THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or otherwise transferred all your shares in **Y. T. Realty Group Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Y. T. REALTY GROUP LIMITED

渝太地產集團有限公司#

(Incorporated in Bermuda with limited liability)

(Stock Code: 75)

(1) MAJOR TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF INTERESTS IN THE SITES IN SICHUAN THROUGH PROPERTY HOLDING COMPANIES AND (2) NOTICE OF SPECIAL GENERAL MEETING

Capitalised terms used on this cover page and the contents page have the same meanings as defined in the section headed "*Definitions*" in this circular, unless the context requires otherwise.

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

The notice convening the SGM to be held at Salon III & IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 1 June 2020 at 9:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is enclosed. If you do not intend to attend the SGM or any adjournment thereof, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time for holding the SGM or any adjourned meeting thereof (as the case may be).

Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish and, in such event, the proxy appointment shall be deemed to be revoked.

For identification purposes only

15 May 2020

CONTENTS

In this circular and the appendices to it, unless the context otherwise requires, the following terms and expressions have the following meanings:

"Agreement"	the conditional sale and purchase agreement dated 26 March 2020 entered into amongst the Purchaser, the Vendor and the Vendor's Guarantor in respect of the Transaction
"Board"	the board of Directors
"BVI"	the British Virgin Islands
"Company"	Y. T. Realty Group Limited, a company incorporated in Bermuda with limited liability with Shares listed on the Main Board of the Stock Exchange (Stock Code: 0075)
"Completion"	the completion of the Transaction in accordance with the terms and conditions of the Agreement
"Completion Date"	the next business day after all the conditions precedent of the Agreement have been fulfilled or (as the case may be) waived (or such other date as the parties to the Agreement may agree)
"Consideration"	the consideration payable by the Purchaser to the Vendor for the Transaction
"connected person(s)	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group and the Target Group upon Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK Co"	Circle Capital (International) Investment Limited (圓中(國際)投資有限公司), a company incorporated with limited liability in Hong Kong and directly and wholly owned by the Target Company
"Latest Practicable Date"	11 May 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"percentage ratios"	has the meaning ascribed to it under the Listing Rules

"PRC"	the People's Republic of China, which shall, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"PRC WFOE"	Chengdu Yunrun Corporate Management Co., Ltd.* (成都圓潤企業管理有限公司), a wholly foreign-owned enterprise established with limited liability in the PRC and directly and wholly owned by the HK Co
"Project Company"	Sichuan Yuanzhong Rundafeng Property Development Co., Ltd.* (四川圓中潤達豐置業發展有限公司), a company established with limited liability in the PRC and held directly as to 80% by the PRC WFOE and as to 20% by Sichuan Yuanzhong
"Purchaser"	Radiant Luck Investments Limited, a limited liability company incorporated in the BVI and an indirect wholly-owned subsidiary of the Company
"Refundable Deposit"	has the meaning ascribed to it under the sub-paragraph headed "*Consideration and payment terms*" on page 6 of this circular
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Sale Shares"	50,000 shares of US$1.00 each of the Target Company, representing the entire issued share capital of the Target Company
"Sites"	comprising six plots of land, the land use right of which has been, or has been contracted to be, granted to the Project Company with an aggregate site area of approximately 290,896.91 sqm located in Shigao Town, Renshou County in Meishan, Sichuan Province, the PRC* (中國四川省眉山市仁壽縣視高鎮)
"SGM"	the special general meeting of the Company to be convened at Salon III & IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 1 June 2020 at 9:30 a.m. for the purpose of considering, and if thought fit, approving, among other things, the Agreement and the Transaction
"Share(s)"	ordinary share(s) of the Company of HK$0.1 each
"Shareholder(s)"	holder(s) of the Shares
"Sichuan Yuanzhong"	Sichuan Yuanzhong Tianchuangu Property Development Co., Ltd.* (四川圓中天創谷置業發展有限公司), a company established with limited liability in the PRC and the ultimate beneficial owner of which is Mr. Yuan Zhiming

"sqm"	square metre
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Prime Circle Global Limited, a company incorporated in the BVI with limited liability and directly and wholly owned by the Vendor
"Target Group"	the Target Company and its subsidiaries
"Transaction"	the acquisition of the Sale Shares by the Purchaser in accordance with the terms and conditions of the Agreement
"UK"	the United Kingdom
"Vendor"	Brilliant Power Limited, a company incorporated in the BVI with limited liability and wholly owned by the Vendor's Guarantor
"Vendor's Guarantor"	Mr. Ni Biao, who holds the entire issued share capital of the Vendor
"%"	per cent

The English names of Chinese entities and locations marked with "" are translations of their Chinese names and are included in this circular for identification purposes only, and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.*

For the purpose of this circular, amounts denominated in RMB have been translated into HK$ at an exchange rate of RMB1: HK$1.091. No representation is made that any amounts in RMB and HK$ can be or could have been converted at the relevant dates at the above rates or at any other rates at all.

Y. T. REALTY GROUP LIMITED
渝太地產集團有限公司#
(Incorporated in Bermuda with limited liability)
(Stock Code: 75)

Executive Directors
Cheung Chung Kiu
(Chairman and Managing Director)
Yuen Wing Shing
Tung Wai Lan, Iris
Wong Hy Sky
(former English name: Huang Yun)

Independent Non-executive Directors
Ng Kwok Fu
Luk Yu King, James
Leung Yu Ming, Steven

Registered office
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong
25th Floor, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

15 May 2020

To the Shareholders

Dear Sir or Madam,

**(1) MAJOR TRANSACTION
IN RELATION TO THE PROPOSED ACQUISITION OF
INTERESTS IN THE SITES IN SICHUAN THROUGH
PROPERTY HOLDING COMPANIES
AND
(2) NOTICE OF SPECIAL GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 26 March 2020.

On 26 March 2020 (after trading hours of the Stock Exchange), the Purchaser (an indirect wholly-owned subsidiary of the Company) entered into the Agreement with the Vendor and the Vendor's Guarantor, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell the Sale Shares for a cash consideration of HK$350,000,000 payable in accordance with the terms and conditions of the Agreement. The Sale Shares represent the entire issued share capital of the Target Company, which holds indirectly 80% of the equity interest in the Project Company, which in turn directly owns the Sites located in Meishan, Sichuan Province, the PRC.

For identification purposes only

As one or more of the applicable percentage ratios are more than 25% but less than 100%, the Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholder approval requirements under the Listing Rules.

The purpose of this circular is to provide you with, among other things, (i) information of the Agreement and the Transaction; (ii) the financial information of the Group; (iii) the accountants' report on the financial information and the management discussion and analysis of the Target Group; (iv) the unaudited pro forma financial information of the Enlarged Group; (v) the valuation report on the Sites; and (vi) other information as required under the Listing Rules, together with the notice convening the SGM and accompanying form of proxy.

2. THE AGREEMENT

Principal terms and conditions of the Agreement are summarised below:

Date

26 March 2020

Parties

(i) The Purchaser (an indirect wholly-owned subsidiary of the Company);

(ii) the Vendor; and

(iii) the Vendor's Guarantor.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (a) the Vendor and the Vendor's Guarantor, being the ultimate beneficial owner of the Vendor, are third parties independent of the Group and its connected persons; and (b) the Vendor is principally engaged in investment holding and the Vendor's Guarantor is an entrepreneur having businesses and investments in the PRC.

Subject matter

Subject to the terms and conditions of the Agreement, the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares representing the entire issued share capital of the Target Company.

Details of the Vendor and the Target Group and the Sites are set out in the paragraph headed "*Information on the Vendor and the Target Group*" below.

Consideration and payment terms

The Consideration, being HK$350,000,000, will be satisfied in the following manner:

(i) as to HK$17,500,000 being a refundable deposit payable to the Vendor (or its nominee) in cash within three business days after the date of the Agreement (the **"Refundable Deposit"**); and

(ii) as to HK$332,500,000 being balance of the Consideration payable to the Vendor (or its nominee) in cash upon Completion.

The Refundable Deposit has already been paid in accordance with the Agreement.

Basis of determining the Consideration

The Consideration was determined after arm's length negotiations between the Purchaser and the Vendor after taking into account relevant factors, including (i) the tentative appraisal value of the Sites attributable to the Target Company at approximately HK$1,698,469,000; (ii) the net liability of the Target Group as at 31 December 2019 after minority interest at HK$66,990,000; and (iii) the book costs relevant to the Sites and the amount of outstanding land premium payable by the Target Group under the signed state-owned construction land use rights grant contracts as at 31 December 2019 attributable to the Target Company, which represent the ongoing state of development of the Sites, at approximately HK$808,056,000 and HK$292,746,000 respectively.

The Consideration will be entirely funded by the internal resources of the Group.

Conditions precedent

Completion is conditional upon the fulfilment (or waiver, if permitted) of the following conditions:

(a) the Purchaser having completed and reasonably satisfied with the results of due diligence on the Target Group and the Sites, including but not limited to the appraisal of the Sites;

(b) the Purchaser having obtained the necessary approvals required to be obtained under the applicable law and regulations in relation to the transactions contemplated under the Agreement, including the passing of an ordinary resolution by the Shareholders at the SGM to approve the Agreement and the transactions contemplated thereunder;

(c) the warranties given by the Vendor and the Vendor's Guarantor in the Agreement remaining true and accurate and not misleading from the date of the Agreement up to the Completion Date, and there being no incidents, facts or circumstances of the Vendor and/or the Target Group and/or the Vendor's Guarantor that constitute or may constitute a breach of any warranties given by the Vendor or the Vendor's Guarantor under the Agreement;

(d) the warranties given by the Purchaser in the Agreement remaining true and accurate and not misleading from the date of the Agreement up to the Completion Date, and there being no incidents, facts or circumstances of the Purchaser and/or the Company that constitute or may constitute a breach of any warranties given by the Purchaser under the Agreement;

(e) the parties to the Agreement and the Target Company having obtained all necessary approvals, authorisations, waivers or notifications from third parties which are required for the execution and performance of the Agreement and the transactions contemplated thereunder and not having been revoked on or prior to Completion;

(f) there being no incidents which have or may have a material adverse effect or potential material adverse effect on the ownership, business, operations, assets or financial condition of the Target Group since 31 December 2019, the date to which the latest audited financial statements of the Target Group are to be made up;

(g) the parties to the Agreement having performed and complied with all agreements, obligations and conditions contained in the Agreement that are required to be performed or complied with by each of them on or before the Completion Date (including the undertaking by the Vendor and the Target Group in relation to conduct of business of the Target Group between signing of the Agreement and Completion); and

(h) no relevant governmental, court, or other statutory or regulatory body having granted any order or made any decision that restricts or prohibits the implementation of the transactions contemplated under the Agreement.

The conditions set out in paragraphs (b) and (h) above cannot be waived by any parties to the Agreement. The Purchaser may at its discretion waive any of the conditions set out in paragraphs (a), (c), (e), (f) and (g). If (i) any of the conditions (other than the condition set out in paragraph (b)) has not been satisfied or waived due to the default of the Vendor or the Vendor's Guarantor, or (ii) the condition set out in paragraph (b) above has not been satisfied or waived, by the day falling 6 months after the date of the Agreement (or such other date as the parties to the Agreement may agree in writing) ("**Long Stop Date**"), the Agreement shall lapse and the Vendor shall return the Refundable Deposit to the Purchaser within 7 business days from the Long Stop Date.

Conduct of business after signing and before Completion

The Vendor and the Vendor's Guarantor undertook to procure members of the Target Group not to, among other things, incur any material expense, expenditure or liability, capital commitment, or enter into any material agreement not in the ordinary course of business and without the Purchaser's prior written consent after the date of the Agreement and prior to Completion.

Guarantee and indemnity

The Vendor's Guarantor as primary obligor agreed to guarantee the due performance by the Vendor of all of its obligations, responsibilities, warranties and undertakings under the Agreement and indemnify the Purchaser against costs, expenses and losses which the Purchaser may suffer from the Vendor's breach of its obligations, responsibilities, warranties or undertakings under the Agreement.

Completion

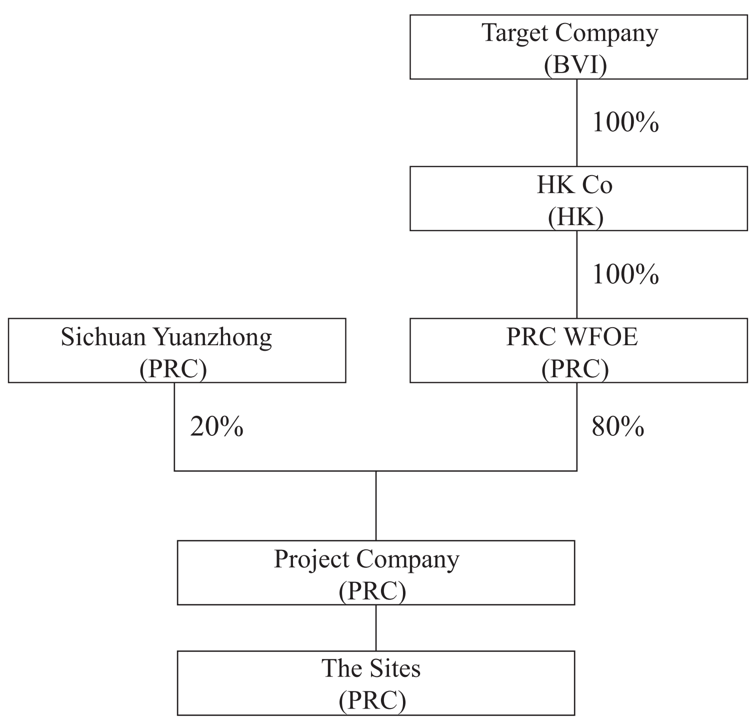
Completion will take place on the Completion Date, being the next business day after all the conditions to the Agreement as set out in the sub-paragraph headed "*Conditions precedent*" above have either been satisfied or (as the case may be) waived, or such other date as the parties to the Agreement may agree. As at the Latest Practicable Date, all the conditions set out in sub-paragraph headed "*Conditions precedent*" above have yet to be satisfied or waived (as the case may be).

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

3. INFORMATION ON THE VENDOR AND THE TARGET GROUP

The Vendor is a company incorporated in the BVI with limited liability and wholly owned by the Vendor's Guarantor. The Vendor is the immediate and ultimate holding company of the Target Company as at the Latest Practicable Date.

Set out below is the corporate structure of the Target Group as at the Latest Practicable Date.



The Target Company is a company incorporated in the BVI with limited liability, and is principally engaged in investment holding. Its principal asset is currently the entire equity interest in the HK Co.

The HK Co is a company incorporated in Hong Kong with limited liability, and is principally engaged in investment holding. Its principal asset is currently the entire equity interest in the PRC WFOE.

The PRC WFOE is a wholly foreign-owned enterprise established with limited liability in the PRC and its principal business is investment holding. Its principal asset is currently the 80% equity interest in the Project Company.

The Project Company is a company established with limited liability in the PRC and its principal business is the holding and development of the Sites. Its principal asset is currently the Sites and the development rights thereto.

Sichuan Yuanzhong is a company established in the PRC, information of which is further disclosed in the sub-paragraph headed "*Information on Sichuan Yuanzhong*" below.

Information on the Sites

The Sites comprise six plots of land with an aggregate site area of approximately 290,896.91 sqm. The Sites are located at the west side of Shigao Road, and the south side of beltway of Tianfu New District or the east or north side of the road around the eastern lake in Shigao Town, Renshou County in Meishan, Sichuan Province, the PRC* (中國四川省眉山市仁壽縣視高鎮視高大道西側，環天府新區快速通道南側或環湖東路東側或北側).

As at the Latest Practicable Date, the Project Company held the Provisional Qualification Certificate (暫定資質證書) issued by the relevant provincial supervising authority for conducting property development business in Sichuan Province and had entered into the relevant state-owned construction land use rights grant contracts with Renshou County Natural Resources and Planning Bureau for all the six land plots constituting the Sites. The appraised value of the Sites as at 29 February 2020 was approximately RMB1,946,000,000 (equivalent to approximately HK$2,123,086,000) based on the valuation report on the Sites prepared by Knight Frank Petty Limited, the full text of which is set out in Appendix V to this circular.

Pursuant to the relevant state-owned construction land use rights grant contracts, the permitted uses of the Sites are for residential properties and commercial services facilities for a term of 70 years and 40 years, respectively. The Sites are presently planned to be developed into a residential complex with ancillary commercial facilities and car-parking spaces. The total planned gross floor area of the development project is approximately 581,731.16 sqm, comprising residential and commercial areas of approximately 288,754 sqm and 292,977 sqm respectively and producing approximately 5,000 property units in total. Subject to further consideration by the Board, it is currently expected that a portion of the property units may be retained by the Group for investment purpose, complementing the existing property investment business of the Group. The final determination will depend on various factors including the progress of the development of the Sites, market conditions as well as the performance of the Group's property investment business and the Group will review its decision from time to time as appropriate.

The development of the Sites has been scheduled in different phases. As at the Latest Practicable Date, first phase of the development has already started on Lot No. 2019 (TR)-31 ("**Plot 31**"), with a planned gross floor area of approximately 133,791 sqm and approximately 1,420 property units to be constructed in total. Construction on Plot 31 commenced in the fourth quarter of 2019 and is scheduled to be completed in the fourth quarter of 2022. Pre-sale of property units to be constructed on Plot 31 has also commenced in October 2019 and is scheduled to complete by the fourth quarter of 2021. Development of the remaining five plots of land with a total planned gross floor area of approximately 447,940 sqm is scheduled to complete in phases between 2023 and 2025, with pre-sale scheduled to commence between mid-2020 and mid-2024.

Notwithstanding the development plan of the Sites as stated above, completion of the development of the Sites is subject to a number of different constraints, including funding, construction and regulatory approval and may need to be adjusted according to any changes in the circumstances relating to the development of the Sites. Funding constraints mainly arise from the availability of sufficient resources for completing the development of the Sites. Currently, the finance needs of the development of the Sites will be satisfied mainly through third party funding by way of borrowing and proceeds from pre-sale. The Target Group will strive to obtain third party funding at the most favourable terms commercially available through re-financing or alternative sources where appropriate. Construction constraints include various factors that may have a negative impact on the progress of the construction, and thus completion, of the development.

Besides, pursuant to the applicable laws and regulations in the PRC, construction and pre-sale of property units at the Sites by the Project Company are subject to the obtaining of the land use right certificate, construction land planning permit (建設用地規劃許可證), construction work planning permit (建設工程規劃許可證), construction work commencement permit (建築工程施工許可證) and the pre-sale permit (collectively, the "**Required Permits**"). Land use right certificate and the Required Permits will take time to obtain in accordance with the applicable laws and regulations and subject to progress of the development of the Sites and the pre-sale of the development. As at the Latest Practicable Date, the Project Company has obtained the land use right certificates in respect of two plots of land of the Sites and all the Required Permits in respect of the construction and pre-sale of property units on Plot 31. The Project Company will closely monitor the progress of the development of the Sites and obtain the land use right certificates and/or the Required Permits in respect of the other plots of land of the Sites accordingly. The Project Company and/or the relevant contractors are expected to apply for and obtain the remaining Required Permits in stages according to the development progress in line with normal industrial practice, and for instance, (i) land use right certificate will be applied for after full payment of land premium for the relevant plot of the Sites, (ii) construction land planning permit (建設用地規劃許可證) will be applied for after obtaining the relevant land use right certificate by submitting the construction project for approval and (iii) construction work planning permit (建設工程規劃許可證) will be applied for after obtaining the relevant land use right certificate and construction land planning permit by submitting the construction designs and building plans for approval.

Further, unforeseeable events such as the recent outbreak of the novel coronavirus epidemic ("**Epidemic**") may also affect the progress of development of the Sites. The Project Company anticipates that, following the Epidemic coming under control in the PRC, the Epidemic would not have material impacts on the schedule of the development of the Sites. In addition, pre-sale of property units at the Sites will to a large extent depend on the local property market conditions, which in turn may be affected by any government policies promulgated to regulate the property market activities. Any government policies encouraging property transactions will on the other hand have a positive impact on the pre-sale.

Financial information of the Target Group

Based on the unaudited consolidated management accounts of the Target Company prepared in accordance with the accounting principles generally accepted in Hong Kong, as at 31 December 2019, the unaudited net liability value of the Target Group is HK$76,492,000. From the date of incorporation of the Project Company to 31 December 2019 (being the only financial year applicable to the Target Group since its incorporation), the Target Group has recorded a net loss before tax and after tax of HK$86,740,000 and HK$77,364,000 respectively.

Information on Sichuan Yuanzhong

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Sichuan Yuanzhong has experience in property development in Sichuan Province, the PRC, and it belongs to a conglomerate based in Chengdu engaging in a variety of businesses covering biopharmaceutical medicines, securities investment, assets management, corporate advisory, property development and property management. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Sichuan Yuanzhong and its ultimate beneficial owner are third parties independent of the Company and its connected persons. As at the Latest Practicable Date, the Company does not have any plan, agreement or arrangement for cooperation with Sichuan Yuanzhong in developing the Sites.

The PRC WFOE and Sichuan Yuanzhong will be entitled to share the profit or to bear the loss of the Project Company in proportion to their respective equity interests in the Project Company.

4. PRINCIPAL BUSINESSES OF THE GROUP

The Company is an investment holding company and the principal activities of its subsidiaries are property investment, property trading, the provision of property management and related services.

5. REASONS FOR AND BENEFITS OF THE TRANSACTION

The Group has been principally engaged in property businesses, including property investment, property trading and property management, for decades and has considerable experience in the property market. While the Group successfully maintained a steady growth in its revenue in the year ended 31 December 2019, the Group has been cautiously proactive in searching for business opportunities in various property markets and believes that leveraging on its knowledge and experience in property-related businesses is key to creating additional sustainable value for the Group and stronger returns for the Shareholders amid the current challenging market conditions.

Since 2018, the global economy has become increasingly fragile and uncertain following the escalation of the trade conflicts between the United States and the PRC, the implementation of Brexit in the UK, other business tensions around the world and more recently the severe impact of the novel coronavirus outbreak. However, the Group remains cautiously optimistic about the economic growth potential in the PRC and the general prospect of the PRC's property market in the coming years. The Sites are located in Tianfu New District, Sichuan, which is the 11th state-level new district approved by the State Council of the PRC in 2014. Tianfu New District has been identified by the PRC Government as an important node in the construction of the "Belt and Road" and the development of the Yangtze River Economic Belt, with the aim to create a new growth pole for economic development and build an inland open economic highland (內陸開放經濟高地). Unlike first-tier regions or cities where the economies are generally more well-established with relatively fewer new opportunities, Tianfu New District, as a new developing region, is considered by the Board to have more potential for future long-term growth.

The development of the Sites will span several years from 2019 till 2025. It is considered that pre-sale of property units and retention of any property units by the Group for investment purpose should it be decided to do so will provide the Group with an additional source of revenue income upon completion of the development and delivery and/or leasing of the property units in coming years. The Board also considers that the Transaction offers an opportunity for the Group to tap into the property development business in the PRC and to capture the benefits from the PRC property market in the coming years, in line with its strategy to invest, maintain and grow its portfolio to generate a diversified and stable income for the Group.

The Directors are of the view that the Transaction will bring commercial benefits to the Group, and consider that the Transaction is made on normal commercial terms, which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. FINANCIAL EFFECTS OF THE TRANSACTION ON THE GROUP

Upon Completion, the Target Group (excluding the Project Company) will become indirect wholly-owned subsidiaries of the Company and the Project Company will become a non-wholly owned subsidiary of the Company. The financial results, assets and liabilities of the Target Group will be consolidated into the financial results of the Group.

As set out in the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, had Completion been taken place on 31 December 2019, the Group's total assets would have increased from approximately HK$1,780.2 million to approximately HK$3,546.8 million and total liabilities would have increased from approximately HK$40.9 million to approximately HK$1,737.4 million, resulting in an overall increase in its total consolidated net assets from approximately HK$1,739.3 million as at 31 December 2019 to approximately HK$1,809.4 million upon Completion.

Upon Completion, revenue and expenses from the Target Group will be consolidated into the Group's financial results for the year ending 31 December 2020. The Enlarged Group's earnings will primarily be derived from rental income to be generated from the investment properties of the Group and revenue of property sales of the Project Company.

Save for the transaction costs, the Company expects that there may be a goodwill incurred on acquisition arising from the Transaction.

Please refer to Appendix IV "Unaudited pro forma financial information of the Enlarged Group", which has been prepared for illustration purpose only, for more information on the financial effects of the Transaction on the financial position of the Group together with the basis and assumptions taken into account in preparing the unaudited pro forma consolidated financial information of the Enlarged Group.

7. IMPLICATIONS OF THE TRANSACTION UNDER THE LISTING RULES

As the Transaction will be completed by way of an acquisition of the investment holding company and one or more of the applicable percentage ratios are more than 25% but less than 100%, the Transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholder approval requirements under the Listing Rules.

8. THE SGM

The SGM will be convened for the purpose of considering and, if thought fit, approving among other things, the Agreement and the Transaction.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is materially interested in the Transaction, and therefore no Shareholder will be required to abstain from voting at the SGM.

The notice convening the SGM to be held at Salon III & IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 1 June 2020 at 9:30 a.m. is set out on pages SGM-1 to SGM-2 of this circular. A form of proxy for use at the SGM is enclosed. If you do not intend to attend the SGM or any adjournment thereof, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time for holding the SGM or any adjourned meeting thereof (as the case may be).

Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof (as the case may be) should you so wish and, in such event, the proxy appointment shall be deemed to be revoked.

9. RECOMMENDATION

The Board is of the view that the terms of the Agreement and the Transaction are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the Agreement and the Transaction.

In response to the current situation of the novel coronavirus infection in Hong Kong, Shareholders are strongly encouraged to consider appointing Chairman of the SGM as their proxy to vote on the resolution set out in the notice of SGM for them to reduce the risk of contracting the novel coronavirus at the SGM.

10. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of SGM.

Yours faithfully,
By Order of the Board
Y. T. Realty Group Limited
Cheung Chung Kiu
Chairman and Managing Director

1. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE COMPANY

The audited consolidated financial statements of the Company, together with the accompanying notes, for each of the three years ended 31 December 2017, 2018 and 2019 are disclosed in the annual reports of the Company for the financial years ended 31 December 2017 (pages 55-117), 31 December 2018 (pages 56-121) and 31 December 2019 (pages 52-111), respectively, and are incorporated by reference into this circular.

The said annual reports of the Company are available on the Company's website at www.ytrealtygroup.com.hk and website of the Stock Exchange at www.hkexnews.hk through the links below:

Annual report for the year ended 31 December 2017:
https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0412/ltn20180412340.pdf

Annual report for the year ended 31 December 2018:
https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0412/ltn20190412462.pdf

Annual report for the year ended 31 December 2019:
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0409/2020040900358.pdf

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2020, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Enlarged Group had secured and unguaranteed interest bearing other borrowings of approximately HK$788.8 million which was secured by pledge of 80% of equity interest of a subsidiary of the Target Group.

As at 31 March 2020, the Enlarged Group had provided unsecured financial guarantees of approximately HK$329.7 million in favour of certain banks in respect to mortgage facilities granted by the related banks relating to the mortgage loans arranged for certain purchasers of properties of a subsidiary of the Target Group.

As at 31 March 2020, the Enlarged Group had unsecured and unguaranteed lease liabilities of approximately HK$1.8 million related to a lease of an office property of the Group.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as at the close of 31 March 2020, the Enlarged Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or any material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that taking into account the existing cash and bank balances, available loan facilities, internally generated funds, and cash flow from operations of the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements and for at least 12 months from the date of publication of this circular in the absence of unforeseeable circumstance.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The year of 2020 is expected to be challenging as volatility and uncertainty will continue to affect the global economic growth. Major factors such as the development of the COVID-19 which has become global pandemic and the US-China trade conflicts have dampening effects on global economy. In response to the immense threat to the global economy by the novel coronavirus outbreak, the US Federal Reserve has cut interest rate twice in March 2020 and it is expected that the US Federal Reserve will further provide necessary fiscal stimulus in 2020. Other major economies will likely continue to adopt accommodative monetary policies to provide liquidity and prevent further economic downturn.

The key business markets where the Enlarged Group has its major investments and operations will be Mainland China and UK. In Mainland China, the pace of economic growth is likely to be lower than previous years due to factors including the trade conflict with the US and the severe impact of the novel coronavirus outbreak. However, it is expected that the Chinese Government will provide necessary fiscal stimulus and formulate accommodative monetary policy to maintain a stable economic growth. The long-term economic prospect of China remains positive and its property market is expected to be resilient with sustainable demand in the long run. In UK, UK had formally left the European Union after January 2020. However, UK economy will still be affected by uncertainty arising from trade and other negotiations between UK and EU in the future. Even though the economy and property market in UK are subject to uncertainty, it is expected that London will be relatively more resilient as compared to other regions of UK as London is still the most developed and primary business center in Europe.

In anticipation of market uncertainty and volatile economic environment, the Enlarged Group will remain cautious and proactive in managing its core investments while looking for investment opportunities, in particular in property markets, to produce sustainable and stable returns and enhance value for the Shareholders on a long-term basis.

Set out below is the text of a result received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

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

15 May 2020

The Directors
Y. T. Realty Group Limited

Dear Sir,

We report on the historical financial information of Prime Circle Global Limited (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages II-3 to II-43, which comprises the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Target Group for the period from 10 May 2019 (the earliest date presented) to 31 December 2019 (the "Relevant Period"), and the consolidated statement of financial position of the Target Group as at 31 December 2019 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-3 to II-43 forms an integral part of this report, which has been prepared for inclusion in the circular of Y. T. Realty Group Limited (the "Company") dated 15 May 2020 (the "Circular") in connection with the acquisition of the entire equity interest of the Target Company (the "Proposed Acquisition").

Directors' responsibility for the Historical Financial Information

The directors of the Company (the "Company Directors") are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the Company 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 presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, 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 Company 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 consolidated financial position of the Target Group as at 31 December 2019 and of the consolidated financial performance and consolidated cash flows of the Target Group for the Relevant Period in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Target Company in respect of the Relevant Period.

No historical financial statements for the Target Company

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

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

I. HISTORICAL FINANCIAL INFORMATION

Preparation of 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 Group for the Relevant Period, 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 Hong Kong dollar and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Period from 10 May 2019 to 31 December 2019 HK$'000
REVENUE	6	—
Cost of sales		—
Gross profit		—
Other income	6	70
Other expense	7	(6,229)
Selling and distribution expenses		(9,264)
Administrative expenses		(11,342)
Finance costs	8	(59,975)
LOSS BEFORE TAX	9	(86,740)
Income tax credit	10	9,376
LOSS FOR THE PERIOD		(77,364)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations		480
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(76,884)
Loss for the period attributable to:		
Owner of the parent		(67,834)
Non-controlling interests		(9,530)
		(77,364)
Total comprehensive loss for the period attributable to:		
Owner of the parent		(67,382)
Non-controlling interests		(9,502)
		(76,884)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December 2019 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	12	17,226
Interests in land use rights for property development	13.2	327,520
Deferred tax assets	21	9,348
Total non-current assets		354,094
CURRENT ASSETS		
Properties under development	13.1	441,742
Interests in land use rights for property development	13.2	240,808
Other receivables and prepayments	14	99,699
Due from the ultimate holding company	15	392
Tax recoverable		1,205
Restricted bank balances	16	137,352
Cash and cash equivalents	16	115,565
Total current assets		1,036,763
CURRENT LIABILITIES		
Trade payables	17	64,563
Other payables and accrued expenses	18	153,696
Contract liabilities	19	444,204
Total current liabilities		662,463
NET CURRENT ASSETS		374,300
TOTAL ASSETS LESS CURRENT LIABILITIES		728,394
NON-CURRENT LIABILITIES		
Interest-bearing other borrowings	20	804,886
Net liabilities		(76,492)
DEFICIENCY IN ASSETS		
Issued share capital	22	392
Reserves	23	(67,382)
		(66,990)
Non-controlling interests		(9,502)
Deficiency in assets		(76,492)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owner of the parent					
	Issued share capital	**Exchange fluctuation reserve**	**Accumulated loss**	**Total**	**Non-controlling interests**	**Deficiency in assets**
	HK$'000 *(note 22)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 10 May 2019						
Loss for the year	—	—	(67,834)	(67,834)	(9,530)	(77,364)
Exchange differences on translation of foreign operations	—	452	—	452	28	480
Total comprehensive loss for the year	—	452	(67,834)	(67,382)	(9,502)	(76,884)
Issue of shares	392	—	—	392	—	392
At 31 December 2019	392	452#	(67,834)#	(66,990)	(9,502)	(76,492)

These reserve accounts comprise the consolidated negative reserves of HK$67,382,000 in the consolidated statement of financial position as at 31 December 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Period from 10 May 2019 to 31 December 2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax		(86,740)
Adjustments for:		
Bank interest income	6	(70)
Finance costs	8	59,975
Depreciation	9	658
		(26,177)
Increase in properties under development		(443,545)
Increase in interests in land use rights for property development		(571,609)
Increase in other receivables and prepayments		(100,525)
Increase in restricted bank balances		(137,753)
Increase in trade payables		64,751
Increase in other payables and accrued expenses		94,498
Increase in contract liabilities		445,499
Cash used in operating activities		(674,861)
PRC tax paid		(1,208)
Net cash flows used in operating activities		(676,069)
CASH FLOWS FROM INVESTING ACTIVITIES		
Bank interest income received		70
Purchases of items of property, plant and equipment		(17,935)
Net cash flows used in investing activities		(17,865)
CASH FLOWS FROM FINANCING ACTIVITIES		
New interest-bearing other borrowings		985,613
Repayment of interest-bearing other borrowings		(175,777)
Net cash flows from financing activities		809,836
NET INCREASE IN CASH AND CASH EQUIVALENTS		115,902
Cash and cash equivalents at beginning of period		—
Effect of foreign exchange rate changes		(337)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16	115,565
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances		115,565

II. NOTES TO HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Target Company is a limited liability company incorporated in the British Virgin Islands (the "BVI") on 15 October 2019. The registered address of the Target Company is 2/F, Palm Grove House, P.O. Box 3340, Road Town, Tortola, British Virgin Islands.

The principal activity of the Target Company is investment holding. The Target Company and its subsidiaries now comprising the Target Group are principally engaged in property development in the People's Republic of China (the "PRC").

In the opinion of the director of the Target Company (the "Target Company Director"), Brilliant Power Limited ("Brilliant Power"), a limited liability company incorporated in the BVI, is the immediate and the ultimate holding company of the Target Company. Brilliant Power is ultimately controlled by Mr. Ni Biao ("Mr. Ni" or the "Controlling Shareholder").

During the period from March to December 2019, Mr. Ni and the Target Group underwent certain restructuring activities (the "Reorganisation") and summarised below are the principal events of the Reorganisation:

(a) In March 2019, Mr. Ni entered into a project cooperation agreement (the "Cooperation Agreement") with a PRC entity (the "Non-controlling Shareholder") for the formation of a project company (subsequently named as 四川圓中潤達豐置業發展有限公司 (Sichuan Yuanzhong Rundafeng Property Development Co,. Ltd.*)("Yuanzhong Rundafeng")) to be owned as to 80% and 20% by the Controlling Shareholder (or his designee) and the Non-controlling Shareholder, respectively, to acquire and develop 600 Mu of land in Chengdu, the PRC.

(b) In addition, in March 2019, Mr. Ni obtained a loan facility of RMB1 billion (the "Loan Facility") from a PRC entity (the "Lender") to finance the acquisition and development of land parcels by Yuanzhong Rundafeng.

(c) On 10 May 2019, Yuanzhong Rundafeng was established and the legal ownership of the Controlling Shareholder's 80% equity interests in Yuanzhong Rundafeng were registered as to 31% and 49% respectively under the names of the Non-controlling Shareholder and the Lender as collateral for the Controlling Shareholder's obligations under the Cooperation Agreement and the Loan Facility, respectively.

(d) From October to November 2019, the Target Company, Circle Capital (International) Investment Limited ("Circle Capital") and 成都圓潤企業管理有限公司 (Chengdu Yunrun Corporate Management Co., Ltd.*) ("Chengdu Yunrun") were incorporated/established by the Controlling Shareholder as holding companies of Yuanzhong Rundafeng.

(e) On 13 December 2019, the legal ownership of the 80% equity interests in Yuanzhong Rundafeng were transferred back to the Controlling Shareholder and registered under the name of Chengdu Yunrun as designated by the Controlling Shareholder and the Target Company became the holding company of the companies now comprising the Target Group.

Upon completion of the above Reorganisation and as of 31 December 2019, Yuanzhong Rundafeng was owned as to 80% by the Target Group and 20% by the Non-controlling Shareholder.

As at the date of this report, the Target Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Circle Capital (note a)	Hong Kong 29 October 2019	HK$10,000	100	—	Investment holding
Chengdu Yunrun*/@ (note b)	The PRC 19 November 2019	RMB10,000,000	—	100	Investment holding
Yuanzhong Rundafeng*/^/# (note b)	The PRC 10 May 2019	RMB10,000,000	—	80	Property development

Notes:

(a) No audited financial statements have been prepared for this entity since the entity was newly incorporated in 2019 which was not yet subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

(b) No statutory financial statements have been prepared for these entities during the Relevant Period as these entities are not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of establishment.

* The English names of these entities represent the best effort made by management of the Target Company to directly translate their Chinese names as they did not register any official English names.

@ Registered as a wholly-foreign-owned enterprise under PRC law

^ Registered as a domestic limited liability company under PRC law

Interest-bearing other borrowings of the Target Group as at 31 December 2019 were secured by the pledge of the 80% equity interest in Yuanzhong Rundafeng (note 20).

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Target Company became the holding company of all the companies now comprising the Target Group on 13 December 2019. The companies now comprising the Target Group were under the common control of the Controlling Shareholder before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Period.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Target Group for the Relevant Period include the results, changes in equity and cash flows of all companies now comprising the Target Group from the earliest date presented or since the date of incorporation. The consolidated statement of financial position of the Target Group as at 31 December 2019 have been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the Controlling Shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation. All significant intragroup transactions and balances have been eliminated on consolidation.

As at 31 December 2019, the Target Group has a deficiency in assets of HK$76,492,000, which included interest-bearing other borrowings of RMB721,001,000 (equivalent to HK$804,886,000) which are repayable on 22 September 2021. The Target Group also has capital commitments of HK$438,296,000 and HK$799,088,000 related to the acquisition of land use rights and capital expenditure for construction of properties under development, respectively, payable within the next three years. The Target Group financed its operation by obtaining borrowings from third parties, credit from suppliers and main constructors and proceeds from pre-sales of its properties projects. The Historical Financial Information has been prepared under the going concern basis because, in the opinion of the Target Company Director, the Target Group will have sufficient cash resources from its operations to meet its liabilities as and when they fall due. The Company has also agreed to provide continual financial support to the Target Group upon completion of the Proposed Acquisition to meet the Target Group's liabilities as and when they fall due.

2.2 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 the HKICPA and accounting principles generally accepted in Hong Kong.

The Historical Financial Information has been prepared under the historical cost convention.

3.1 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020

2 Effective for annual periods beginning on or after 1 January 2021

3 No mandatory effective date yet determined but available for adoption

The Target Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Target Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Target Group's results of operations and financial position.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Company. Control is achieved when the Target Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Company the current ability to direct the relevant activities of the investee).

When the Target Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Target Company's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Target Company, using consistent accounting policies. The results of subsidiaries are included in the Target Company's profit or loss to the extent of dividends received and receivable. The Target Company's investments in subsidiaries are stated at cost less any impairment losses.

The Target Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Fair value measurement

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 Group. 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 Group 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 Group 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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than deferred tax assets, properties under development and financial assets), 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset 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 profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Target Group 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 Group;

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

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

or

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

(i) the entity and the Target Group 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 Group 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 Group or an entity related to the Target Group;

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

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

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

Property, plant and equipment and depreciation

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

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

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

Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture and fixtures	20%

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 profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Properties under development

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

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

Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of total land and construction costs attributable to the unsold properties. Net realisable value is determined by reference to the sales proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on prevailing market conditions.

Leases

The Target Group 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 Group as a lessee

The Target Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Target Group recognises lease liabilities to make lease payments and right-of-use assets representing the rights 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 impairment losses, and adjusted for any remeasurement of lease liabilities. 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 Group 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 its estimated useful life and the lease term. If ownership of the leased asset transfers to the Target Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

When the right-of-use assets relate to interests in leasehold land held as properties under development, they are subsequently measured at the lower of cost and net realisable value in accordance with the Target Group's policy for "Properties under development".

(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 Group and payments of penalties for terminating a lease, if the lease term reflects the Target Group 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 Group uses the incremental borrowing rate at the lease commencement date if 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 future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group'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 Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Target Group 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 Group 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.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest (''SPPI'') on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Target Group'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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Target Group 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)

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 Group's consolidated statement of financial position) when:

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

- the Target Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target Group 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 Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target Group 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 Group 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 Group could be required to repay.

Impairment of financial assets

The Target Group recognises an allowance for expected credit losses ("ECLs") 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 Group 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 Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Target Group 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 Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Target Group may also consider a financial asset to be in default when internal or external information indicates that the Target Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Target Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 and contract assets 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 Group applies the practical expedient of not adjusting the effect of a significant financing component, the Target Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Target Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Target Group 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, the Target Group 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 loans and borrowings and payables.

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

The Target Group's financial liabilities include trade and other payables, and interest-bearing other borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss 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 statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Target Group 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 Group 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, 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 statement of profit or loss.

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.

Cash and cash equivalents

For the purpose of the consolidated 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, less bank overdrafts which are repayable on demand and form an integral part of the Target Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, 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 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 profit or loss.

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of 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 goodwill or 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, 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.

Deferred tax assets are recognised for all deductible temporary differences, and 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, 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, 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 Group 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.

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 Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Target Group 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 with 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 Group and the customer at contract inception. When the contract contains a financing component which provides the Target Group 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.

Sale of properties

Revenue from the sale of properties is recognised at the point in time when the purchaser obtained the physical possession or the legal title of the completed property and the Target Group has present right to payment and the collection of the consideration is probable.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimate future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Target Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Target Group performs under the contract (i.e. transfers control of the related goods or services to the customer).

Contract cost

Costs to fulfil a contract

Other than the costs which are capitalised as properties under development and property, plant and equipment, 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 profit or loss 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.

Costs of obtaining a contract

Costs of obtaining a contract are those costs that the Target Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. Costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. The costs of obtaining a contract are charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the related asset is recognised. Other costs of obtaining a contract are expensed when incurred.

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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Target Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Target Company's functional currency. Each entity in the Target Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Target Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Target Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Target Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. 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. Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. 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.

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

Impairment review of properties under development

Properties under development are stated at the lower of cost and net realisable value. The cost of each unit in each phase of development is determined using the weighted average method. The estimated net realisable value is the estimated selling price less selling expenses and the estimated cost of completion (if any), which are estimated based on the best available information.

If there is an increase in costs to completion or a decrease in net sales value, the net realisable value will decrease and this may result in a provision for properties under development. Such provision requires the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for properties in the periods in which such estimate is changed will be adjusted accordingly.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2019 was HK$9,348,000. The amount of unrecognised tax losses at 31 December 2019 was HK$29,716,000. Further details are contained in note 21 to the historical financial information.

5. SEGMENT INFORMATION

The Target Group is principally engaged in property development in the PRC. The Target Company Director is identified as the chief operating decision maker for the purposes of resource allocation and performance assessment and considered the property development business to be a single operating segment. Accordingly, no segment information is reported. For the Relevant Period, all non-current non-financial assets of the Target Group were located in the PRC.

6. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

	Period from 10 May 2019 to 31 December 2019
	HK$'000
Revenue from contracts with customers	
Sale of properties	—
Other income	
Bank interest income	70

Revenue from contracts with customers

(i) Performance obligations

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

Sale of properties

The performance obligation is satisfied when the physical possession or the legal title of the completed property is obtained by the purchaser.

Unsatisfied performance obligations related to sale of properties:

	As at 31 December 2019
	HK$'000
Expected to be recognised after one year	578,227

The performance obligations expected to be recognised after one year relate to sale of properties that are to be satisfied within three years and the contracts had significant financing components.

7. OTHER EXPENSE

An analysis of other expense is as follow:

	Period from 10 May 2019 to 31 December 2019
	HK$'000
Penalties payable for non-compliance related to construction work	6,229

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Period from 10 May 2019 to 31 December 2019
	HK$'000
Interest on other borrowings	79,104
Interest expenses arising from revenue contracts	6,539
Less: Interest capitalised	(25,668)
	59,975

9. LOSS BEFORE TAX

The Target Group's loss before tax is arrived at after charging:

		Period from 10 May 2019 to 31 December 2019
	Note	*HK$'000*
Depreciation	12	658
Auditors' remuneration		—
Director's remuneration		—

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Target Group did not generate any assessable profits arising in Hong Kong during the Relevant Period. Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in the city in which the Target Group's subsidiaries operate.

	Period from 10 May 2019 to 31 December 2019
	HK$'000
Deferred tax credit (note 21)	9,376

A reconciliation of the tax credit applicable to loss before tax at the statutory rates for the jurisdictions in which the Target Company and its subsidiaries are domiciled to the tax credit at the effective tax rate is as follows:

	Period from 10 May 2019 to 31 December 2019
	HK$'000
Loss before tax	(86,740)
Tax credit at the statutory tax rates of different jurisdictions	21,685
Expenses not deductible for tax	(10,973)
Tax losses not recognised	(1,336)
Tax credit at the Target Group's effective tax rate	9,376

11. DIVIDENDS

No dividend has been paid or declared by the Target Company during the Relevant Period.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *HK$'000*	Furniture and fixtures *HK$'000*	Total *HK$'000*
As at 31 December 2019			
At 10 May 2019:			
Cost	—	—	—
Accumulated depreciation	—	—	—
Net carrying value	—	—	—
At 10 May 2019, net of accumulated depreciation	—	—	—
Addition	17,215	720	17,935
Depreciation (note 9)	(642)	(16)	(658)
Exchange realignment	(49)	(2)	(51)
At 31 December 2019, net of accumulated depreciation	16,524	702	17,226
At 31 December 2019:			
Cost	17,164	718	17,882
Accumulated depreciation	(640)	(16)	(656)
Net carrying value	16,524	702	17,226

13.1. PROPERTIES UNDER DEVELOPMENT

	As at 31 December 2019 *HK$'000*
Properties under development expected to be completed:	
Within normal operating cycle included under current assets	441,742
Properties under development expected to be completed within normal operating cycle and recovered:	
After one year	441,742

13.2. INTERESTS IN LAND USE RIGHTS FOR PROPERTY DEVELOPMENT

	As at 31 December 2019 *HK$'000*
Interests in land use rights for property development	568,328
Less: Portion classified as non-current assets	(327,520)
Portion classified as current assets	240,808

The balance represented prepayments for acquisition of land use rights in the Mainland China and as at 31 December 2019, the Target Group was in the process of obtaining the relevant land use right certificates. The prepayments of HK$327,520,000 relating to the acquisition of two parcels of land are classified as non-current assets as the development of the relevant land parcels is expected to be commenced after 2020.

14. OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December 2019 *HK$'000*
Prepayments	69,126
Cost of obtaining contracts (note)	29,594
Other receivables	979
	99,699
Impairment allowance	—
	99,699

Note: Cost of obtaining contracts represented the prepaid sales commission paid in connection with the sale of properties. The Target Group has capitalised the amounts paid and will charge them to profit or loss when the revenue from the related property sale is recognised and are included in selling and distribution expenses at that time. During the Relevant Period, sales commission of nil was charged to profit or loss.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default. Details of the expected credit losses are disclosed in note 30 to the Historical Financial Information.

15. DUE FROM THE ULTIMATE HOLDING COMPANY

The balance with the ultimate holding company is unsecured, interest-free and is repayable on demand. Details of the expected credit losses are disclosed in note 30 to the Historical Financial Information.

16. CASH AND CASH EQUIVALENTS

	As at 31 December 2019
	HK$'000
Bank balances	252,917
Less: Restricted bank balances (notes)	(137,352)
Cash and cash equivalents	115,565

Notes:

(a) Pursuant to the relevant regulations in the PRC, Yuanzhong Rundafeng is required to place at a designated bank account certain amounts of pre-sale proceeds of properties as guarantee deposits for the construction of the related properties. The deposits can only be used for purchases of construction materials and payments of construction fees for the relevant property projects. As at 31 December 2019, such guarantee deposits amounted to HK$137,296,000.

(b) According to the relevant mortgage facility agreements signed by Yuanzhong Rundafeng with its banks, Yuanzhong Rundafeng is required to place at designated bank accounts certain amounts as deposits for potential default of mortgage loans advanced to property purchasers. These guarantee deposits will be released after the property ownership certificates of the relevant properties are passed to the banks. As at 31 December 2019, such deposits amounted to HK$56,000.

As at 31 December 2019, the cash and cash equivalents of the Target Group denominated in RMB amounted to RMB226,558,000. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Target Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. All the bank balances are deposited with creditworthy banks with no recent history of default.

17. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of Relevant Period, based on the invoice date or the progress payment certificate date, is as follows:

	As at 31 December 2019
	HK$'000
0 to 30 days	64,453
31 to 60 days	31
61 to 90 days	—
Over 90 days	79
	64,563

Trade payables are non-interest-bearing. The payment terms of trade payables are stipulated in the relevant contracts with credit periods of 0 to 30 days in general.

18. OTHER PAYABLES AND ACCRUED EXPENSES

	As at 31 December 2019
	HK$'000
Deposits received	4,181
Interest payable	78,595
Other payables	56,263
Accrued expenses	14,657
	153,696

Other payables are non-trade in nature, unsecured, interest-free and expected to be settled within one year. The carrying amounts of the above other payables approximate to their fair value.

19. CONTRACT LIABILITIES

Contract liabilities include advances received from buyers in connection with the Target Group's pre-sale of properties.

The fluctuation in contract liabilities during the Relevant Period was mainly due to the increase in advances received from customers in relation to the sale of properties.

20. INTEREST-BEARING OTHER BORROWINGS

	As at 31 December 2019		
	Contractual interest rate (%)	**Maturity**	*HK$'000*
Non-current:			
Other borrowings — secured	16.5%	2021	804,886

	As at 31 December 2019
	HK$'000
Analysed into:	
Other borrowings repayable:	
In the second year	804,886

Notes:

(a) Other borrowings of the Target Group as at 31 December 2019 were secured by the pledge of the equity interests in a subsidiary of the Target Group, details of which are set out in note 1 to the Historical Financial Information.

(b) Other borrowings of the Target Group as at 31 December 2019 were all denominated in Renminbi.

(c) The carrying amount of the other borrowings of the Target Group approximates to their fair values.

21. DEFERRED TAX

Deferred tax assets

	Losses available for offsetting against future taxable profits
	HK$'000
At 10 May 2019	—
Deferred tax credited to profit or loss during the period	9,376
Exchange realignment	(28)
At 31 December 2019	9,348

As at 31 December 2019, the Target Group has tax losses arising in Mainland China of HK$37,503,000 that will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of tax losses of HK$29,716,000 as they have arisen in a subsidiary that has been loss-making and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Target Group, the applicable rate is 10%. The Target Group is therefore liable for withholding taxes on dividends distributed by the subsidiary established in Mainland China.

As at 31 December 2019, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Target Group's subsidiaries as all the subsidiaries of the Target Group were loss making during the Relevant Period.

There are no income tax consequences attaching to the payment of dividends by the Target Company to its shareholders.

22. SHARE CAPITAL

	As at 31 December 2019
	HK$'000
Authorised, issued and fully paid:	
50,000 ordinary shares of USD1 each	392

A summary of the movement in the Target Company's share capital is as follow:

	Number of share in issue	Share capital
		HK$'000
At 15 October 2019 (date of incorporation)	—	—
Issue of shares	50,000	392
At 31 December 2019	50,000	392

23. RESERVES

The amounts of the Target Group's reserves and the movements therein for the Relevant Period are presented in the consolidated statement of changes in equity on page II-6.

24. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Target Group's subsidiary that has material non-controlling interests are set out below:

	As at 31 December 2019
Percentage of equity interest held by non-controlling interests:	
Yuanzhong Rundafeng	20%

	Period from 10 May 2019 to 31 December 2019
	HK$'000
Loss for the period allocated to non-controlling interests:	
Yuanzhong Rundafeng	9,530

	As at 31 December 2019
	HK$'000
Accumulated balances of non-controlling interests at the reporting date:	
Yuanzhong Rundafeng	9,502

The following tables illustrate the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations:

	Period from 10 May 2019 to 31 December 2019
	HK$'000
Revenue	—
Total expenses	(57,024)
Loss for the period	(47,648)
Total comprehensive loss for the period	(47,508)

	As at 31 December 2019
	HK$'000
Current assets	836,774
Non-current assets	246,691
Current liabilities	(624,692)
Non-current liabilities	(506,281)

	Period from 10 May 2019 to 31 December 2019
	HK$'000
Net cash flows used in operating activities	(373,990)
Net cash flows used in investing activities	(17,865)
Net cash flows from financing activities	507,757
Net increase in cash and cash equivalents	115,902

25. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest payable	Interest-bearing other borrowings
	HK$'000	*HK$'000*
At 10 May 2019	—	—
Interest expenses	79,104	—
Changes from financing cash flows	—	809,836
Foreign exchange movement	(509)	(4,950)
At 31 December 2019	78,595	804,886

26. FINANCIAL GUARANTEES

At the end of the Relevant Period, the Target Group had the following financial guarantees:

	As at 31 December 2019
	HK$'000
Guarantees in respect of mortgage facilities provided for certain purchasers of the Target Group's properties	169,348

During the Relevant Period, the Target Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Target Group's properties. Pursuant to the terms of the guarantees, in the event of default on mortgage payments by these purchasers before the expiry of the guarantees, the Target Group is responsible for repaying the outstanding mortgage principals together with the accrued interest and penalties owed by the defaulted purchasers to the banks, net of any sales proceeds as described below.

Pursuant to the above arrangement, the related properties were pledged to the banks as collateral for the mortgage loans. The banks are entitled to take over the legal titles and will realise the pledged properties through open auction or other appropriate means in the event of default on mortgage repayments by these purchasers.

The Target Group is responsible for repaying the banks when the proceeds from the auction of the properties cannot cover the outstanding mortgage principals together with the accrued interest and penalties. The Target Group's guarantee period starts from the dates of grant of the relevant mortgage loans and ends upon the issuance of real estate ownership certificates to the purchasers.

In the opinion of the Target Company Director, the fair value of the guarantees at initial recognition and the ECL allowance at the end of the Relevant Period are not significant.

27. CAPITAL COMMITMENTS

The Target Group had the following capital commitments at the end of the Relevant Period:

	As at 31 December 2019
	HK$'000
Contracted but not provided for:	
Capital expenditure for construction of properties under development	799,088
Acquisition of land use rights	438,296
	1,237,384

28. RELATED PARTY TRANSACTIONS

(a) Outstanding balance with a related party

Details of the Target Group's balance with its related party as at the end of the Relevant Period are disclosed in note 15 to the Historical Financial Information.

(b) Compensation of key management personnel of the Target Group

Key management personnel of the Target Group are the directors of the Target Company and its subsidiaries and these directors did not receive any remuneration from the Target Group during the Relevant Period.

29. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Target Group as at the end of the Relevant Period are financial assets and financial liabilities at amortised cost.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Target Group's principal financial instruments include other receivables and deposits, restricted bank balances, cash and cash equivalents, trade payables, other payables, and interest-bearing other borrowings. Details of the major financial instruments and the Target Group's relevant accounting policies are disclosed in note 3.2 to the Historical Financial Information. The main purpose of these financial instruments is to raise finance for the Target Group's operations.

Management meets periodically to analyse and formulate measures to manage the Target Group's exposure to financial risks, including principally credit risk and liquidity risk. The Target Group had no significant exposures to foreign currency risk and equity price risk. Generally the Target Group employs a conservative strategy regarding its risk management.

Credit risk

The Target Group's credit risk is primary attributable to other receivables, amount due from the ultimate holding company, restricted bank balances, and cash and cash equivalents. The credit risk of the Target Group's financial assets, which arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

It is the Target Group's policy that all customers are required to pay deposits in advance of the purchase of properties. In addition, the Target Group does not have any significant credit risk as the credit given to any individual is not significant. The Target Group performs appropriate and sufficient credit verification procedures for every credit sale transaction to minimise credit risk. There is no significant concentration of credit risk within the Target Group.

The Target Group has arranged banking financing for certain purchasers of property units and provided guarantees to secure obligations of such purchasers for repayments. Detailed disclosure of these guarantees is made in note 26 to the Historical Financial Information.

For financial assets included in other receivables and prepayments, an amount due from the ultimate holding company, restricted bank balances and cash and cash equivalents ("Other Financial Assets"), the Target Group applied the general approach and measured impairment allowance for Other Financial Assets at an amount equal to 12-month expected credit losses as there has been no significant increase in credit risk since initial recognition. None of the Other Financial Assets as at 31 December 2019 were overdue and all the balances were categorised in Stage 1 for the measurement of ECLs. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default and the timing and amount of future cash flows. Given the Target Group has not experienced any significant credit losses in the past, the Target Company Director considered that the allowances for ECLs for Other Financial Assets were minimal and therefor no provision for impairment were made as at 31 December 2019.

Maximum exposure and year-end staging as at 31 December 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Target Group'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 December 2019. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets included in other receivables and prepayments					
— Normal*	979	—	—	—	979
Due from the ultimate holding company					
— Normal*	392	—	—	—	392
Restricted bank balances	137,352	—	—	—	137,352
Cash and cash equivalents	115,565	—	—	—	115,565
	254,288	—	—	—	254,288

* The credit quality of the financial assets included in other receivables and prepayments and an amount due from the ultimate holding company are considered to be "normal" when 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. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Liquidity risk

The Target Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Target Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing other borrowings and trade and other payables.

The maturity profile of the Target Group's financial liabilities as at the end of the Relevant Period, based on the contractual and undiscounted payments, was as follows:

As at 31 December 2019

	On demand	**Within 1 year**	**1 to 2 years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	—	64,563	—	64,563
Interest payable	—	78,595	—	78,595
Other payables	—	56,263	—	56,263
Interest-bearing other borrowings	—	—	804,886	804,886
	—	199,421	804,886	1,004,307

Capital management

The primary objectives of the Target Group's capital management are to safeguard the Target Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Target Group monitors capital using a gearing ratio, which is net debt divided by total assets. Net debt includes interest-bearing other borrowings less bank balances. Total assets comprises all components of assets. The Target Group's policy is to maintain a stable gearing ratio. The gearing ratio as at the end of the Relevant Period was as follows:

	As at 31 December 2019
	HK$'000
Interest-bearing other borrowings	804,886
Less: cash and cash equivalents	(115,565)
Less: Restricted bank balances	(137,352)
Net debt	551,969
Total assets	1,390,857
Gearing ratio	40%

31. EVENT AFTER THE REPORTING PERIOD

Since the outbreak of the new coronavirus began in January 2020 across the country, a series of precautionary and control measures have been and continued to be implemented across the PRC including extension of the Chinese New Year Holiday, travel and work restrictions. Nevertheless, the Target Group has resumed to work in late February 2020. The Target Group has assessed and preliminarily concluded that the outbreak of the new coronavirus would have certain temporary minor impact on the Target Group's operation and the progress of the property development project. As at the date of this report, the Target Group was not aware of any material adverse effects on the Historical Financial Information as a result of the outbreak of the new coronavirus.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company, the Target Group or its subsidiaries in respect of any period subsequent to 31 December 2019.

Set out below is the management discussion and analysis of the Target Group's financial performance and operations. The following financial information is based on the Accountants' Report of the Target Group as set out in Appendix II to this circular.

BUSINESS AND FINANCIAL RESULTS OF THE TARGET GROUP

General Information

The Target Group primarily engages in the property development in the PRC. The Target Company indirectly holds 80% of the entire equity interests in the Project Company, which in turn holds the Sites and the development rights thereto. The Sites comprise six plots of land with an aggregate site area of approximately 290,896.91 sqm. As at the Latest Practicable Date, construction had been commenced on one land plot (i.e. Plot 31) and the pre-sale of certain units thereon has commenced.

Revenue and loss for the period

Set out below is certain financial information extracted from the Accountants' Report of the Target Group as set out in Appendix II to this circular illustrating the consolidated financial performance of the Target Group in respect of the relevant reporting period under the Accountants' Report (the "**Relevant Period**").

	Period from 10 May 2019 to 31 December 2019 *HK$'000*
Revenue	—
Gross Profit	—
Loss before tax	(86,740)
Loss for the period	(77,364)

While the Target Group had launched pre-sale of certain units of Plot 31 (the "**Pre-sale Properties**"), such units were still under construction as at 31 December 2019. Given that revenue derived from the sale of the Pre-sale Properties would only be recognized when the Target Group had satisfied the relevant performance obligations (i.e. delivery of the physical possession or the legal title of the completed units to purchasers), no revenue was recorded by the Target Group during the Relevant Period.

The Target Group recorded net losses of approximately HK$77.4 million for the Relevant Period, which was primarily attributable to (i) finance costs of approximately HK$60.0 million mainly incurred in connection with interest-bearing borrowings for the development of the Sites; (ii) administrative expenses of approximately HK$11.3 million which mainly comprised of consultancy and management fees in respect of the development of the Sites; and (iii) selling and distribution expenses of approximately HK$9.3 million which mainly comprised of promotion and marketing expenses and management fees in relation to the pre-sale of properties.

Segment information

During the Relevant Period, the Target Group had only a single operating segment, being the property development business in the PRC. Accordingly, no segment information was reported.

FINANCIAL POSITION AND OTHER INFORMATION OF THE TARGET GROUP

Liquidity and Financial Resources

Set out below is a summary of the Target Group's financial position as at 31 December 2019:

	As at 31 December 2019
	HK$'000
Non-current assets	354,094
Current assets	1,036,763
Total assets	1,390,857
Non-current liabilities	804,886
Current liabilities	662,463
Total liabilities	1,467,349
Net current assets	374,300
Net liabilities	(76,492)

As at 31 December 2019, the Target Group recorded total assets of approximately HK$1,390.9 million, which primarily comprised of properties under development of approximately HK$441.7 million and total liabilities of approximately HK$1,467.3 million, which primarily comprised of other borrowings of approximately HK$804.9 million and advances received from purchasers in connection with the Pre-sale Properties of approximately HK$444.2 million. As at 31 December 2019, the current ratio (calculated as the current assets divided by current liabilities) of the Target Group was approximately 1.57.

During the Relevant Period, the Target Group held its cash and cash equivalents primarily in RMB. As at 31 December 2019, the Target Group's cash and cash equivalents amounted to approximately HK$115.6 million. The Target Group also had restricted bank balances of approximately HK$137.4 million and they represent (i) certain amounts of the sale proceeds of the Pre-sale Properties as guarantee deposits for the construction of the relevant properties; and (ii) certain amounts of the guarantee deposits placed with the banks in connection with mortgage facilities granted to purchasers of the Pre-sale Properties prior to passing of property ownership certificates of such properties to the banks. For details, please refer to note 16 to the Accountants' Report of the Target Group as set out in Appendix II to this circular.

Capital structure and gearing ratio

During the Relevant Period, the Target Group generally financed its operations by borrowings, the outstanding amount of which amounted to approximately HK$804.9 million as at 31 December 2019. The borrowings are denominated in RMB with an effective interest rate of 16.5% per annum. For further details of the borrowings of the Target Group and its maturity profile, please refer to note 20 to the Accountants' Report of the Target Group as set out in Appendix II to this circular.

As at 31 December 2019, the gearing ratio (calculated as the net debt divided by total assets of the Target Group) of the Target Group was approximately 0.4.

Contingent Liabilities

As at 31 December 2019, the contingent liabilities of the Target Group amounted to approximately HK$169.3 million, which relates to financial guarantees provided by the Target Group to banks in connection with mortgage facilities granted to purchasers of the Pre-sale Properties. For details, please refer to note 26 to the Accountants' Report of the Target Group as set out in Appendix II to this circular.

Save as disclosed above, the Target Group did not have any other material contingent liabilities as at 31 December 2019.

Charged on assets

As at 31 December 2019, the Target Group had pledged its 80% equity interests in the Project Company in order to secure borrowings for the development of the Sites.

Capital Commitments

As at 31 December 2019, the Target Group had capital commitments of approximately HK$1,237.4 million, which represented capital commitments of the Target Group which have been contracted but not provided for in connection with the construction of properties under development and acquisition of land use rights of certain plots of lands of the Sites.

FOREIGN EXCHANGE EXPOSURE

During the Relevant Period, the Target Group was not exposed to any currency risk as all business transactions were carried out in RMB and the Target Group did not have any monetary financial assets and liabilities denominated in currency other than RMB. Accordingly, the Target Group did not have any hedging policies and no financial instruments for hedging purpose.

SIGNIFICANT INVESTMENTS

During the Relevant Period, the Target Group did not hold any significant investment except for its interests in the Sites.

MATERIAL ACQUISITION AND DISPOSALS

Save for the corporate reorganization as disclosed in note 1 to the Accountants' Report of the Target Group as set out in Appendix II to this circular, the Target Company did not conduct any material acquisitions or disposals of subsidiaries and associated companies during the Relevant Period.

EMPLOYEES' REMUNERATION AND POLICY

During the Relevant Period, the Target Group had developed the Sites through an independent contractor engaged by the Target Group and such contractor was not regarded as employees under relevant labour laws and regulations of the PRC. Accordingly, no employees' remuneration had been paid and no policy for employees' remuneration had been adopted by the Target Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save for the development and construction of properties at the Sites, the Target Group has no other plans for material investments or capital assets.

BUSINESS OUTLOOK AND FUTURE PROSPECTS

The Target Group is principally engaged in property investment and development in the PRC. As at the Latest Practicable Date, the Target Group held the development rights in relation to six plots of land comprising the Sites located at Shigao Town, Renshou County in Meishan, Sichuan Province, the PRC.

As at the Latest Practicable Date, the pre-sale of certain units on Plot 31 had commenced. As at 29 February 2020, properties with approximately 68,400 sqm on Plot 31 had been pre-sold. The Target Group will continue to develop the Sites into a residential complex with ancillary commercial facilities and car-parking spaces. In view of the location and the development of the Sites, the Company is of the view that the Transaction offers a good opportunity for the Group to tap into the property development business in the PRC with a view to bringing long-term stable returns to the Shareholders.

Notwithstanding that the Target Group has contingent liabilities of HK$169.3 million and capital commitments of HK$1,237.4 million and has already pledged its 80% equity interests in the Project Company, the Directors are of the opinion that, taking into account the existing cash and bank balances, available loan facilities, internally generated funds, and cash flow from operations of the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements and for at least 12 months from the date of publication of this circular (the "**Period**") in the absence of unforeseeable circumstances. Beyond the Period, the Directors are expecting that the Enlarged Group will continue to have sufficient resources to complete the development of the Sites and maintain its operations with its then resources as a whole, including the cash and bank balances of the Enlarged Group then available, proceeds from continued pre-sale of property units at the Sites, funds generated from other operations of the Enlarged Group and available third party funding.

The information set out in this appendix does not form part of the accountants' reports prepared by the reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong, set out in Appendix II "Accountants' Report on the Financial Information of the Target Group" to this Circular and is included herein for information only.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Introduction

The following is an illustrative unaudited pro forma consolidated statement of financial position (the "Unaudited Pro Forma Financial Information") of Y. T. Realty Group Limited (the "Company", and together with its subsidiaries, the "Group"), as enlarged by the proposed acquisition of the 100% equity interest in Prime Circle Global Limited (the "Target Company", and together with its subsidiaries, the "Target Group") (the "Proposed Acquisition"). The Group as enlarged by the Proposed Acquisition upon completion of the Proposed Acquisition is hereafter collectively referred to as the "Enlarged Group". The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the "Directors") in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and on the basis of the notes set forth below for the purpose of illustrating the effects of the Proposed Acquisition as if the Acquisitions had been completed at 31 December 2019. This Unaudited Pro Forma Financial Information has been prepared in a manner consistent with both the format and accounting policies adopted by the Group in the audited financial statements for the year ended 31 December 2019.

The Unaudited Pro Forma Financial Information has been prepared by the Directors for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition been completed on 31 December 2019 or any future date.

The Unaudited Pro Forma Financial Information has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2019, which has been extracted from the published 2019 annual report of the Company, and the audited consolidated statement of financial position of the Target Group as at 31 December 2019, which has been extracted from the accountants' report of the Target Group as set out in Appendix II to this circular, after giving effect to the unaudited pro forma adjustments as described in the accompanying notes.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

(2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 31 December 2019	The Target Group as at 31 December 2019	Pro forma adjustments			Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
NON-CURRENT ASSETS						
Property, plant and equipment	2,838	17,226				20,064
Investment properties	1,299,417	—				1,299,417
Interests in land use rights for property development	—	327,520	77,714			405,234
Goodwill	—	—	82,094			82,094
Intangible asset	8,560	—				8,560
Equity investment designated at fair value through other comprehensive income	2,320	—				2,320
Debt investments at amortised cost	13,744	—				13,744
Deposits	279	—				279
Deferred tax assets	—	9,348				9,348
Total non-current assets	1,327,158	354,094				1,841,060
CURRENT ASSETS						
Properties under development	—	441,742	234,763			676,505
Interests in land use rights for property development	—	240,808	335,226			576,034
Other receivables, deposits and prepayments	1,481	99,699		392		101,572
Due from the ultimate holding company	—	392		(392)		—
Tax recoverable	—	1,205				1,205
Restricted bank balances	—	137,352				137,352
Cash and cash equivalents	451,571	115,565	(350,000)		(4,100)	213,036
Total current assets	453,052	1,036,763				1,705,704

	The Group as at 31 December 2019	The Target Group as at 31 December 2019	Pro forma adjustments			Unaudited pro forma of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
CURRENT LIABILITIES						
Trade payables	—	64,563				64,563
Other payables and accrued expenses	20,747	153,696				174,443
Contract liabilities	—	444,204				444,204
Tax payables	2,440	—				2,440
Total current liabilities	23,187	662,463				685,650
NET CURRENT ASSETS	429,865	374,300				1,020,054
TOTAL ASSETS LESS CURRENT LIABILITIES	1,757,023	728,394				2,861,114
NON-CURRENT LIABILITIES						
Deferred tax liabilities	10,892	—	229,082			239,974
Other payables	6,831	—				6,831
Interest-bearing other borrowings	—	804,886				804,886
Total non-current liabilities	17,723	804,886				1,051,691
Net assets/(liabilities)	1,739,300	(76,492)				1,809,423
EQUITY						
Equity attributable to owners of the parent						
Share capital	79,956	392	(392)	—		79,956
Reserves	1,659,344	(67,382)	67,382	—	(4,100)	1,655,244
	1,739,300	(66,990)				1,735,200
Non-controlling interests	—	(9,502)	83,725			74,223
Total equity	1,739,300	(76,492)				1,809,423

(3) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The balances are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2019 as set out in the published 2019 annual report of the Company for the year ended 31 December 2019.

2. The balances are extracted from the audited consolidated statement of financial position of the Target Group as set out in the accountants' report of the Target Group in Appendix II to this circular.

3. Upon completion of the Proposed Acquisition, the Target Company will become an indirectly wholly-owned subsidiary of the Company. Accordingly, the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values using the acquisition method in accordance with Hong Kong Financial Reporting Standard 3 *Business Combinations* ("HKFRS 3") issued by the Hong Kong Institute of Certified Public Accountants.

   For the purpose of the Unaudited Pro Forma Financial Information, it is assumed that the fair values of the identifiable assets and liabilities of the Target Group upon completion approximate to their carrying amounts as at 31 December 2019, except for the properties under development and the interests in land use rights for property development held by the Target Group. The fair values of the properties under development and the interests in land use rights for property development are based on the valuation as of 31 December 2019 prepared by Knight Frank Petty Limited, after taking into account the amount of land premium that has not been paid by the Target Group as at 31 December 2019. Accordingly, the goodwill arising from the Proposed Acquisition is calculated as follow:

	HK$'000
Net liabilities value of the Target Group as at 31 December 2019	(76,492)
Fair value adjustments:	
Properties under development and interests in land use rights for property development	647,703
Deferred tax effect	(229,082)
Adjusted net assets value of the Target Group	342,129
Less: Share of adjusted net assets value by non-controlling interests	(74,223)
Fair value of the identifiable assets and liabilities attributable to the Group	267,906
Goodwill arising from the Proposed Acquisition	82,094
Cash consideration	350,000

Based on the above, an adjustment is made which represents (i) the cash consideration of HK$350,000,000 paid for the Proposed Acquisition pursuant to the sale and purchase agreement dated 26 March 2020; (ii) the elimination of the paid-up capital of HK$392,000 and negative pre-acquisition reserves of HK$67,382,000 of the Target Group; (iii) excess of the fair values over the carrying amounts of the properties under development and the interests in land use rights for property development held by the Target Group of HK$647,703,000; (iv) deferred tax liabilities of HK$229,082,000 provided for corporate income tax and land appreciation tax in respect of the fair values recognised in (iii) above; (v) share of the fair value adjustments and related deferred tax liabilities in (iii) and (iv) above to the non-controlling interests of HK$83,725,000; and (vi) the allocation of the excess of the consideration over the fair value of the identifiable net assets of the Target Group as at 31 December 2019 to the goodwill in accordance with HKFRS 3.

The fair value of net assets acquired is subject to changes upon completion of the Proposed Acquisition because in accordance with HKFRS 3, the fair values of all identifiable assets and liabilities of the Target Group shall be assessed on the date of completion. Accordingly, goodwill on acquisition may be materially different from the calculation above.

4. The adjustment represents the reclassification of the amount due from the ultimate holding company of the Target Company as at 31 December 2019 to other receivables as the Target Group will become subsidiaries of the Group upon completion of the Proposed Acquisition.

5. For the purpose of the Unaudited Pro Forma Financial Information, the transaction expenses, such as professional services fees, that are directly attributable to the Acquisitions are estimated to be HK$4,100,000 and are charged to profit or loss upon completion of the Proposed Acquisition.

6. No other adjustment has been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions of the Group and the Target Group entered into subsequent to 31 December 2019.

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

The following is the text of a report, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, on the unaudited pro forma financial information of the Enlarged Group as set out in this appendix and prepared, for incorporation in this circular:

EY 安永

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

15 May 2020

The Directors
Y. T. Realty Group Limited
25th Floor, China Resources Building,
26 Harbour Road, Wanchai,
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Y.T. Realty Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purpose only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position of the Group as at 31 December 2019 and the related notes set out in pages IV-2 to IV-5 to the circular dated 15 May 2020 (the "Circular") issued by the Company (the "Unaudited Pro Forma Financial Information") in connection with the proposed acquisition of the 100% equity interest in Prime Circle Global Limited and its subsidiaries (collectively the "Target Group")(the "Proposed Acquisition"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page IV-1 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Proposed Acquisition on the Group's financial position as at 31 December 2019 as if the Proposed Acquisition had taken place at 31 December 2019. As part of this process, information about the Group's and the Target Group's financial position have been extracted by the Directors from the Group's audited consolidated financial statements for the year ended 31 December 2019, on which the annual report has been published, and the accountants' report on the Target Group included in Appendix II to this Circular, respectively.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("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 behavior.

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

Reporting Accountants' responsibilities

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

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

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

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

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

- The related pro forma adjustments give appropriate effect to those criteria; and

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

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

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

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

Opinion

In our opinion:

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

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

(c) the adjustments are appropriate for the purpose of the Unaudited 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

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 property valuer, in connection with their opinion of value of the Property.

Knight Frank 萊坊

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

The Directors
Y. T. Realty Group Limited
25/F, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

15 May 2020

Dear Sirs

Valuation of Six Parcels of Land located at Shigao Town, Renshou County, Sichuan Province, the People's Republic of China (The "Property")

In accordance with the instruction from Y. T. Realty Group Limited and its subsidiaries (the "Group") for us to value the Property 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 value of the Property in its existing state as at 29 February 2020 (the "Valuation Date" — effective date as at which the property was valued).

Basis of Valuation

Our valuation is our opinion of the market value of the Property 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 the most probable price reasonably obtainable in the market on the valuation date in keeping with the market value definition. It is 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.

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

Our valuation complies with the requirements set out in "The HKIS Valuation Standards 2017" issued by HKIS, the provisions 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

We have valued the Property on the basis that the Property will be developed and completed in accordance with the latest development proposals provided to us by the owner of the Property. We have assumed that approvals for the proposals will be granted without onerous conditions. In arriving at our opinion of value, we have adopted Market Approach by making reference to comparable transactions in the locality and have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development.

Title Documents and Encumbrances

We have been provided with extracts of documents in relation to the titles to the Property. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We have been provided with the information regarding the title of the Property by the owner of the Property and the Group's PRC legal advisor, Commerce & Finance Law Offices.

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

Source of Information

We have relied to a very considerable extent on the information given by the owner of the Property and the legal opinion of the Group's PRC legal advisor. We have no reason to doubt the truth and the accuracy of the information provided by the owner of the Property which is material to the valuation. We have accepted advice given by the owner of the Property on such matters as planning approvals or statutory notices, tenure, development scheme and development costs expended, floor and site areas and all other relevant matters. Dimension, measurements and areas included in the attached valuation report are based on the information provided to us and are therefore only approximations. We have not been able to carry out detailed on-site measurements to verify the site areas of the property and we have assumed that the areas shown on the documents handed to us are correct. We were also advised by the owner of the Property that no material facts have been omitted from the information provided.

Inspection

We have inspected the exterior and, where possible, the interior of the Property valued and the inspection was carried out by our Charlotte Jiang, a university graduate and has around 1.5 years of experience in the PRC as Assistant Valuer, in January 2020. We have not carried out site investigations to determine the suitability of ground conditions and services, etc. Our valuation is prepared on the assumption that these aspects are satisfactory. No tests were carried out on any of the services.

Identity of Property Interest to be Valued

We have exercised reasonable care and skill (but will not have an absolute obligation to you) to ensure that the Property, identified by the property address in your instructions, are the Property inspected by us and contained within our valuation report. If there is ambiguity as to the property address, or the extent of the Property to be valued, this should be drawn to our attention in your instructions or immediately upon receipt of our 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 valuation is prepared on the assumption that the Property is unaffected. Where contamination is suspected or confirmed, but adequate investigation has not been carried out and made available to us, then the valuation will be qualified.

Compliance with Relevant Ordinance and Regulations

We have assumed that the Property had been constructed, occupied and used in full compliance with, and without contravention of any Ordinances, statutory requirements and notices except only where otherwise stated. We have further assumed that, for any use of the Property 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.

Risks 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.

Remarks

In our valuations, Knight Frank has prepared the valuation based on information and data available to us as at the valuation date. While the current 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, changes in policy direction, mortgage requirements, social and international 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, geopolitical and social changes or other unexpected circumstances after the Valuation Date may affect the value of the Property.

In accordance with our standard practice, we must state that the valuation reports are for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

CURRENCY

All sums stated in our valuation are in Renminbi.

Our valuation report is attached.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited
Clement W M Leung
MFin MCIREA MHKIS MRICS RPS (GP)
Executive Director
Head of China Valuation & Advisory

Remarks: Clement W M Leung, MFin MCIREA MHKIS MRICS RPS(GP), is a qualified valuer who has 27 years of experiences in property valuation and consultancy services in Asia Pacific region, including the People's Republic of China, Hong Kong, Macau, Vietnam, London, New York and San Francisco, and has been participating in various corporate valuation projects in the People's Republic of China and Hong Kong.

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 29 February 2020
Six parcels of land, located at Shigao Town, Renshou County, Sichuan Province, The PRC	The Property comprises 6 parcels of land, namely Lot No. 2019(TR)-25, 2019(TR)-29, 2019(TR)-30, 2019(TR)-31, 2019(TR)-32 and 2019(TR)-89 with a total site area of approximately 290,896.91 sq m.	Lot No. 2019(TR)-31 of the Property is currently under construction while the remaining portion of the Property is currently vacant.	RMB1,946,000,000 (RENMINBI ONE BILLION NINE HUNDRED FORTY-SIX MILLION ONLY)
	As advised, the Property is planned to be developed into a residential and commercial composite development with a proposed gross floor area of 581,731.16 sq m and is scheduled to be completed in May 2025 with details listed in Note 5. Details of the approximate gross floor area, upon completion, are listed below:	Residential portion and commercial portion of Lot No. 2019(TR)-31 of the Property with a total gross floor area of 64,770.17 sq m and 3,627.34 sq m respectively have been pre-sold. (Details please see Note 7).	*(Please refer to Notes 5, 6 and 7)*

	Proposed Gross Floor Area (sq m)
2019(TR)-25	
Residential	66,400.60
Commercial	56,270.00
	122,670.60
2019(TR)-29	
Residential	40,855.45
Commercial	57,483.34
	98,338.79
2019(TR)-30	
Residential	57,344.16
Commercial	54,601.49
	111,945.65
2019(TR)-31	
Residential	68,568.04
Commercial	65,223.20
	133,791.24
2019(TR)-32	
Residential	55,586.00
Commercial	57,367.00
	112,953.00
2019(TR)-89	
Commercial	2,031.88
Grand Total:	581,731.16

The land use rights of the Property have been granted for terms expiring on 18 July 2089 for residential use and 18 July 2059/10 January 2060 for commercial use respectively. (Details please see Note 1)

Notes:

1. Pursuant to 3 Realty Title Certificates issued by Renshou County Natural Resources and Planning Bureau, the land use rights of the Property have been granted to 四川圓中潤達豐置業發展有限公司 with a total site area of 116,609.86 sq m for residential and commercial uses. Details of the Realty Title Certificates are listed as follows:

Certificate Number	Use	Expiry Date of Land Use Right Term	Site Area (*sq m*)	Issuance Date
Chuan (2020) Renshou County Di 0004374 Hao	Commercial	10 January 2060	1,015.94	13 March 2020
Chuan (2020) Renshou County Di 0001816 Hao	Commercial	18 July 2059	48,370.35	16 January 2020
	Residential	18 July 2089		
Chuan (2019) Renshou County Di 0014582 Hao	Residential	18 July 2089	67,223.57	27 August 2019
	Commercial	18 July 2059		

2. Pursuant to the Land Use Right Transfer Contract No. 511201-2019-P052 entered into between Renshou County Natural Resources and Planning Bureau ("Party A") and 四川圓中潤達豐置業發展有限公司 ("Party B") dated 19 July 2019, the land use rights of land (2019(TR)-25) with a site area of 71,551.09 sq m have been granted to Party B. The salient conditions are stated inter-alia as follows:-

   i. Site area : 71,551.09 sq m

   ii. Land use right premium : RMB216,900,000

3. Pursuant to the Land Use Right Transfer Contract No. 511201-2019-P050 entered into between Renshou County Natural Resources and Planning Bureau ("Party A") and 四川圓中潤達豐置業發展有限公司 ("Party B") dated 19 July 2019, the land use rights of land (2019(TR)-30) with a site area of 46,015.11 sq m have been granted to Party B. The salient conditions are stated inter-alia as follows:-

   i. Site area : 46,015.11 sq m

   ii. Land use right premium : RMB139,500,000

4. Pursuant to the Land Use Right Transfer Contract No. 511201-2019-P048 entered into between Renshou County Natural Resources and Planning Bureau ("Party A") and 四川圓中潤達豐置業發展有限公司 ("Party B") dated 19 July 2019, the land use rights of land (2019(TR)-32) with a site area of 56,720.85 sq m have been granted to Party B. The salient conditions are stated inter-alia as follows:-

   i. Site area : 56,720.85 sq m

   ii. Land use right premium : RMB170,200,000

5. Based on the information from the owner of the Property, the estimated date of completion and market value of each parcel of land are listed as follows:

Land Parcels	**Estimated Date of Completion**	**Breakdown of Market Value*** *(RMB)*
2019(TR)-25	15 November 2024	390,000,000
2019(TR)-29	18 July 2023	348,000,000
2019(TR)-30	22 February 2024	333,000,000
2019(TR)-31	30 October 2022	642,000,000
2019(TR)-32	17 May 2025	227,000,000
2019(TR)-89	18 July 2023	6,000,000

* *The breakdown of market value is based on the valuation of the whole property and thus may not represent its market value if being disposed of in the market individually.*

6. As advised by the owner of the Property, the construction cost incurred and the projected outstanding construction cost of Lot No. 2019(TR)-31 of the Property as at the valuation date were approximately RMB59,400,000 and RMB543,600,000 respectively. Accordingly, we have taken into account the aforesaid cost in our valuation. The gross development value of the proposed developments of Lot No. 2019(TR)-31 of the Property, assuming they were completed as at the valuation date, was estimated approximately as RMB1,655,600,000.

7. As advised by the owner of the Property, residential portion and commercial portion of Lot No. 2019(TR)-31 of the Property with a total gross floor area of 64,770.17 sq m and 3,627.34 sq m have been pre-sold at a total consideration of RMB794,880,030 and RMB38,579,514 respectively. According to the Group's instruction, the pre-sold portions are included in this valuation. We have also taken in consideration in the course of our valuation.

8. We have been provided a legal opinion regarding the Property by with the Group's PRC legal adviser, which, inter-alia, contains the following:

   (i) The Land Use Right Transfer Contacts entered into between Renshou County Natural Resources and Planning Bureau and 四川圓中潤達豐置業發展有限公司 are legal and valid;

   (ii) 四川圓中潤達豐置業發展有限公司 has the right to apply for the Land Use Right Certificates and legally occupy and use the land use rights upon full settlement of the land premium and tax according to the Land Use Right Transfer Contracts;

   (iii) if 四川圓中潤達豐置業發展有限公司 is unable to construct as contracted under the Land Use Right Transfer Contracts, exemption or approval of government department is required;

   (iv) 四川圓中潤達豐置業發展有限公司 has obtained legal and valid Provisional Qualification Certificate of Real Estate Development Enterprise for carrying out real estate construction and development on the Property; and

   (v) 四川圓中潤達豐置業發展有限公司 is required to obtain the Land Use Rights Certificates, Construction Works Planning Permits and Construction Works Commencement Permits. These permits will be issued by government department after approving the administrative and substantive review of the application of 四川圓中潤達豐置業發展有限公司.

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. INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ASSOCIATED CORPORATIONS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to (a) Divisions 7 and 8 of Part XV of the SFO, to be notified to the Company and the Stock Exchange (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) section 352 of the SFO, to be entered in the register required to be kept by the Company referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange:

Long positions in Shares

Name of Director	Capacity	Number of Shares held	Total number of Shares held	Approximate percentage of shareholdings
Cheung Chung Kiu	Interest of controlled corporation	136,736,150	136,736,150	17.10%
Ng Kwok Fu	Beneficial owner	50,000		
	Interest of spouse	40,000	90,000	0.01%

Note: Mr. Cheung Chung Kiu ("**Mr. Cheung**") is deemed to be interested in 136,736,150 Shares by virtue of his indirect control of First Rose Global Limited which owns those shares. First Rose Global Limited is a wholly-owned subsidiary of Windsor Dynasty Limited, a company wholly owned by Mr. Cheung.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 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 Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

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

4. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, as far as the Directors were aware, none of the Directors or their respective close associates (as if each of them were treated as a controlling shareholder under Rule 8.10 of the Listing Rules) had any interest in a business which competes or is likely to compete, whether directly or indirectly, with the business of the Group.

5. DIRECTORS' SERVICE CONTRACTS

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

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, there has been no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited consolidated financial statements of the Company were made up.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation or claim of material importance and, so far as the Directors were aware, there was no litigation or claim of material importance pending or threatened against any member of the Enlarged Group.

8. MATERIAL CONTRACTS

Save and except for the Agreement, there are no material contracts (being contracts entered outside the ordinary course of business carried on or intended to be carried on by members of the Enlarged Group) having been entered into by any member of the Enlarged Group within the two years preceding the Latest Practicable Date.

9. EXPERT QUALIFICATIONS AND CONSENT

Set out below are the qualifications of the experts who have given opinion or advice contained in this circular.

Name	Qualification
Ernst & Young	Certified Public Accountants
Knight Frank Petty Limited	Independent property valuer

Each of the above experts confirmed that as at the Latest Practicable Date, (i) it was not legally nor beneficially interested in the share capital of any member of the Group, nor had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and (ii) it did not have any direct or indirect interest in any assets which had been, since 31 December 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 Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its report, letter or statement and references to its name in the form and context in which they respectively appear.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection by Shareholders during normal business hours on any weekday (public holidays excepted) from the date of this circular up to 14 days thereafter at Room 501, 5/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong:

(a) the memorandum and bye-laws of the Company;

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

(c) the accountants' report on the financial information of the Target Group prepared by Ernst & Young, the full text of which is set out in Appendix II to this circular;

(d) the report on the unaudited pro forma financial information of the Enlarged Group prepared by Ernst & Young, the full text of which is set out in Appendix IV to this circular;

(e) the valuation report on the Sites prepared by Knight Frank Petty Limited in respect of the valuation of the Sites as at 29 February 2020, the full text of which is set out in Appendix V to this circular;

(f) the material contract referred to in the paragraph headed "*Material contracts*" of this Appendix;

(g) the written consent referred to in the paragraph headed "*Expert qualifications and consent*" of this Appendix; and

(h) this circular.

In view of the current situation of the novel coronavirus infection in Hong Kong, appropriate anti-epidemic precautionary measures including mandatory screening of body temperatures, registration of personal information of attendees, mandatory use of surgical face masks by the attendees throughout the inspection, physical distancing and such other appropriate measures will be taken to ensure safety of all attendees during inspection. No entry will be allowed to any attendee who is subject to mandatory quarantine order imposed by the Government. Should the location for inspection be closed for business on any weekday during the 14-day period of inspection due to anti-epidemic precautionary measures, the period for inspection will be extended accordingly.

11. GENERAL

(a) The company secretary of the Company is Mr. Albert T. da Rosa, Jr., who is a practising solicitor in Hong Kong and a partner of Cheung Tong & Rosa Solicitors.

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company in Hong Kong is situated at 25th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

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

(d) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

Y. T. REALTY GROUP LIMITED
渝太地產集團有限公司#

(Incorporated in Bermuda with limited liability)
(Stock Code: 75)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of Y. T. Realty Group Limited (the "**Company**") will be held at Salon III & IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Monday, 1 June 2020 at 9:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT** the Agreement (as defined in the Company's circular dated 15 May 2020 of which this notice forms part, and a copy of the Agreement is produced to this meeting and marked "A" and initialed by the chairman of this meeting for identification purposes) and all transactions and ancillary matters contemplated thereunder be and are hereby approved, confirmed and ratified."

By Order of the Board
Y. T. Realty Group Limited
Albert T. Da Rosa, Jr.
Company Secretary

Hong Kong, 15 May 2020

Principal place of business in Hong Kong
25th Floor, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

For identification purposes only

Notes:

1. A member may appoint one or more proxies to attend and vote on his or her behalf at the Meeting, or at any adjournment thereof, provided that the proxies are appointed to represent respectively such number of the shares held by the member that is specified in their forms of proxy. A proxy need not be a member.

2. The form of proxy must be in writing under the hand of the appointer or his or her attorney duly authorised in writing or, if the appointer is a corporation, either under the common seal or under the hand of an officer, attorney or other authorised person.

3. Where there are joint registered holders of a share, if more than one of such persons be present at the Meeting, or at any adjournment thereof, only the vote of the most senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.

4. In order to be valid, the completed form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power of attorney or authority, must be delivered to the Company's branch share registrar and transfer office in Hong Kong (the "**Branch Registrar**"), Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than forty-eight (48) hours before the time for holding the Meeting or the adjourned meeting, as the case may be.

5. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the Meeting or upon the poll concerned, or at any adjournment thereof, and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

6. For the purpose of determining shareholders' entitlement to attend and vote at the Meeting, the deadline for registration of any share transfer will be Tuesday, 26 May 2020. In order to be eligible to attend and vote at the Meeting, all transfer documents and accompanying share certificates must be lodged for registration with the Branch Registrar, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m., Tuesday, 26 May 2020.

In response to the current situation of the novel coronavirus infection in Hong Kong, the following measures will be taken at the SGM:

a. Entry to the SGM venue will only be allowed to Shareholder or proxy who does not have any symptoms of the novel coronavirus, including runny nose, headache, cough, sore throat, and fever, and has passed temperature test;

b. No entry will be allowed to any Shareholder or proxy who is subject to mandatory quarantine order imposed by the Government;

c. All Shareholders and proxies allowed to enter the SGM venue must properly wear surgical face masks at all times until after they have left the venue; and

d. No refreshments will be served.

To further reduce the risk of the novel coronavirus spreading at the SGM by limiting the number of attendees, Shareholders are strongly encouraged to consider appointing Chairman of the SGM as their proxy to vote on the above resolution for them.