.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

14. INVESTMENT PROPERTIES *(Continued)*

Valuation techniques

For completed investment properties, valuations are based on cost approach — depreciated replacement cost, income approach — term and reversion method and market approach.

For investment properties under construction stated at fair value, the Target Company has valued such properties on the basis that they will be developed and completed in accordance with the Target Company's latest development plans. Valuations are based on market approach — property under construction and cost approach — depreciated replacement cost method.

(i) The cost approach — depreciated replacement cost is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements less allowance for physical deterioration and all relevant forms of obsolescence and optimization.

(ii) The income approach — term and reversion method is based on capitalisation of the net income and the reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuations have reference to valuers' view of recent lettings, within the subject properties and other comparable properties.

(iii) The market approach is based on market comparable transactions available in the market and adjustments of various factors would be made between the subject properties and comparable properties.

(iv) The market approach — property under construction is essentially a means of valuing the land by reference to its development potential by deducting development costs together with developer's profit and risk associated with the estimated capital value of the proposed development assuming completed as at the date of valuation.

Information about fair value measurement using significant unobservable inputs (Level 3)

As at 31 July 2017

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationships of unobservable inputs to fair value
Investment properties under construction				
Commercial properties	Market approach — property under construction	Gross development value (RMB/sqm.)	12,500-32,200	*Note 1*
		Developer's profit margin	20.0%	*Note 2*
		Budgeted costs to completion (RMB)	1,136,100,000	*Note 3*
Commercial properties	Cost approach — depreciated replacement cost	Average land accommodation value (RMB/sqm.)	2,340	*Note 4*
		Average construction cost unit rate (RMB/sqm.)	3,940	*Note 5*

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

14. INVESTMENT PROPERTIES *(Continued)*

Valuation techniques *(Continued)*

Information about fair value measurement using significant unobservable inputs (Level 3) *(Continued)*

As at 31 July 2018

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationships of unobservable inputs to fair value
Investment properties under construction				
Commercial properties	Market approach — property under construction	Gross development value (RMB/sqm.)	12,500-35,000	*Note 1*
		Developer's profit margin	9.0%	*Note 2*
		Budgeted costs to completion (RMB)	723,000,000	*Note 3*
Commercial properties	Cost approach — depreciated replacement cost	Average land accommodation value (RMB/sqm.)	2,510	*Note 4*
		Average construction cost unit rate (RMB/sqm.)	7,440	*Note 5*

As at 31 July 2019

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationships of unobservable inputs to fair value
Completed property				
Commercial property	Cost approach — depreciated replacement cost	Average land accommodation value (RMB/sqm.)	2,520	*Note 4*
		Average construction cost unit rate (RMB/sqm.)	11,780	*Note 5*
Investment properties under construction				
Commercial properties	Market approach — property under construction	Gross development value (RMB/sqm.)	12,500-35,000	*Note 1*
		Developer's profit margin	2.0%-3.0%	*Note 2*
		Budgeted costs to completion (RMB)	250,000,000	*Note 3*
Commercial property	Cost approach — depreciated replacement cost	Average land accommodation value (RMB/sqm.)	2,500	*Note 4*
		Average construction cost unit rate (RMB/sqm.)	11,300	*Note 5*

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

14. INVESTMENT PROPERTIES *(Continued)*

Valuation techniques *(Continued)*

Information about fair value measurement using significant unobservable inputs (Level 3) *(Continued)*

As at 31 January 2020

Description	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationships of unobservable inputs to fair value
Completed properties				
Commercial properties	Income approach — term and reversion method	Capitalisation rate	3.75%-4.75%	*Note 6*
		Average unit market rent per month (RMB/sqm.)	63-68	*Note 7*
Commercial properties	Market approach	Market unit rate (RMB/sqm.)	12,500	*Note 8*
Commercial property	Cost approach — depreciated replacement cost	Average land accommodation value (RMB/sqm.)	2,520	*Note 4*
		Average construction cost unit rate (RMB/sqm.)	14,740	*Note 5*
Investment property under construction				
Commercial property	Market approach — property under construction	Gross development value (RMB/sqm.)	33,600	*Note 1*
		Developer's profit margin	0%	*Note 2*
		Budgeted costs to completion (RMB)	157,300,000	*Note 3*

Notes:

1. The higher the gross development value, the higher the fair value
2. The higher the developer's profit margin, the lower the fair value
3. The higher the budgeted costs to completion, the lower the fair value
4. The higher the average land accommodation value, the higher the fair value
5. The higher the average construction cost unit rate, the higher the fair value
6. The higher the capitalisation rate, the lower the fair value
7. The higher the market rent, the higher the fair value
8. The higher the market unit rate, the higher the fair value

During the year ended 31 July 2017, 2018 and 2019 and six months ended 31 January 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

15. LEASE

The Target Company as a lessee

Right-of-use asset

The carrying amounts of the Target Company's right-of-use asset and the movements during the Relevant Periods are as follows:

	Prepaid land lease payment *RMB'000*
As at 1 August 2016, 31 July 2017, 1 August 2017, 31 July 2018, 1 August 2018, 31 July 2019 and 1 August 2019	111,495
Depreciation charge	(273)
As at 31 January 2020	111,222

As at 31 July 2017 and 2018, the right-of-use asset with carrying amount of RMB111,495,000 was pledged to bank to secured bank borrowings of the Target Company as further set out in note 21 to the Historical Financial Information. Save as disclosed above, the Target Company did not pledge right-of-use asset to secure bank borrowings as at 31 July 2019 and 31 January 2020.

The Target Company as a lessor

The Target Company leases its certain buildings under operating lease arrangements, with leases negotiated for terms ranging from one to fifteen years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Target Company during the Relevant Periods were disclosed in note 5 to the Historical Financial Information.

As at 31 July 2017, 2018 and 2019 and 31 January 2020, the Target Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 July			**As at 31 January**
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	—	—	—	2,075
In the second to fifth years, inclusive	—	—	—	26,079
After five years	—	—	—	22,191
	—	—	—	50,345

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

16. DEBTORS, DEPOSITS AND PREPAYMENTS

The Target Company maintains various credit policies for different business operations in accordance with business practices and market conditions. Sales proceeds receivable from the sale of properties are settled in accordance with the terms of the respective contracts. Rent in respect of the leasing of properties are receivable from tenants, and are normally payable in advance with rental deposits received in accordance with the terms of the tenancy agreements. Hotel charges are mainly settled by customers on a cash basis except for those corporate clients who maintain credit accounts with the Target Company, the settlement of which is in accordance with the respective agreements. The Target Company's trade receivables related to a large number of diversified customer and there is no significant concentration of credit risk. Trade receivables of the Target Company were interest-free.

The Target Company did not hold any collateral or other credit enhancements over these balances.

	As at 31 July			As at 31 January
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables, net				
Within one month	—	—	—	371
Other receivables, deposits and prepayments	31,929	67,263	133,128	143,462
Total	31,929	67,263	133,128	143,833

The Target Company has applied the simplified approach to provide for expected credit losses for trade receivables which permits the use of lifetime expected credit loss provision for all trade receivables; and general approach for financial assets included in other receivables, deposits and prepayments. To measure the expected credit losses, the Target Company considered the historical and forward-looking information. As at 31 July 2017, 2018 and 2019 and 31 January 2020, the Target Company estimated that the expected credit loss for trade receivables and financial assets included in other receivables, deposits and prepayments were insignificant.

17. BALANCES WITH RELATED PARTIES

The balances with fellow subsidiaries are unsecured, interest-free and repayable on demand, except for amount due to a fellow subsidiary of RMB214,000,000 as at 31 January 2020 therein which a fellow subsidiary agreed that no demand for the repayment within one year from 31 January 2020.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

18. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCES

	As at 31 July			As at 31 January
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	326,161	292,813	170,505	232,085
Less: Restricted bank balances*	(18,521)	(225,067)	(120,560)	(216,765)
Cash and cash equivalents	307,640	67,746	49,945	15,320

* In accordance with the relevant laws and regulations imposed by the government authorities concerned or the terms and conditions set out in the relevant bank loan agreements, proceeds from the pre-sale of certain properties are required to be deposited into designated bank accounts and restricted to be used in the relevant project construction. Such restriction will be uplifted upon repayment of the relevant bank loans or the attainment of the relevant ownership certificates issued by the authorities. As at 31 July 2019 and 31 January 2020, the balance was RMB63,533,000 and RMB36,689,000 respectively. As at 31 July 2017 and 2018, the balances were nil.

In accordance with the relevant clauses of certain bank loan facilities, proceeds from the drawdown of bank loans and certain bank balances are required to be deposited into designated bank accounts and restricted to be used for settlement of construction costs and expenses of the relevant projects. As at 31 July 2017, 2018, 2019 and 31 January 2020, the balance was RMB18,521,000, RMB225,067,000, RMB57,027,000 and RMB180,076,000, respectively.

19. CREDITORS AND ACCRUALS

An ageing analysis of trade payables as at the end of the reporting period, based on the payment due date, is as follows:

	As at 31 July			As at 31 January
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
Within one month	23,926	25,542	607,434	—
One to three months	2,940	39,753	9	34,040
Over three months	—	—	—	192
	26,866	65,295	607,443	34,232
Accruals and other payables	216,501	709,694	410,468	1,191,310
Total	243,367	774,989	1,017,911	1,225,542

Trade payables of the Target Company were interest-free and were due for settlement pursuant to the terms of the relevant agreements.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

20. CONTRACT LIABILITIES AND DEPOSITS RECEIVED

An analysis of the contract liabilities and deposits received as at the end of the reporting period is as follows:

	As at 31 July			As at 31 January
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contract liabilities	35,204	139,853	151,239	197,460
Deposits received	7,922	2,346	165,957	103,037
	43,126	142,199	317,196	300,497

Note:

Contract liabilities as at 31 July 2017, 2018 and 2019 and 31 January 2020, were arising from sale of properties. The fluctuations of the contract liabilities during the Relevant Periods were mainly due to the net effect of recognition of revenue and receipt of advances from customers.

21. INTEREST-BEARING BANK LOANS

	As at 31 July						As at 31 January	
	2017		**2018**		**2019**		**2020**	
	Effective interest rate		**Effective interest rate**		**Effective interest rate**		**Effective interest rate**	
	(%)	*RMB'000*	*(%)*	*RMB'000*	*(%)*	*RMB'000*	*(%)*	*RMB'000*
Bank loans								
Current								
Unsecured		—		—	6.13	58,669	6.00-6.13	461,798
Non-current								
Secured	5.70	399,440	5.70	641,776		—		—
Unsecured		—		—	6.13	1,085,379	6.13	1,113,922
		399,440		641,776		1,085,379		1,113,922
		399,440		641,776		1,144,048		1,575,720

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

21. INTEREST-BEARING BANK LOANS *(Continued)*

	As at 31 July			As at 31 January
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Maturity profile:				
Within one year	—	—	58,669	461,798
In the second year	—	30,716	88,004	123,595
In the third to fifth years, inclusive	399,440	611,060	369,615	395,505
Beyond five years	—	—	627,760	594,822
	399,440	641,776	1,144,048	1,575,720

Bank loans of the Target Company were secured by:

(a) mortgage over construction in progress of the Target Company with an aggregate carrying amount of RMB141,543,000 and RMB345,208,000 as at 31 July 2017 and 2018 respectively (note 12);

(b) mortgages over certain properties under development of the Target Company with an aggregate carrying amount of RMB372,690,000 and RMB319,334,000 as at 31 July 2017 and 2018 respectively (note 13);

(c) mortgages over investment properties of the Target Company with an aggregate carrying amount of RMB1,506,100,000 and RMB2,542,995,000 as at 31 July 2017 and 2018 respectively (note 14); and

(d) mortgage over right-of-use asset of the Target Company with carrying amount of RMB111,495,000 as at 31 July 2017 and 2018 (note 15).

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

22. DEFERRED TAX

The movements in deferred tax liabilities during the year/period are as follows:

	Depreciation allowance in excess of related depreciation and development costs	Revaluation of properties	Loss available for offsetting against future taxable profits	Other temporary differences	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 August 2016	(2,388)	28,089	—	—	25,701
Deferred tax charged to the income statement during the year *(note 9)*	—	170,436	—	—	170,436
As at 31 July 2017 and 1 August 2017	(2,388)	198,525	—	—	196,137
Deferred tax charged to the income statement during the year *(note 9)*	—	144,881	—	—	144,881
As at 31 July 2018 and 1 August 2018	(2,388)	343,406	—	—	341,018
Deferred tax charged/(credited) to the income statement during the year *(note 9)*	2,388	117,447	(3,680)	(180)	115,975
As at 31 July 2019 and 1 August 2019	—	460,853	(3,680)	(180)	456,993
Deferred tax charged/(credited) to the income statement during the period *(note 9)*	—	(84,478)	2,278	134,449	52,249
As at 31 January 2020	—	376,375	(1,402)	134,269	509,242

As at 31 July 2017 and 2018, the Target Company had tax losses arising in Mainland China of RMB974,000 and RMB2,294,000, respectively that would expire in one to five years for offsetting against future taxable profits of the Target Company. Deferred tax assets have not been recognised in respect of these losses as it may not be probable that taxable profits will be available against which the tax losses could be utilised.

23. SHARE CAPITAL

	As at 31 July			As at 31 January
	2017	2018	2019	2020
Registered capital	1,900,000	1,900,000	1,900,000	1,900,000

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

23. SHARE CAPITAL *(Continued)*

	As at 31 July			As at 31 January
	2017	2018	2019	2020
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Paid-in capital				
Carrying amount at beginning of the year/period	1,140,000	1,140,000	1,140,000	1,264,000
Capital injection	—	—	124,000	22,400
Carrying amount at end of the year/period	1,140,000	1,140,000	1,264,000	1,286,400

24. RESERVES

The amounts of the Target Company's reserves and the movements therein for the Relevant Periods and six months ended 31 January 2019 are presented in the statements of changes in equity on pages II-9 to II-10 of this report.

Pursuant to the relevant laws and regulations in the PRC, the Target Company is required to transfer a certain percentage of its net profit after tax (after offsetting any prior years' losses, if any) to statutory reserve funds which are restricted as to use, until the balance of the statutory reserve funds reaches 50% of its registered capital.

25. NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Changes in liabilities arising from financial activities:

	Interest-bearing bank loans	Due to a fellow subsidiary	Interests payable#	Amount received from a potential shareholder*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 August 2016	100,000	—	394	—
Changes from financing cash flow	299,440	—	(8,678)	—
Finance costs	—	—	10,770	—
As at 31 July 2017 and 1 August 2017	399,440	—	2,486	—
Changes from financing cash flow	242,336	—	(23,482)	—
Finance costs	—	—	24,745	—
As at 31 July 2018 and 1 August 2018	641,776	—	3,749	—
Changes from financing cash flow	502,272	—	(30,723)	—
Finance costs	—	—	34,004	—
As at 31 July 2019 and 1 August 2019	1,144,048	—	7,030	—
Changes from financing cash flow	431,672	214,000	(11,734)	100,000
Finance costs	—	—	13,164	—
As at 31 January 2020	1,575,720	214,000	8,460	100,000

These amounts are included in creditors and accruals.

* This amount is included in contract liabilities and deposits received.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

25. NOTES TO THE STATEMENTS OF CASH FLOWS *(Continued)*

(b) Total cash outflow for lease

There were no cash outflow for leases as a lessee during the Relevant Periods and six months ended 31 January 2019.

26. CONTINGENT LIABILITIES

The Target Company has provided guarantees to certain banks in respect of mortgage loan facilities granted by such banks to certain end-buyers of property units developed by the Target Company. Pursuant to the terms of the guarantees, upon default in mortgage payments by these end-buyers, the Target Company will be responsible to repay the outstanding mortgage loan principal amounts together with accrued interest owed by the end-buyers in default. The Target Company's obligation in relation to such guarantees has been gradually relinquished along with the settlement of the mortgage loans granted by the banks to the end-buyers. Such obligation will also be relinquished when the property ownership certificates for the relevant properties are issued and/or the end-buyers have fully repaid the mortgage loans. As at 31 January 2020, in respect of these guarantees, the contingent liabilities of the Target Company amounted to approximately RMB5,620,000. Save as disclosed above, the Target Company did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threat.

27. COMMITMENTS

The Target Company had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 July			As at 31 January
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Construction and development costs	1,797,454	1,162,565	685,453	65,508

28. PLEDGE OF ASSETS

Details of the Target Company's bank loans which were secured by certain assets of the Target Company, are included in note 21 to the Historical Financial Information.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

29. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transaction and balances detailed elsewhere in the Historical Financial Information, the Target Company had the following material transactions with related parties during the period/year:

Six months ended 31 January 2020

	Notes	*RMB'000*
Fellow subsidiaries of the Target Company:		
Rental income received or receivable	*(i)*	1,126
F&B and retail consultancy service income received or receivable	*(ii)*	374
Sharing of administrative expenses on a cost basis allocated from		909
Sharing of administrative expenses on a cost basis allocated to		3,159
Advance received	*(iii)*	214,000

Year ended 31 July 2019

	Notes	*RMB'000*
Fellow subsidiaries of the Target Company:		
F&B and retail consultancy service income received or receivable	*(ii)*	249
Sharing of administrative expenses on a cost basis allocated from		368
Sharing of administrative expenses on a cost basis allocated to		249

Notes:

(i) The related companies are fellow subsidiaries of the Target Company. The terms of the rental were determined based on the agreements entered into between the Target Company and the related companies.

(ii) The related company is a fellow subsidiary of the Target Company. The terms of the consultancy fee were determined based on the agreement entered into between the Target Company and the related company.

(iii) The related company is a fellow subsidiary of the Target Company. The advance is unsecured and interest free. The related company agreed that no demand for settlement of the advance would be made to the Target Company within one year from the end of the reporting period.

Save as disclosed above, there is no related party transaction for the year ended 31 July 2017 and 2018 and six months ended 31 January 2019.

(b) Guarantee provided by related parities

As at 31 July 2017, 2018 and 2019 and 31 January 2020, intermediate holding companies of the Target Company provided guarantees of bank loan facilities of up to RMB1,799,440,000, RMB1,680,716,000, RMB1,770,665,000 and RMB2,139,767,000, respectively in aggregate granted to the Target Company.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

30. FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

As at 31 July 2017, 2018 and 2019 and 31 January 2020, the Target Company's financial assets were categorised as financial assets at amortised cost.

Financial liabilities

As at 31 July 2017, 2018 and 2019 and 31 January 2020, the Target Company's financial liabilities were categorised as financial liabilities at amortised cost.

31. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

As at 31 July 2017, 2018 and 2019 and 31 January 2020, the fair values of the Target Company's financial assets or liabilities approximated to their respective carrying amounts.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Company's principal financial instruments comprise interest-bearing bank loans, balances with related parties, restricted bank balances and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Target Company's operations. The Target Company has various other financial assets and liabilities such as debtors and creditors, which arise directly from its operations.

The main risks arising from the Target Company's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Target Company maintains various credit policies for different business operations as described in note 16 to the Historical Financial Information. In addition, receivable balances are monitored on an ongoing basis and the Target Company's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Target Company's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 July 2017, 2018 and 2019 and 31 January 2020. The amounts presented are gross carrying amounts for financial assets.

As at 31 July 2017

	12-month ECLs	Lifetime ECLs	
	Stage 1	Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*
Other receivables and deposits**	9,234	—	9,234
Restricted bank balances	18,521	—	18,521
Cash and cash equivalents	307,640	—	307,640
	335,395	—	335,395

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 July 2018

	12-month ECLs Stage 1	Lifetime ECLs Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*
Other receivables and deposits**	10,138	—	10,138
Restricted bank balances	225,067	—	225,067
Cash and cash equivalents	67,746	—	67,746
	302,951	—	302,951

As at 31 July 2019

	12-month ECLs Stage 1	Lifetime ECLs Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*
Other receivables and deposits**	11,082	—	11,082
Pledged bank balances	120,560	—	120,560
Cash and cash equivalents	49,945	—	49,945
	181,587	—	181,587

As at 31 January 2020

	12-month ECLs Stage 1	Lifetime ECLs Simplified approach	Total
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables*	—	371	371
Other receivables and deposits**	16,610	—	16,610
Restricted bank balances	216,765	—	216,765
Cash and cash equivalents	15,320	—	15,320
	248,695	371	249,066

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging *(Continued)*

* For trade receivables to which the Target Company applies the simplified approach for impairment, information is disclosed in note 16 to the Historical Financial Information.

** The credit quality of the other receivables and deposits is considered to be "normal" as they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Liquidity risk

The Target Company's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flows from operations, bank and other borrowings. The Target Company regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Target Company's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

As at 31 July 2017	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Creditors and accruals	243,367	—	—	243,367
Deposits received	7,922	—	—	7,922
Interest-bearing bank loans	119,074	345,017	—	464,091
	370,363	345,017	—	715,380

As at 31 July 2018	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Creditors and accruals	774,989	—	—	774,989
Deposits received	2,346	—	—	2,346
Interest-bearing bank loans	33,880	711,165	—	745,045
	811,215	711,165	—	1,522,380

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

As at 31 July 2019	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Creditors and accruals	1,017,911	—	—	1,017,911
Deposits received	165,957	—	—	165,957
Interest-bearing bank loans	120,562	655,272	713,338	1,489,172
Due to a fellow subsidiary	376	—	—	376
	1,304,806	655,272	713,338	2,673,416

As at 31 January 2020	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Creditors and accruals	1,225,542	—	—	1,225,542
Deposits received	3,037	—	—	3,037
Interest-bearing bank loans	548,374	714,355	667,068	1,929,797
Due to a fellow subsidiary	473	214,000	—	214,473
	1,777,426	928,355	667,068	3,372,849

As further detailed in note 2.1 to the Historical Financial Information, Lai Fung Holdings Limited and Lai Sun Development Company Limited will provide adequate funds in proportion to their respective shareholdings to enable the Target Company to meet its liabilities as and when they fall due.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION *(Continued)*

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objective of the Target Company's capital management is to safeguard the Target Company's ability to continue as a going concern. The Target Company's overall strategy remains unchanged year by year.

The Target Company monitors capital using, inter alia, a gearing ratio which is net debt divided by net assets. Net debt includes interest-bearing bank loans, advances from a fellow subsidiary, less restricted bank balances and cash and cash equivalents. The gearing ratio as at the end of each of the Relevant Periods is as follows:

	As at 31 July			As at 31 January
	2017	**2018**	**2019**	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loans	399,440	641,776	1,144,048	1,575,720
Advances from a fellow subsidiary	—	—	—	214,000
Less:				
Restricted bank balances	(18,521)	(225,067)	(120,560)	(216,765)
Cash and cash equivalents	(307,640)	(67,746)	(49,945)	(15,320)
Net debt	73,279	348,963	973,543	1,557,635
Net assets	1,728,410	2,163,036	2,678,850	2,302,384
Gearing ratio	4%	16%	36%	68%

33. SUBSEQUENT EVENTS

Since early 2020, the epidemic of COVID-19 outbreak has spread across China and other countries, and it has affected business and economic activities to some extent. There was no significant impact to the Target Company for the six months ended 31 January 2020. The Target Company will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Target Company. As at the date of this accountants' report, the Target Company is still under assessment on the financial statements for subsequent periods as a result of the COVID-19 outbreak.

34. SUBSEQUENT FINANCIAL STATEMENTS

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

Set out below is the management discussion and analysis of Laisun Creative Culture for the three years ended 31 July 2017, 2018 and 2019 and the six months ended 31 January 2020. The information set out below has been extracted from the relevant accountants' report of Laisun Creative Culture to provide further information relating to the financial condition and results of operations of Laisun Creative Culture during the periods stated. Capitalised terms used in this Appendix III shall have the same meanings as defined in the relevant reports.

BUSINESS REVIEW

Laisun Creative Culture was established in the PRC with limited liabilities on 3 January 2014 for the purpose of the development of the site in relation to Novotown Phase I and is principally engaged in design, development and operation of Novotown Phase I, which is an integrated tourism and entertainment project comprising of two themed indoor experience centres namely "Lionsgate Entertainment World®" and "National Geographic Ultimate Explorer Hengqin", a 493-room hotel known as "Hyatt Regency Hengqin", offices, cultural workshops, cultural studios, shopping and leisure facilities and 1,844 car-parking spaces. Construction works commenced in 2015 and has been completed by end of 2019 pending for the filing of as-built inspection of office tower and cultural workshop tower with relevant construction administrative department of the Chinese government. Major assets of Laisun Creative Culture are the properties in relation to Novotown Phase I and please refer to the section headed "Letter from the Board – reasons for and benefits of the subscription and use of proceeds" in this circular for the GFA breakdown of the properties owned by Laisun Creative Culture as at 31 January 2020.

Lionsgate Entertainment World® and National Geographic Ultimate Explorer Hengqin commenced operations on 31 July 2019 and 9 September 2019, respectively. Hyatt Regency Hengqin soft opened on 31 December 2019. Leasing of the commercial area of Novotown Phase I is underway with approximately 76% of the leasable area having been leased. As part of preventive and protective measures in light of the outbreak of novel coronavirus (COVID-19) in the PRC, Novotown Phase I has been closed temporarily since 24 January 2020, Laisun Creative Culture is carefully monitoring the evolving situation, stays in close contact with local officials and will announce the reopening date upon confirmation. Cultural studios and cultural workshops of Novotown Phase I have been launched for sale in 2017 and 2019 respectively.

FINANCIAL REVIEW

Laisun Creative Culture did not record any revenue or cost of sales for the financial years ended 31 July 2017 and 31 July 2018 as the construction works of Novotown Phase I have not been completed and Laisun Creative Culture has not yet commenced operation or sale of properties. For the year ended 31 July 2019 and the six months ended 31 January 2020, Laisun Creative Culture recorded turnover of approximately RMB106.0 million and RMB86.2 million, respectively, derived mainly from the sale of cultural studios. During the financial year ended 31 July 2019, sale of 6 cultural studios with total GFA of approximately 24,207 square feet was recognised at an average selling price of RMB4,599 per square foot, which contributed RMB106.0 million to Laisun Creative Culture's turnover. During the six months ended 31 January 2020, sales of 7 cultural studios with total GFA of approximately 22,315 square feet was recognised at an average selling price of RMB3,763 per square foot, which contributed RMB80.0 million to Laisun Creative Culture's turnover. As at 31 January 2020, contracted but not yet recognised sales for cultural studios and cultural workshops amounted to RMB123.8 million and RMB97.6 million, at an average selling price of RMB4,089 and RMB3,074 per square foot, respectively.

The gross profit for the financial year ended 31 July 2019 and the six months ended 31 January 2020 amounted to RMB64.1 million and RMB41.1 million, respectively.

Profits for the three years ended 31 July 2017, 2018 and 2019 were approximately RMB511.3 million, RMB434.6 million and RMB391.8 million, respectively, which was primarily contributed by the revaluation gains of the properties held by Laisun Creative Culture. For the six months ended 31 January 2020, Laisun Creative Culture recorded a net loss of approximately RMB398.9 million, compared with a profit of approximately RMB28.6 million for the same period last year. The decline was primarily due to the decrease in fair value of the investment properties held by Laisun Creative Culture, resulting in the recognition of a significant fair value loss arising from the revaluation of investment properties for the six months ended 31 January 2020.

CAPITAL STRUCTURE, LIQUIDITY AND DEBT MATURITY PROFILE

As at 31 July 2017, 31 July 2018, 31 July 2019 and 31 January 2020, cash and bank balances held by Laisun Creative Culture amounted to RMB326.2 million, RMB292.8 million, RMB170.5 million and RMB232.1 million, respectively and undrawn facilities of Laisun Creative Culture was RMB1,400.0 million, RMB1,038.9 million, RMB626.6 million and RMB564.0 million, respectively.

As at 31 July 2017, 31 July 2018 and 31 July 2019, Laisun Creative Culture had total borrowings amounting to RMB399.4 million, RMB641.8 million and RMB1,144.0 million, respectively. As at 31 January 2020, Laisun Creative Culture had total borrowings amounting to RMB1,789.7 million, representing an increase of RMB645.7 million from 31 July 2019. As at 31 July 2017, 31 July 2018, 31 July 2019 and 31 January 2020, the net assets of Laisun Creative Culture amounted to RMB1,728.4 million, RMB2,163.0 million, RMB2,678.9 million and RMB2,302.4 million, respectively. The gearing ratio, being net debt (total borrowings less cash and bank balances) to net assets of Laisun Creative Culture as at 31 July 2017, 31 July 2018, 31 July 2019 and 31 January 2020 was approximately 4%, 16%, 36% and 68%, respectively. As at 31 July 2017, Laisun Creative Culture's borrowings of RMB399.4 million was repayable in the third to fifth years. As at 31 July 2018, the maturity profile of Laisun Creative Culture's borrowings of RMB641.8 million was spread with RMB30.7 million repayable in the second year and RMB611.1 million repayable in the third to fifth years. As at 31 July 2019, the maturity profile of Laisun Creative Culture's borrowings of RMB1,144.0 million was well spread with RMB58.6 million repayable within 1 year, RMB88.0 million repayable in the second year, RMB369.6 million repayable in the third to fifth years and RMB627.8 million repayable beyond the fifth year. As at 31 January 2020, the maturity profile of Laisun Creative Culture's borrowings of RMB1,789.7 million is well spread with RMB461.8 million repayable within 1 year, RMB337.6 million repayable in the second year, RMB395.5 million repayable in the third to fifth years and RMB594.8 million repayable beyond the fifth year.

Laisun Creative Culture's borrowings as at 31 July 2017, 31 July 2018 and 31 July 2019 were on a floating rate basis. As at 31 January 2020, approximately 22% and 66% of Laisun Creative Culture's borrowings were on a fixed rate basis and floating rate basis, respectively, and the remaining 12% of Laisun Creative Culture's borrowings were interest free.

Laisun Creative Culture's cash and bank balances as at 31 July 2017, 31 July 2018, 31 July 2019 and 31 January 2020 were denominated in RMB.

Laisun Creative Culture's presentation currency is denominated in RMB. Laisun Creative Culture's monetary assets, liabilities and transactions are also mainly denominated in RMB. Therefore, the foreign currency risk to Laisun Creative Culture is not material. Laisun Creative Culture does not have any derivative financial instruments or hedging instruments outstanding.

As at 31 July 2017 and 31 July 2018, certain assets of Laisun Creative Culture have been pledged to secure borrowings and bank facilities, including investment properties with a total carrying amount of approximately RMB1,506.1 million and RMB2,543.0 million, respectively, properties under development with a total carrying amount of approximately RMB372.7 million and RMB319.3 million, respectively, construction in progress with a total carrying amount of approximately RMB141.5 million and RMB345.2 million, respectively and right-of-use asset with carrying amount of approximately RMB111.5 million and RMB111.5 million, respectively. As at 31 July 2019 and 31 January 2020, Laisun Creative Culture did not pledge its assets to secure borrowings and bank facilities.

Taking into account the amount of cash being held as at the end of the reporting periods, the available banking facilities and the recurring cash flows from Laisun Creative Culture's operating activities, Laisun Creative Culture believes that it would have sufficient liquidity to finance its operation.

CAPITAL COMMITMENT, CHARGE OF ASSETS AND CONTINGENT LIABILITIES

Details of capital commitment, charge of assets and contingent liabilities as at the Relevant Periods are set out in note 27, 21 and 26, respectively of Appendix II to this circular.

Save as disclosed above, Laisun Creative Culture did not have any other contingent liabilities as at 31 July 2017, 31 July 2018, 31 July 2019 and 31 January 2020.

SIGNIFICANT INVESTMENT

As at 31 July 2017, 31 July 2018, 31 July 2019 and 31 January 2020, save and except for Novotown Phase I, Laisun Creative Culture did not have any significant investment.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATED COMPANIES OR JOINT VENTURES

Laisun Creative Culture had not acquired nor disposed of any subsidiaries, associated companies or joint ventures during the years ended 31 July 2017, 31 July 2018, 31 July 2019 and the six months ended 31 January 2020.

EMPLOYEES AND REMUNERATION POLICY

As at 31 July 2017, 31 July 2018, 31 July 2019 and 31 January 2020, Laisun Creative Culture employed a total of 69, 108, 814 and 1,023 employees, respectively. Under the existing policies of Laisun Creative Culture, employee pay rates are maintained at competitive levels whilst promotion and salary increments are assessed on a performance-related basis. Discretionary bonuses are granted to employees based on their merit and in accordance with industry practice. Employee benefits of all forms of considerations were given in exchange for services rendered by employees or compensation paid in order to terminate the employment relationship. Employee benefits including life & critical illness insurance plan, body check-up, sponsorship for external training programmes, shuttle bus arrangement to and from office, free meals are offered to employees of Laisun Creative Culture.

Total staff costs for each of the three years ended 31 July 2017, 31 July 2018, 31 July 2019 and the six months ended 31 January 2020 were RMB8,343,000, RMB24,027,000, RMB31,800,000 and RMB27,798,000 respectively.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The unaudited pro forma consolidated statement of assets and liabilities of the Group (the "**Unaudited Pro Forma Financial Information**") has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Subscription and the exercise of Put Option on the consolidated assets and liabilities of the Group as if the Subscription and the exercise of Put Option had taken place on 31 July 2019.

The Unaudited Pro Forma Financial Information of the Group has been prepared based on the audited consolidated statement of financial position of the Group as at 31 July 2019, as extracted from the published annual report of the Company for the year ended 31 July 2019 as set out in Appendix I to this circular and after incorporating the unaudited pro forma adjustments described in the accompanying notes.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Group for the year ended 31 July 2019, and other financial information included elsewhere in this circular.

The Unaudited Pro Forma Financial Information of the Group has been prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the consolidated assets and liabilities following the Subscription and the exercise of Put Option.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

	As at 31 July 2019 (Audited) *HK$'000* *(Note 1)*	Pro forma adjustment (Unaudited) *HK$'000* *(Note 2)*	After the Subscription (Unaudited) *HK$'000*	Pro forma adjustment (Unaudited) *HK$'000* *(Note 3)*	After exercise of the Put Option by the Investor (Unaudited) *HK$'000*
Non-current assets					
Property, plant and equipment	3,627,227		3,627,227		3,627,227
Prepaid land lease payments	3,951		3,951		3,951
Investment properties	20,455,200		20,455,200		20,455,200
Properties under development	711,362		711,362		711,362
Investments in joint ventures	1,317		1,317		1,317
Investments in associates	5,804		5,804		5,804
Derivative financial instruments	20,581		20,581		20,581
	24,825,442		24,825,442		24,825,442
Current assets					
Properties under development	1,811,683		1,811,683		1,811,683
Completed properties for sale	902,331		902,331		902,331
Inventories	5,012		5,012		5,012
Debtors, deposits and prepayments	554,897		554,897		554,897
Prepaid tax	42,031		42,031		42,031
Pledged and restricted time deposits and bank balances	1,173,775		1,173,775		1,173,775
Cash and cash equivalents	1,923,484	1,076,300	2,999,784	(1,076,300)	1,923,484
	6,413,213		7,489,513		6,413,213
Asset classified as held for sale	70,972		70,972		70,972
	6,484,185		7,560,485		6,484,185

	As at 31 July 2019 (Audited) *HK$'000* *(Note 1)*	Pro forma adjustment (Unaudited) *HK$'000* *(Note 2)*	After the Subscription (Unaudited) *HK$'000*	Pro forma adjustment (Unaudited) *HK$'000* *(Note 3)*	After exercise of the Put Option by the Investor (Unaudited) *HK$'000*
Current liabilities					
Creditors and accruals	2,062,621		2,062,621		2,062,621
Contract liabilities, deposits received and deferred income	540,744		540,744		540,744
Interest-bearing bank loans	433,536		433,536		433,536
Loans from a fellow subsidiary	316,259		316,259		316,259
Tax payable	155,643		155,643		155,643
Other borrowings	41,440		41,440		41,440
	3,550,243		3,550,243		3,550,243
Net current assets	2,933,942		4,010,242		2,933,942
Total assets less current liabilities	27,759,384		28,835,684		27,759,384
Non-current liabilities					
Put option liability	—	1,076,300	1,076,300	(1,076,300)	—
Long-term deposits received	149,213		149,213		149,213
Interest-bearing bank loans	5,554,150		5,554,150		5,554,150
Advances from a former substantial shareholder	53,006		53,006		53,006
Guaranteed notes	2,720,857		2,720,857		2,720,857
Deferred tax liabilities	3,100,475		3,100,475		3,100,475
	11,577,701		12,654,001		11,577,701
Net assets	16,181,683		16,181,683		16,181,683

Notes:

(1) Figures are extracted from the audited consolidated statement of financial position of the Group as at 31 July 2019 as set out in the published annual report of the Company for the year ended 31 July 2019.

(2) The adjustment represents the capital contribution of RMB948.4 million (equivalent to approximately HK$1,076.3 million) that shall be paid by the Investor to Laisun Creative Culture under the Subscription. For the purpose of the Unaudited Pro Forma Financial Information, Completion of the Subscription, together with the receipt of aforesaid capital contribution from the Investor in full by cash, are both assumed to have taken place on 31 July 2019. According to the Agreement, the Investor has been granted the Put Option pursuant to which the Investor has the right to require Laisun Creative Culture and/or Winfield Concept to acquire the entire equity interest held by the Investor in Laisun Creative Culture upon the occurrence of certain triggering events at an amount equal to the capital contribution received from the Investor (with prescribed adjustments, if any). The Investor is not considered to have present ownership interest associated with the said equity interest in Laisun Creative Culture. Put option liability arising from the Put Option is recognised as financial liability and no non-controlling interest is recognised.

(3) The adjustment represents cash to be paid to the Investor to acquire the entire equity interest held by the Investor upon its exercise of the Put Option which is assumed to have taken place on 31 July 2019 for the purpose of the Unaudited Pro Forma Financial Information.

(4) RMB is converted into HK$ at an exchange rate of RMB1 = HK$1.1349 for illustrative purpose.

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

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular from the independent reporting accountant, Ernst & Young, Certified Public Accountants.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of Lai Fung Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Lai Fung Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated statement of assets and liabilities as at 31 July 2019, and related notes as set out in Appendix IV of the circular dated 30 April 2020 issued by the Company (the "**Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Appendix IV.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the subscription of 16.68% equity interest in 珠海横琴麗新文創天地有限公司 (Zhuhai Hengqin Laisun Creative Culture City Co., Ltd., "**Laisun Creative Culture**"), an indirect subsidiary of the Company, by 珠海大横琴置業有限公司 (Zhuhai Da Hengqin Real Estate Co., Ltd., the "**Investor**") and the exercise of put option, which is granted in accordance with the agreement dated 19 January 2020 entered into between the Investor, Laisun Creative Culture and Winfield Concept Limited, by the Investor (the "**Transactions**") on the Group's assets and liabilities as at 31 July 2019 as if the Transactions had taken place at 31 July 2019. As part of this process, information about the Group's assets and liabilities has been extracted by the Directors from the Group's financial statements for the year ended 31 July 2019, on which an annual report has been published.

Directors' responsibility for the Pro Forma Financial Information

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

Our independence and quality control

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

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,* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

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

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

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

The purpose of the Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Transactions on unadjusted financial information of the Group as if the Transactions 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 Transactions would have been as presented.

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

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

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

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

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

Opinion

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of the Group; and
- the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

30 April 2020

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Knight Frank Petty Limited, an independent valuer, in connection with the valuation of the Self-owned Properties and Non Self-owned Properties as at 31 January 2020.

Knight Frank
4/F Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

T +852 2840 1177
F +852 2840 0600
www.knightfrank.com.hk

Board of Directors
Lai Sun Garment (International) Limited
11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Hong Kong

Board of Directors
eSun Holdings Limited
11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Hong Kong

Board of Directors
Lai Fung Holdings Limited
11th Floor
Lai Sun Commercial Centre
680 Cheung Sha Wan Road
Hong Kong

30 April 2020

Dear Sirs

Various portions located at the east side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Main Road, Hengqin New Area, Zhuhai, Guangdong Province, the People's Republic of China

In accordance with your instructions for us to value the property interests held by 珠海橫琴麗新文創天地有限公司 (Zhuhai Hengqin Laisun Creative Culture City Co., Ltd.) (the "**Target Company**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out 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 values of the property interests as at 31 January 2020.

Basis of Valuation

Our valuation is our opinion of the market values of the property interests, which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction), and without offset for any associated taxes or potential taxes.

Market value is also the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In preparing our valuation report, we have complied with "The HKIS Valuation Standards 2017" published by the Hong Kong Institute of Surveyors, all requirements contained in the provision of Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Valuation Methodology

In forming our opinion of the value of the property interest in Group I which is held by the Target Company in the PRC for investment purpose, we have valued the property by using "Income Approach — term and reversion method" by capitalization the net incomes shown on the tenancy schedules handed to us by the Target Company and made provisions for reversionary income potential. We have also made reference to sales evidence as available in the market.

We have valued the property interest in Group II which is held by the Target Company in the PRC for sale purpose by using Market Approach whenever market comparable transactions/information are available and assumed sale of property interest with the benefit of vacant possession.

In valuing property interest in Group III which is held under development by the Target Company in the PRC, we have valued the property interest on the basis that the property will be developed and completed in accordance with the Target Company's latest development proposals provided to us. We have assumed that approvals for the proposals have been obtained without any onerous condition which would affect the value of the property interest. In arriving at our opinion of value, we have made reference to comparable transactions/information in the locality and also taken into account the construction costs that will be expended to reflect the quality of the completed development.

Due to the specific purpose for which the buildings and structures of property no 1 (Lionsgate portion) have been designed, there is no readily identifiable market comparable, we have thus valued it by Cost Approach with reference to the depreciated replacement cost. Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deduction for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements less allowance for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property is subject to adequate potential profitability* of the business. It is assumed that the replacing of the property will be in compliance with the relevant laws and regulations and completed in timely fashion. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transactions of the complex or development is assumed.

* *The assumption of adequate potential profitability of the business is the underlying assumption for application of the depreciated replacement cost while it is considered that depreciated replacement cost of a property could represent the market value of the property valued under the condition that the business conducting inside the property is profitable so that depreciated replacement cost of the property could prudently represent the market value of the property. Otherwise, without this assumption, adopting depreciated replacement cost of the property to represent market value of the property would be in doubt since business conducting inside the property is not having adequate potential profitability.*

Title Documents and Encumbrances

We have been provided by the Target Company with extracts of title documents relating to the property interests in the PRC. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us by the Target Company. In the course of our valuation, we have relied on the information and legal opinion given by the Target Company and its PRC legal advisers, Guangda Law Firm in April 2020, regarding the title and other legal matters relating to the properties in the PRC.

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

Source of Information

We have relied to a considerable extent on the information given by the Target Company and the legal opinion of the Target Company's PRC legal adviser. We have no reason to doubt the truth and accuracy of the information provided to us by the Target Company and/or its PRC legal adviser which is material to the valuation. We have accepted advice given by the Target Company on such matters as planning approvals or statutory notices, easements, tenure, completion date of buildings, particulars of occupancy, tenancy summaries, development schemes, construction costs, sites and floor areas. Dimension, measurements and areas included in the valuation report attached are based on information provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the correctness of sites and floor areas of the properties. We have exercised our due diligence in verifying the provided sites and floor areas by checking against the relevant documents provided. Meanwhile, for remaining portion of the properties without relevant supporting documents, we have further assumed that the sites and floor areas shown on the documents handed to us are correct. We were also advised by the Target Company that no material facts have been omitted from the information provided.

Inspection and Structural Condition

We have inspected the properties. The inspection was carried out by our Ocean Ruan in February 2020. During our inspection, we noted that the properties appeared to be in a generally reasonable state of repair commensurate with their ages and uses. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the services, etc for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects, nor were any tests carried out to any of the services.

Identity of Property to be valued

We exercised reasonable care and skill to ensure that the properties, identified by the property addresses in your instructions, are the properties inspected by us and contained within our valuation report.

Environmental Issues

We are not environmental specialists and therefore we have not carried out any scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor have we undertaken searches of public archives to seek evidence of past activities that might identify potential for contamination. In the absence of appropriate investigations and where there is no apparent reason to suspect potential for contamination, our valuations are prepared on the assumption that the properties are unaffected. Where contamination is suspected or confirmed, but adequate investigation has not been carried out and made available to us, then the valuations will be qualified.

Compliance with Relevant Ordinances and Regulations

We have assumed that the properties have been constructed, occupied and used in full compliance with, and without contravention of any ordinances, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the properties upon which this report is based, any and all required licences, permits, certificates, consents, approvals and authorisation have been obtained, except only where otherwise stated.

Remarks

In our valuation, we have prepared the valuation based on information and data available to us as at the valuation date. While the market is influenced by various policies and regulations, increasing complexity in international trade tensions, the recent regional health issue of outbreak of Novel Coronavirus is expected to bring additional fluctuations to the real estate market. It must be recognised that the regional health problem, change in policy direction, mortgage requirements and international trade tensions could have immediate and sweeping impact on the real estate market apart from typical market variations. It should therefore be noted that any market violation, policy, geographical or other unexpected circumstances after the valuation date may affect the values of the properties.

Risk Factor

The current market is influenced by various policies and regulations, increasing complexity in international trade tensions and the recent regional health issue of outbreak of Novel Coronavirus. There may be a difference, be it material or not, between our estimation of market value based on the current market and the actual transaction price which will be affected by many other factors such as the above-mentioned.

Currency

Unless otherwise stated, all sums stated in our valuation reports are in Renminbi.

Our summary of values and valuation reports are attached.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited

Clement W M Leung
MFin MCIREA MHKIS MRICS RPS (GP)
RICS Registered Valuer
Executive Director, Head of China Valuation & Advisory

Note: Clement Leung is a qualified valuer who has 27 years of experiences in property valuation and consultancy services in the PRC and Hong Kong.

SUMMARY OF VALUES

	Property	Market value in existing state as at 31 January 2020
Group I — Property interest held by the Target Company in the PRC for investment purpose		
1.	Various portions located at the east side of Yiwener Road south side of Caihong Road west side of Tianyu Road and north side of Hengqin Main Road Hengqin New Area, Zhuhai, Guangdong Province The PRC	RMB3,887,405,000
Group II — Property interest held by the Target Company in the PRC for sale purpose		
2.	Unsold villa (cultural studios) located at the east side of Yiwener Road south side of Caihong Road west side of Tianyu Road and north side of Hengqin Main Road Hengqin New Area, Zhuhai, Guangdong Province The PRC	RMB601,272,000
Group III — Property interest held under development by the Target Company in the PRC		
3.	Various portions located at the east side of Yiwener Road south side of Caihong Road west side of Tianyu Road and north side of Hengqin Main Road Hengqin New Area, Zhuhai, Guangdong Province The PRC	RMB2,697,271,000
	Grand Total:	**RMB7,185,948,000**

VALUATION REPORT

Group I — Property interest held by the Target Company in the PRC for investment purpose

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2020
1	Various portions located at the east side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Main Road Hengqin New Area Zhuhai Guangdong Province The PRC	The development comprises two parcels of adjacent land located at the east side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Main Road in Hengqin New Area of Zhuhai. The total site area is approximately 130,173.16 sq m. The development is located at Hengqin New Area which is situated at the southern part of Zhuhai. The locality is planned to be tourist and leisure area. It takes about 30 minutes to drive to city centre of Zhuhai. The development is planned to be developed into a comprehensive development including commercial, office, hotel, cultural development with a total plot ratio gross floor area of approximately 260,289.94 sq m (2,801,761 sq ft). The property comprises a 4-storey shopping mall, hotel, three cultural halls and cultural attractions (Lionsgate and National Geographic) of the development with a total gross floor area of approximately 145,868.07 sq m (1,570,124 sq ft) completed in about 2019 and the gross floor area breakdowns are as follows:	According to the information provided, retail portion of the property with a total leasable area of approximately 16,239 sq m is let under various tenancies yielding a total monthly base rental of approximately RMB550,000 with last tenancy expiring on 30 December 2034. Lionsgate portion of the property is leased under a tenancy for ten years expiring on 30 July 2029 subject to turnover rent whilst National Geographic portion of the property is leased under a tenancy for ten years yielding a monthly rental of approximately RMB297,000 expiring on 8 September 2029. Hotel portion of the property is currently under operation whilst the remaining portion of the property is vacant.	RMB3,887,405,000 (RENMINBI THREE BILLION EIGHT HUNDRED EIGHTY SEVEN MILLION FOUR HUNDRED AND FIVE THOUSAND ONLY) *(please see note 6)*

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2020

Use	Approximate Gross Floor Area *sq m*	*sq ft*
Shopping mall	48,877.43	526,117
Hotel	55,254.20	594,756
Cultural hall (multi-purpose)	3,720.00	40,042
Cultural hall (wedding)	617.00	6,641
Cultural hall (other)	10,151.94	109,276
Cultural attractions (Lionsgate)	22,566.50	242,906
Cultural attractions (National Geographic)	4,681.00	50,386
Total:	**145,868.07**	**1,570,124**

The property also comprises 291 above ground car parking spaces and 1,553 basement car parking spaces.

The land use rights of the development have been granted for terms of 40 years for office, commercial and servicing, hotel uses and 50 years for other uses commencing from 31 December 2013.

Notes:

1. Pursuant to two Guangdong Province Real Estate Title Certificates Nos Yue Fang Di Quan Zheng Zhu Zi Di 0100244267 and 0100244268 both issued by the Zhuhai Real Estate Registration Centre dated 27 May 2014, the title to the development, having a total site area of 130,173.16 sq m, is held by 珠海横琴麗新文創天地有限公司 (Zhuhai Hengqin Laisun Creative Culture City Co., Ltd.) ("**the Target Company**"), an 80% indirectly owned subsidiary of Lai Fung Holdings Limited and 20% indirectly owned subsidiary of Lai Sun Development Company Limited for land use rights terms of 40 years for office, commercial and servicing, hotel uses and 50 years for other uses commencing from 31 December 2013.

2. Pursuant to an agreement entered into between 珠海大横琴置業有限公司 (Zhuhai Da Hengqin Real Estate Co., Ltd) (the "**Investor**"), the Target Company and Winfield Concept Limited ("**Winfield Concept**"), an 80% indirectly owned subsidiary of Lai Fung Holdings Limited and 20% indirectly owned subsidiary of Lai Sun Development Company Limited on 19 January 2020, the Investor has agreed to make a total capital contribution of approximately RMB948.4 million in the Target Company. Upon completion of the registration of change in the equity interest held by Winfield Concept and the Investor in the Target Company, the Target Company will be held as to approximately 83.32% by Winfield Concept and approximately 16.68% by the Investor. The salient conditions stipulated in the agreement are, inter-alia, as follows:

   (i) investment period will be thirty years from the issue date of the new business licence of the Target Company upon completion of the subscription.

   (ii) the dividend distribution will be made out of distributable profits of the Target Company generated from the operations in respect of the Self-owned Properties only (as agreed between the Investor, the Target Company and Winfield Concept) to the Investor and Winfield Concept at a 30:70 ratio. The dividend distribution paid to the Investor in each financial year shall be not less than 0.5% per annum of its capital injection to the Target Company during the investment period.

   (iii) the Investor has been granted the put option (but not an obligation) to require the Target Company or Winfield Concept to acquire all equity interest held by the Investor in the Target Company.

   (iv) before the expiration of the investment period, the Target Company and/or Winfield Concept have/has the right to (but not an obligation) to acquire the Investor's equity interest in the Target Company.

3. Pursuant to the Construction Land Use Planning Permit No Zhu Heng Xin Gui Tu (Di Gui) (2014) 13 issued by the Zhuhai Hengqin New District Management Committee — Land & Planning Bureau dated 11 March 2014, the development with a total site area of 130,137.16 sq m was permitted to be developed.

4. Pursuant to three Construction Engineering Planning Permits Nos Zhu Heng Xin Gui Tu (Jian) (2019) 028, 029 and 030 all issued by the Zhuhai Hengqin New District Management Committee — Land & Planning Bureau dated 11 April 2019, portion of the development with a total gross floor area of 349,107.95 sq m is permitted to be constructed.

5. Pursuant to three Construction Work Commencing Permits Nos 440410201611180101, 440410201611170101 and 440405201609300301 all issued by Zhuhai Hengqin New District Management Committee — Construction and Environmental Bureau in 2019, construction works of portion of the development with a total gross floor area of 349,107.95 sq m is permitted to be commenced.

6. Due to the specific purpose for which the buildings and structures of portion of the property (Lionsgate) have been designed, there is no readily identifiable market comparable, we have thus valued it by Cost Approach with reference to the depreciated replacement cost. Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deduction for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements less allowance for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property is subject to adequate potential profitability* of the business. It is assumed that the replacing of the property will be in compliance with the relevant laws and regulations and completed in timely fashion. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transactions of the complex or development is assumed.

   * *The assumption of adequate potential profitability of the business is the underlying assumption for application of the depreciated replacement cost while it is considered that depreciated replacement cost of a property could represent the market value of the property valued under the condition that the business conducting inside the property is profitable so that depreciated replacement cost of the property could prudently represent the market value of the property. Otherwise, without this assumption, adopting depreciated replacement cost of the property to represent market value of the property would be in doubt since business conducting inside the property is not having adequate potential profitability.*

7. According to the Target Company's specific terms of instruction to provide the breakdown of the market value of property, they are listed as follows:

Property	Market value in existing state as at 31 January 2020
Shopping mall, three cultural halls and 291 above ground car parking spaces and 1,553 basement car parking spaces	RMB1,592,121,000
Hotel	RMB1,827,827,000
Cultural attractions (Lionsgate and National Geographic)	RMB467,457,000
	RMB3,887,405,000

8. As advised by the Target Company, the property is under the sale restriction as mentioned in note (2) (x) of property no.3 as at the date of valuation. However, the sale restriction portion is not fixed and may be changed from time to time as long as the total countable plot ratio gross floor area under sale restriction is not less than 50% of that of the development.

9. We have been provided with the Target Company's PRC legal adviser's opinion, which inter-alia, contains the following:

(i) The Target Company legally owns the land use rights of the property;
(ii) As mentioned in note (2) (x) of property no. 3, 50% of the total countable plot ratio gross floor area of the development is restricted for sale at the moment, the Target Company should hold such portions and has the right to lease such portions and to grant the lessee to sublease;
(iii) After fulfilling relevant conditions for uplifting the sales restrictions as mentioned in note (9) (ii), the Target Company can sell, lease or transfer the property according to the relevant laws and regulations; and
(iv) The property is free from mortgage and other encumbrances.

Group II — Property interest held by the Target Company in the PRC for sale purpose

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2020
2	Unsold villa (cultural studios) located at the east side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Main Road Hengqin New Area Zhuhai Guangdong Province The PRC	The development comprises two parcels of adjacent land located at the east side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Main Road in Hengqin New Area of Zhuhai. The total site area is approximately 130,173.16 sq m. The development is located at Hengqin New Area which is situated at the southern part of Zhuhai. The locality is planned to be tourist and leisure area. It takes about 30 minutes to drive to city centre of Zhuhai. The development is planned to be developed into a comprehensive development including commercial, office, hotel, cultural development with a total plot ratio gross floor area of approximately 260,289.94 sq m (2,801,761 sq ft). The property comprises unsold villa (cultural studios) of the development with a total gross floor area of 14,020.40 sq m (150,916 sq ft) completed in 2018. The land use rights of the development have been granted for terms of 40 years for office, commercial and servicing, hotel uses and 50 years for other uses commencing from 31 December 2013.	The property is currently vacant.	RMB601,272,000 (RENMINBI SIX HUNDRED ONE MILLION TWO HUNDRED AND SEVENTY TWO THOUSAND ONLY) *(please see note 6)*

Notes:

1. Pursuant to two Guangdong Province Real Estate Title Certificates Nos Yue Fang Di Quan Zheng Zhu Zi Di 0100244267 and 0100244268 both issued by the Zhuhai Real Estate Registration Centre dated 27 May 2014, the title to the development, having a total site area of 130,173.16 sq m, is held by 珠海橫琴麗新文創天地有限公司 (Zhuhai Hengqin Laisun Creative Culture City Co., Ltd.) ("**the Target Company**"), an 80% indirectly owned subsidiary of Lai Fung Holdings Limited and 20% indirectly owned subsidiary of Lai Sun Development Company Limited for land use rights terms of 40 years for office, commercial and servicing, hotel uses and 50 years for other uses commencing from 31 December 2013.

2. Pursuant to the Construction Land Use Planning Permit No Zhu Heng Xin Gui Tu (Di Gui) (2014) 13 issued by the Zhuhai Hengqin New District Management Committee — Land & Planning Bureau dated 11 March 2014, the development with a total site area of 130,137.16 sq m was permitted to be developed.

3. Pursuant to the Construction Engineering Planning Permit No Zhu Heng Xin Gui Tu (Jian) (2016) 008 issued by Zhuhai Hengqin New District Management Committee — Land & Planning Bureau in 2016, portion of the development with a total gross floor area of 35,508.99 sq m is permitted to be constructed.

4. Pursuant to the Construction Work Commencing Permit No 440405201605240101 issued by Zhuhai Hengqin New District Management Committee — Construction and Environmental Bureau in 2016, construction works of portion of the development with a total gross floor area of 35,508.99 sq m (above ground: 18,704.56 sq m and below ground: 16,804.43 sq m) is permitted to be commenced.

5. Pursuant to the Zhuhai Commodity Housing Pre-sale Permit No HQS2017009 dated 7 December 2017, pre-sale of portion of the development with a total gross floor area of 18,342.35 sq m was permitted.

6. As advised by the Target Company, portion of the property with a total gross floor area of 3,434.38 sq m have been sold at a total consideration of RMB147,144,600 prior to the date of valuation. As advised by the Target Company, title to the sold portions are held by the Target Company as at the valuation date and being duly reflected on the Target Company's relevant financial statements. Consequently, we have included the sold portions in the valuation. The main reason for such situation to arise is due to the fact that transactions of the sold portions have not yet been completed and/or transferred to the purchasers. We have also made reference to the contracted consideration in the course of our valuation.

7. We have been provided with the Target Company's PRC legal adviser's opinion, which inter-alia, contains the following:

   (i) The Target Company legally owns the land use rights of the property;
   (ii) Except for the sold portions as mentioned in note (6), the Target Company can sell, lease or transfer the property according to the relevant laws and regulations; and
   (iii) The property is free from mortgage and other encumbrances.

Group III — Property interest held under development by the Target Company in the PRC

	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2020
3	Various portions located at the east side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Main Road Hengqin New Area Zhuhai Guangdong Province The PRC	The development comprises two parcels of adjacent land located at the east side of Yiwener Road, south side of Caihong Road, west side of Tianyu Road and north side of Hengqin Main Road in Hengqin New Area of Zhuhai. The total site area is approximately 130,173.16 sq m. The development is located at Hengqin New Area which is situated at the southern part of Zhuhai. The locality is planned to be tourist and leisure area. It takes about 30 minutes to drive to city centre of Zhuhai. The development is planned to be developed into a comprehensive development including commercial, office, hotel, cultural development with a total plot ratio gross floor area of approximately 260,289.94 sq m (2,801,761 sq ft). The property comprises various portions of the development including office, serviced apartment (cultural workshops) and villa (cultural studios) with a total gross floor area of approximately 96,995.26 sq m (1,044,057 sq ft) and the area details are listed as follows:	The construction works of the property have been completed.	RMB2,697,271,000 (RENMINBI TWO BILLION SIX HUNDRED NINETY SEVEN MILLION TWO HUNDRED AND SEVENTY ONE THOUSAND ONLY) *(please see notes 13 and 14)*

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 January 2020

Use	Approximate Gross Floor Area sq m	sq ft
Office	50,447.75	543,020
Serviced apartment (cultural workshops)	40,136.12	432,025
Villa (cultural studios)	4,410.55	47,475
Sub-total:	**94,994.42**	**1,022,520**
Car park (below ground)	2,000.84	21,537
Total:	**96,995.26**	**1,044,057**

The land use rights of the development have been granted for terms of 40 years for office, commercial and servicing, hotel uses and 50 years for other uses commencing from 31 December 2013.

Notes:

1. Pursuant to two Guangdong Province Real Estate Title Certificates Nos Yue Fang Di Quan Zheng Zhu Zi Di 0100244267 and 0100244268 both issued by the Zhuhai Real Estate Registration Centre dated 27 May 2014, the title to the development, having a total site area of 130,173.16 sq m, is held by 珠海橫琴麗新文創天地有限公司 (Zhuhai Hengqin Laisun Creative Culture City Co., Ltd.) ("**the Target Company**"), an 80% indirectly owned subsidiary of Lai Fung Holdings Limited and 20% indirectly owned subsidiary of Lai Sun Development Company Limited ("**LSD**") for land use rights terms of 40 years for office, commercial and servicing, hotel uses and 50 years for other uses commencing from 31 December 2013.

2. Pursuant to the Contract for Grant of State-owned Construction Land Use Rights No. 440401-2013-000023 (the "**Land Grant Contract**") entered into between the Land and Resources Bureau of Zhuhai ("**Party A**") and Winfield Concept Limited (永輝基業有限公司) ("**Party B**") dated 27 September 2013, Party A agreed to grant the land use rights of two parcels of land to Party B. The said contract contains, inter-alia, the following salient conditions:

(i)	Total site area	:	130,173.16 sq m (Land parcel 1: 93,137.04 sq m, Land parcel 2: 37,036.12 sq m)
(ii)	Use	:	Cultural/creative and commercial/servicing
(iii)	Land use term	:	50 years for cultural and creative uses and 40 years for commercial, office and hotel uses
(iv)	Plot ratio	:	Not exceeding 2.0
(v)	Total gross floor area	:	Not exceeding 260,346.32 sq m (Land parcel 1: 186,274.08 sq m, Land parcel 2: 74,072.24 sq m)
(vi)	Building height	:	Not exceeding 100 m
(vii)	Green area ratio	:	Not less than 30% of site area
(viii)	Land grant fee	:	RMB523,296,103.2
(ix)	Building covenant	:	Construction works should be commenced within twelve months since the handover of the land and construction works should be completed within forty-eight months since the handover of the land
(x)	Remarks	:	— Gross floor areas allocation for commercial use and hotel and office uses should not be greater than 10% and 20% respectively whilst that for cultural use should not be less than 70%. — Saleable gross floor area is restricted to 50% of total countable plot ratio gross floor area of the development.

3. Advised by the Target Company, Party B is an 80% indirectly owned subsidiary of Lai Fung Holdings Limited and 20% indirectly owned subsidiary of LSD.

4. Pursuant to the amendment of the Land Grant Contract in February 2014, the grantee of the two parcels of land was changed from Party B to the Target Company. Party B has established the Target Company with Business Licence No 440003490000497 dated 3 January 2014 and the Target Company has obtained two Guangdong Province Real Estate Title Certificates as mentioned in note 1.

5. Pursuant to an agreement entered into between 珠海大橫琴置業有限公司 (Zhuhai Da Hengqin Real Estate Co., Ltd) (the "**Investor**"), the Target Company and Party B on 19 January 2020, the Investor has agreed to make a total capital contribution of approximately RMB948.4 million in the Target Company. Upon completion of the registration of change in the equity interest held by Party B and the Investor in the Target Company, the Target Company will be held as to approximately 83.32% by Party B and approximately 16.68% by the Investor. The salient conditions stipulated in the agreement are, inter-alia, as follows:

   (i) investment period will be thirty years from the issue date of the new business licence of the Target Company upon completion of the subscription.
   (ii) the dividend distribution will be made out of distributable profits of the Target Company generated from the operations in respect of the Self-owned Properties only (as agreed between the Investor, the Target Company and Winfield Concept) to the Investor and Party B at a 30:70 ratio. The dividend distribution paid to the Investor in each financial year shall be not less than 0.5% per annum of its capital injection to the Target Company during the investment period.
   (iii) the Investor has been granted the put option (but not an obligation) to require the Target Company or Party B to acquire all equity interest held by the Investor in the Target Company.
   (iv) before the expiration of the investment period, the Target Company and/or Party B have/has the right to (but not an obligation) to acquire the Investor's equity interest in the Target Company.

6. Pursuant to the Construction Land Use Planning Permit No Zhu Heng Xin Gui Tu (Di Gui) (2014) 13 issued by the Zhuhai Hengqin New District Management Committee — Land & Planning Bureau dated 11 March 2014, the development with a total site area of 130,137.16 sq m was permitted to be developed.

7. Pursuant to the Construction Engineering Planning Permit No Zhu Heng Xin Gui Tu (Jian) (2016) 009 issued by the Zhuhai Hengqin New District Management Committee — Land & Planning Bureau in 2016, portion of the development with a total gross floor area of 8,623.48 sq m is permitted to be constructed.

8. Pursuant to the Construction Engineering Planning Permit No Zhu Heng Xin Gui Tu (Jian) (2019) 028 issued by the Zhuhai Hengqin New District Management Committee — Land & Planning Bureau dated 11 April 2019, potion of the development with a total gross floor area of 159,839.87 sq m is permitted to be constructed.

9. Pursuant to the Construction Work Commencing Permit No 440410201611180101 issued by Zhuhai Hengqin New District Management Committee — Construction and Environmental Bureau in 2019, construction works of portion of the development with a total gross floor area of 159,839.87 sq m is permitted to be commenced.

10. Pursuant to the Construction Work Commencing Permit No 440405201803090101 dated 4 September 2018 issued by Zhuhai Hengqin New District Management Committee — Construction and Environmental Bureau, construction works of portion of the development with a total gross floor area of 8,623.48 sq m is permitted to be commenced.

11. Pursuant to the Zhuhai Commodity Housing Pre-sale Permit No HQS2017009-1 dated 1 July 2019, pre-sale of portion of the development with a total gross floor area of 4,410.55 sq m was permitted.

12. Pursuant to the Zhuhai Commodity Housing Pre-sale Permit No HQS20190012 dated 9 December 2019, pre-sale of portion of the development with a total gross floor area of 78,251.53 sq m was permitted.

13. As advised by the Target Company, serviced apartment portion (cultural workshops) of the property with a total gross floor area of approximately 2,950 sq m have been pre-sold at a total consideration of RMB97,581,000 prior to the date of valuation. As advised by the Target Company, title to the pre-sold portions are held by the Target Company as at the valuation date and being duly reflected on the Target Company's relevant financial statements. Consequently, we have included the pre-sold portions in the valuation. The main reason for such situation to arise is due to the fact that transactions of the pre-sold portions have not yet been completed and/or transferred to the purchasers. We have also made reference to the contracted consideration in the course of our valuation.

14. As advised by the Target Company, the construction cost incurred and outstanding construction cost (including professional fee) of the proposed development of the property were approximately RMB1,122,500,000 and RMB289,200,000 respectively as at the date of valuation. Accordingly, we have taken into account the said costs in our valuation. In our opinion, the gross development value of the proposed development of the property, assuming it was completed as at the valuation date, was estimated approximately as RMB3,093,000,000.

15. According to the Target Company's specific terms of instruction to provide the breakdown of the market value of property, they are listed as follows:

Property	**Market value in existing state as at 31 January 2020**
Office	RMB1,461,003,000
Serviced apartment (cultural workshops) and villa (cultural studios)	RMB1,236,268,000
	RMB2,697,271,000

16. According to the information provided by the Target Company, although the property has been completed as at the valuation date, completion certificate has not yet been obtained. As advised, the property is thus classified as "property under development" for the purpose in aligning with the classification of the Target Company's financial statement based on relevant accounting policy.

17. We have been provided with the Target Company's PRC legal adviser's opinion, which inter-alia, contains the following:

    (i) The Target Company legally owns the land use rights of the property;
    (ii) As mentioned in note (2) (x), 50% of the total countable plot ratio gross floor area of the development is restricted for sale at the moment, the Target Company should hold such portions and has the right to lease such portions and to grant the lessee to sublease;
    (iii) After fulfilling relevant conditions for uplifting the sales restrictions as mentioned in note (17) (ii), the Target Company can sell, lease or transfer the property according to the relevant laws and regulations; and
    (iv) The property is free from mortgage and other encumbrances.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO); or (ii) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO ("**Register of Directors and Chief Executive**"); or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Code of Practice for Securities Transactions by Directors and Designated Employees adopted by the Company ("**Securities Code**") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules; or (iv) as known by the Directors were as follows:

(a) The Company

Long positions in the Shares and the underlying Shares

Name of Director	Capacity	Number of Shares		Number of underlying Shares	Total	Approximate % of total issued Shares (Note 2)
		Personal interests	Corporate interests	Personal interests (Note 1)		
Chew Fook Aun ("**Mr. FA Chew**")	Beneficial owner/ Owner of controlled corporation	Nil	709,591 (Note 3)	900,000	1,609,591	0.49%
Lam Hau Yin, Lester ("**Mr. Lester Lam**")	Beneficial owner	Nil	Nil	3,219,182	3,219,182	0.97%
Cheng Shin How ("**Mr. SH Cheng**")	Beneficial owner	Nil	Nil	643,836	643,836	0.19%
Lee Tze Yan, Ernest ("**Mr. Ernest Lee**")	Beneficial owner	Nil	Nil	640,000	640,000	0.19%
Tham Seng Yum, Ronald ("**Mr. Ronald Tham**")	Beneficial owner	Nil	Nil	500,000	500,000	0.15%

Notes:

1. *These interests in underlying Shares represented interests in share options granted to the Directors under the share option schemes of the Company, particulars of which are as follows:*

Name of Director	*Date of grant*	*Number of underlying Shares comprised in share options*	*Option period*	*Exercise price per Share HK$*
Mr. FA Chew	*12/06/2012*	*900,000*	*12/06/2012 - 11/06/2020*	*6.65*
Mr. Lester Lam	*18/01/2013*	*3,219,182*	*18/01/2013 - 17/01/2023*	*11.40*
Mr. SH Cheng	*18/01/2013*	*643,836*	*18/01/2013 - 17/01/2023*	*11.40*
Mr. Ernest Lee	*18/01/2013*	*640,000*	*18/01/2013 - 17/01/2023*	*11.40*
Mr. Ronald Tham	*19/08/2019*	*500,000*	*19/08/2019 - 18/08/2029*	*6.784*

2. *The percentage has been compiled based on the total number of issued Shares as at the Latest Practicable Date (i.e. 331,033,443 Shares).*

3. *These Shares are held by The Orchid Growers Association Limited, the entire issued share capital of which is beneficially owned by Mr. FA Chew.*

(b) Associated Corporations

(i) eSun

*Long positions in the ordinary shares of HK$0.50 each of eSun ("**eSun Shares**")*

Name of Director	Capacity	Number of eSun Shares Personal interests	Approximate % of total issued eSun Shares *(Note)*
Mr. Lester Lam	Beneficial owner	2,794,443	0.19%

Note: The percentage has been compiled based on the total number of issued eSun Shares as at the Latest Practicable Date (i.e. 1,491,854,598 eSun Shares).

(ii) LSD

*Long positions in the ordinary shares of LSD ("**LSD Shares**") and the underlying LSD Shares*

		Number of LSD Shares		Number of underlying LSD Shares		
Name of Director	**Capacity**	**Personal interests**	**Corporate interests**	**Personal interests** *(Note 1)*	**Total**	**Approximate % of total issued LSD Shares** *(Note 2)*
Mr. FA Chew	Beneficial owner/ Owner of controlled corporation	Nil	400,000 *(Note 3)*	3,773,081	4,173,081	0.68%
Mr. Lester Lam	Beneficial owner	Nil	Nil	4,173,081	4,173,081	0.68%
Mr. Ernest Lee	Beneficial owner	Nil	Nil	832,000	832,000	0.14%
Mr. Ronald Tham	Beneficial owner	Nil	Nil	800,000	800,000	0.13%
U Po Chu ("**Madam U**")	Beneficial owner	26,919	Nil	Nil	26,919	0.01%

Notes:

1. *These interests in underlying LSD Shares represented interests in share options granted to the Directors under the share option schemes of LSD, particulars of which are as follows:*

Name of Director	*Date of grant*	*Number of underlying LSD Shares comprised in share options*	*Option period*	*Exercise price per LSD Share* HK$
Mr. FA Chew	05/06/2012	3,773,081	05/06/2012 - 04/06/2022	5.35
Mr. Lester Lam	18/01/2013	4,173,081	18/01/2013 - 17/01/2023	16.10
Mr. Ernest Lee	18/01/2013	832,000	18/01/2013 - 17/01/2023	16.10
Mr. Ronald Tham	19/08/2019	800,000	19/08/2019 - 18/08/2029	9.92

2. *The percentage has been compiled based on the total number of issued LSD Shares as at the Latest Practicable Date (i.e. 610,268,025 LSD Shares).*

3. *These LSD Shares are held by The Orchid Growers Association Limited, the entire issued share capital of which is beneficially owned by Mr. FA Chew.*

(iii) LSG

*Long positions in the ordinary shares of LSG ("**LSG Shares**") and the underlying LSG Shares*

		Number of LSG Shares		Number of underlying LSG Shares		
Name of Director	**Capacity**	**Personal interests**	**Corporate interests**	**Personal interests** *(Note 1)*	**Total**	**Approximate % of total issued LSG Shares** *(Note 2)*
Mr. FA Chew	Beneficial owner/ Owner of controlled corporation	Nil	202,422 *(Note 3)*	3,819,204	4,021,626	1.04%
Lam Kin Ming ("**Dr. KM Lam**")	Beneficial owner	1,021,443	Nil	Nil	1,021,443	0.26%
Mr. Lester Lam	Beneficial owner	12,459,208	Nil	7,571,626	20,030,834	5.16%
Madam U	Beneficial owner	825,525	Nil	Nil	825,525	0.21%

Notes:

1. *These interests in underlying LSG Shares represented interests in share options granted to the Directors under the share option schemes of LSG, particulars of which are as follows:*

Name of Director	*Date of grant*	*Number of underlying LSG Shares comprised in share options*	*Option period*	*Exercise price per LSG Share* HK$
Mr. FA Chew	*19/06/2017*	*3,819,204*	*19/06/2017 - 18/06/2027*	*15.00*
Mr. Lester Lam	*18/01/2013*	*3,752,422*	*18/01/2013 - 17/01/2023*	*6.05*
Mr. Lester Lam	*19/06/2017*	*3,819,204*	*19/06/2017 - 18/06/2027*	*15.00*

2. *The percentage has been compiled based on the total number of issued LSG Shares as at the Latest Practicable Date (i.e. 388,482,959 LSG Shares).*

3. *These LSG Shares are held by The Orchid Growers Association Limited, the entire issued share capital of which is beneficially owned by Mr. FA Chew.*

(iv) LSD Bonds (2017) Limited

Long position in the 4.6% guaranteed notes due 2022

Name of Director	**Capacity**	**Nature of interests**	**Principal amount**
Mak Wing Sum, Alvin (“**Mr. Alvin Mak**”)	Beneficial owner	Personal	US$200,000 *(Note)*

Note: These notes were jointly held by Mr. Alvin Mak and his spouse.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company and their respective close associates was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and/or debentures of the Company or any of its associated corporations, which were required to be notified to the Company and the Stock Exchange under the SFO, recorded in the Register of Directors and Chief Executive, or notified under the Securities Code or otherwise known by the Directors.

Save as disclosed below (and their respective interests disclosed above), as at the Latest Practicable Date, there was no Director or proposed Director who is a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

1. Mr. FA Chew (an executive Director) is also an executive director of each of eSun, LSD and LSG;

2. Dr. KM Lam (an executive Director) is also a non-executive director of LSD and an executive director of LSG;

3. Mr. Lam Kin Hong, Matthew (an executive Director) is also an executive director of LSG;

4. Mr. Lester Lam (an executive Director) is also an executive director of each of eSun, LSD and LSG;

5. Mr. Ernest Lee (an executive Director) is also an employee of LSD;

6. Mr. Ronald Tham (an executive Director) is also an executive director of LSD;

7. Madam U (an executive Director) is also a non-executive director of each of eSun and LSD, and an executive director of LSG; and

8. Mr. Lam Bing Kwan (an independent non-executive Director) is also an independent non-executive director of each of LSD and LSG.

Directors' rights to acquire shares or debentures

Save as otherwise disclosed in this circular, as at the Latest Practicable Date, none of the Company or its subsidiaries is a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or exercised any such right.

3. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, the following Directors are considered to have interests in businesses which compete or may compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

Mr. FA Chew, Dr. KM Lam, Mr. Lam Kin Hong, Matthew, Mr. Lester Lam, Mr. Ernest Lee, Mr. Ronald Tham, Madam U, Mr. Lucas Ignatius Loh Jen Yuh and Mr. Puah Tze Shyang (together, "**Interested Directors**") held shareholding or other interests and/or directorships in companies/entities engaged in the businesses of property investment and development in the PRC.

However, the Board is independent from the boards of directors/governing committees of the aforesaid companies/entities and none of the Interested Directors can personally control the Board. Further, each of the Interested Directors is fully aware of, and has been discharging his/her fiduciary duty to the Company and has acted and will continue to act in the best interest of the Company and the Shareholders as a whole. Therefore, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies/entities.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective close associates had any interest in a business which competes or may compete with the businesses of the Group (which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

4. LITIGATION

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

5. DIRECTORS' SERVICE CONTRACTS

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

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any assets which had been, since 31 July 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any of the Directors are materially interested and which is significant to the business of the Group.

7. EXPERT'S QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have given their opinions and advice which are included in this circular:

Name	Qualification
Ernst & Young	Certified public accountants
Knight Frank Petty Limited	Professional property valuer

As at the Latest Practicable Date, none of the above experts has:

(a) any direct or indirect interest in any assets which have been, since 31 July 2019 (being the date to which the latest published audited consolidated financial statements of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group; and

(b) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

The above experts have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letters and references to their names included herein in the form and context in which they appear.

8. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) were entered into by the Group within the two years immediately preceding the Latest Practicable Date:

(a) the state-owned construction land use rights grant contract dated 29 December 2018 (國有建設用地使用權出讓合同) ("**Land Use Rights Grant Contract**") in respect of two parcels of land located at east side of Yiwener Road, south side of Xiangjiang Road, west side of Yiwenyi Road and north side of Zhishui Road, Hengqin New Area, Zhuhai City, Guangdong Province of the PRC (中國廣東省珠海市橫琴新區藝文二道東側、香江路南側、藝文一道西側、智水路北側) with a total site area of 143,768.37 square metres and a maximum plot ratio of 2 times ("**Land**") entered into between The Land and Resources Bureau of Zhuhai ("**Zhuhai Land Bureau**") and Supreme Motion Limited (卓動有限公司) ("**Supreme Motion**", an indirect wholly-owned subsidiary of the Company), at a land use right transfer price of approximately RMB762 million;

(b) an agreement dated 31 December 2018 made among Rosy Commerce Holdings Limited (業佳控股有限公司) ("**Rosy Commerce**", an indirect non-wholly-owned subsidiary of the Company), China Cinda (HK) Asset Management Co., Limited (中國信達(香港)資產管理有限公司) ("**Cinda Investor**", an indirect wholly-owned subsidiary of China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司), a joint stock company incorporated in the PRC and whose shares and preference shares are listed on the Main Board of the Stock Exchange (Stock Code: 1359; Preference Shares Stock Code: 4607)) and Glorious Stand Limited (榮立有限公司) ("**Glorious Stand**", an indirect non-wholly-owned subsidiary of the Company), in relation to the sale and purchase and subscription of shares in Glorious Stand ("**Glorious Stand Investment Agreement**") whereby:

(1) Rosy Commerce agreed to subscribe for nine new shares in Glorious Stand at the aggregate subscription price of US$9;

(2) the Cinda Investor agreed to acquire three shares in Glorious Stand from Rosy Commerce at the USD equivalent of approximately RMB7 million;

(3) the Cinda Investor agreed to subscribe for 27 new shares in Glorious Stand at the aggregate subscription price of the USD equivalent of approximately RMB50 million; and

(4) Rosy Commerce agreed to subscribe for 63 new shares in Glorious Stand at the aggregate subscription price of US$63;

(c) an agreement dated 31 December 2018 made among Rosy Commerce, the Cinda Investor and Harmonic Run Limited (和運有限公司) ("**Harmonic Run**", an indirect non-wholly-owned subsidiary of the Company) in relation to the subscription of shares in Harmonic Run ("**Harmonic Run Investment Agreement**") whereby:

(1) the Cinda Investor agreed to subscribe for 30 new shares in Harmonic Run at the aggregate subscription price of the USD equivalent of RMB186 million; and

(2) Rosy Commerce agreed to subscribe for 69 new shares in Harmonic Run at the aggregate subscription price of the USD equivalent of approximately RMB314 million;

(d) a shareholders' agreement dated 25 January 2019 entered into among Rosy Commerce, the Cinda Investor, Glorious Stand, the Company and eSun in relation to Glorious Stand upon completion of the Glorious Stand Investment Agreement;

(e) a shareholders' agreement dated 25 January 2019 entered into among Rosy Commerce, the Cinda Investor, Harmonic Run, the Company and eSun in relation to Harmonic Run upon completion of the Harmonic Run Investment Agreement;

(f) an amendment contract to the Land Use Rights Grant Contract dated 31 January 2019 for the change of the grantee of the land use rights of the Land from Supreme Motion to 珠海橫琴麗新創新方發展有限公司 ("**Project Company**", a company established as a wholly-foreign-owned enterprise in the PRC and a direct wholly-owned subsidiary of Supreme Motion) entered into among Project Company, Supreme Motion and Zhuhai Land Bureau;

(g) the 2019 supplemental deed dated 8 March 2019 executed by the Company in favour of LSG, LSD, the late Mr. Lim Por Yen, Dr. Lam Kin Ming and Dr. Peter Lam in relation to certain amendments to certain undertakings in the spin-off agreement entered into between LSD and the Company, the deed of undertaking executed by LSD in favour of the Company and the non-compete agreement entered into between LSG, the Company, Dr. Peter Lam, Dr. Lam Kin Ming and the late Mr. Lim Por Yen; and

(h) the Agreement.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong during normal business hours (i.e. from 9:30 a.m. to 12:30 p.m. and from 2:30 p.m. to 5:30 p.m.) on any weekday (excluding any Saturdays, Sundays and public holidays) unless (i) a tropical cyclone warning signal number 8 or above is hoisted; or (ii) a black rainstorm warning signal is issued, from the date of this circular up to and including the date falling 14 days:

(a) the amended and restated memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31 July 2018 and 31 July 2019 respectively;

(c) the interim report of the Company for the six months ended 31 January 2020;

(d) the accountant's report on the historical financial information of Laisun Creative Culture issued by Ernst & Young, the text of which is set out in Appendix II to this circular;

(e) the assurance report on the compilation of pro forma financial information of the Group issued by Ernst & Young, the text of which is set out in Appendix IV to this circular;

(f) the property valuation report prepared by Knight Frank Petty Limited, the text of which is set out in Appendix V to this circular;

(g) the letters of consent referred to in the paragraph headed "Expert's Qualifications and Consents" above;

(h) the material contracts referred to in the paragraph headed "Material Contracts" above;

(i) a copy of each circular issued pursuant to the requirements set out in Chapter(s) 14 and/ or 14A of the Listing Rules which has been issued since the date of the latest published audited consolidated financial statements; and

(j) this circular.

10. MISCELLANEOUS

(a) The address of the registered office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and the principal office is at 11th Floor, Lai Sun Commercial Centre, 680 Cheung Sha Wan Road, Kowloon, Hong Kong.

(b) The company secretary of the Company is Ms. Yim Lai Wa, who is an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom.

(c) The share registrar and transfer office of the Company in Cayman Islands is SMP Partners (Cayman) Limited, Royal Bank House – 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.

(d) The branch share registrar and the transfer office of the Company in Hong Kong is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.