THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Shun Tak Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

信德集團

SHUN TAK HOLDINGS

SHUN TAK HOLDINGS LIMITED
信德集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 242)

Website: http://www.shuntakgroup.com

MAJOR TRANSACTION
IN RELATION TO
ACQUISITION OF 50% EQUITY INTEREST
IN TWO PROJECT COMPANIES

Capitalised terms used on this cover page have the same meaning 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 5 to 13 of this circular.

The Acquisitions have been approved by Written Approval from a closely allied group of Shareholders who together hold more than 50% of the issued share capital of the Company, pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company. This circular is being despatched to the Shareholders for information purposes only.

26 March 2020

CONTENTS

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

"Acquisitions"	the Huahe Acquisition and the Huayan Acquisition
"Agreements"	the Huahe Agreement and the Huayan Agreement
"Announcement"	the announcement of the Company dated 4 December 2019 in relation to, among others, the Acquisitions
"Bid Bonds"	a sum equal to an amount of RMB187 million and RMB211 million previously paid by Shanghai Tongxin and Shanghai Suzuan respectively, pursuant to the terms of the Tenders as initial deposits
"Board"	the board of Directors
"China Beijing Equity Exchange"	China Beijing Equity Exchange*（北京產權交易所）, an entity approved by the People's Government of Beijing Municipality to transact state-owned equity in the PRC
"Company"	Shun Tak Holdings Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange (Stock Code: 242)
"Completion"	the completion of each of the Huahe Acquisition and Huayan Acquisition
"CR Land"	China Resources Land (Shanghai) Limited*（華潤置地（上海）有限公司）, a company incorporated under the laws of the PRC with limited liability and wholly-owned by China Resources Land Limited, a company listed on the Stock Exchange (Stock Code: 1109), which is an Independent Third Party
"CRL Waivers"	confirmations from CR Land for its consent to waive its pre-emptive rights in respect of the Sale Interests
"Director(s)"	the director(s), including independent non-executive director(s), of the Company
"Enlarged Group"	the Group as enlarged by the Acquisitions 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
"Huahe Acquisition"	the acquisition of the Huahe Sale Interest by Shanghai Tongxin from the Vendor pursuant to the terms of the relevant Tender

"Huahe Agreement"	an agreement dated 18 December 2019 entered into between Shanghai Tongxin and the Vendor in relation to the Huahe Acquisition
"Huahe Consideration"	the amount payable as consideration for the Huahe Sale Interest in the amount of RMB2,228 million, being the final bid price for the relevant Tender
"Huahe Sale Interest"	the 50% equity interest in Shanghai Huahe held by the Vendor prior to the completion of the Huahe Acquisition
"Huahe Site"	a land plot (Plot 33-02) located at Suhe Bay Area, Jingan District, Shanghai, the PRC, held by Shanghai Huahe
"Huayan Acquisition"	the acquisition of the Huayan Sale Interest by Shanghai Suzuan from the Vendor pursuant to the terms of the relevant Tender
"Huayan Agreement"	an agreement dated 18 December 2019 entered into between Shanghai Suzuan and the Vendor in relation to the Huayan Acquisition
"Huayan Consideration"	the amount payable as consideration for the Huayan Sale Interest in the amount of RMB2,484.25 million, being the final bid price for the relevant Tender
"Huayan Sale Interest"	the 50% equity interest in Shanghai Huayan held by the Vendor prior to the completion of the Huayan Acquisition
"Huayan Site"	three land plots (Plot 44-01, Plot 46-01, Plot 46-02) located at Suhe Bay Area, Jingan District, Shanghai, the PRC held by Shanghai Huayan
"Independent Third Party(ies)"	independent third party(ies) not connected with the Company or its connected persons (as defined in the Listing Rules)
"Latest Practicable Date"	24 March 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau and Taiwan
"Project Companies"	Shanghai Huahe and Shanghai Huayan
"RMB"	Renminbi, the lawful currency of the PRC

"Sale Interests"	the Huahe Sale Interest and the Huayan Sale Interest
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shanghai Huahe"	Shanghai Huahe Real Estate Development Company Limited* (上海華合房地產開發有限公司), a company incorporated under the laws of the PRC with limited liability and is owned as to 50% by the Vendor and 50% by CR Land prior to the completion of the Huahe Acquisition
"Shanghai Huayan"	Shanghai Huayan Real Estate Development Company Limited* (上海華筵房地產開發有限公司), a company incorporated under the laws of the PRC with limited liability and is owned as to 50% by the Vendor and 50% by CR Land prior to the completion of the Huayan Acquisition
"Shanghai Suzuan"	Shanghai Suzuan Investment Company Limited* (上海蘇鑽投資有限公司), a company incorporated under the laws of the PRC with limited liability, which is owned as to 80% by the Group and 20% by Shanghai Zhonghong
"Shanghai Tongxin"	Shanghai Tongxin Investment Company Limited* (上海潼信投資有限公司), a company incorporated under the laws of the PRC with limited liability, which is owned as to 80% by the Group and 20% by Shanghai Zhonghong
"Shanghai Zhonghong"	Shanghai Zhonghong Real Estate Company Limited* (上海中鴻置業有限公司), a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of China Enterprise Co., Ltd. (中華企業股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600675), which is an Independent Third Party
"Share(s)"	ordinary share(s) of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shenzhen OCT"	Shenzhen OCT Properties Co., Ltd* (深圳華僑城房地產有限公司), a company incorporated under the laws of the PRC with limited liability and wholly-owned by Shenzhen Overseas Chinese Town Co., Ltd.* (深圳華僑城股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 000069), which is an Independent Third Party
"Sites"	the Huahe Site and the Huayan Site
"sq. m"	square metre

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Tender(s)"	the sale(s) of the Huahe Sale Interest and/or the Huayan Sale Interest by way of public tender(s) (公開掛牌) at China Beijing Equity Exchange
"Vendor"	Shenzhen OCT
"Written Approval"	the written shareholders' approval obtained by the Company in relation to the Acquisitions pursuant to Rule 14.44 of the Listing Rules
"%"	percent

* *For identification purposes only*

In this circular, unless the context otherwise requires, the terms "associate(s)", "connected person(s)", "subsidiary(ies)" and "substantial shareholder(s)" shall have the meanings given to such terms in the Listing Rules, as modified by the Stock Exchange from time to time.

Certain amounts and percentage figures set out in this circular have been subject to rounding adjustments.

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SHUN TAK HOLDINGS LIMITED
信德集團有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 242)
Website: http://www.shuntakgroup.com

Directors:
Ms. Pansy Ho *(Group Executive Chairman and Managing Director)*
Mr. Norman Ho*
Mr. Charles Ho*
Mr. Michael Wu*
Mr. Kevin Yip*
Ms. Daisy Ho *(Deputy Managing Director)*
Ms. Maisy Ho
Mr. David Shum
Mr. Rogier Verhoeven

* *Independent Non-Executive Director*

Registered Office:
Penthouse 39th Floor
West Tower, Shun Tak Centre
200 Connaught Road Central
Hong Kong

26 March 2020

To the Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF 50% EQUITY INTEREST IN TWO PROJECT COMPANIES

INTRODUCTION

Reference is made to the Announcement in relation to the Acquisitions. On 4 December 2019, Shanghai Tongxin and Shanghai Suzuan (each an 80%-owned joint venture company of the Company) submitted the final bid prices for the public tenders of the Huahe Sale Interest and the Huayan Sale Interest respectively. Following the winning of the Tenders and obtaining the CRL Waivers, on 18 December 2019, Shanghai Tongxin and Shanghai Suzuan entered into the Huahe Agreement and the Huayan Agreement respectively, pursuant to which (i) Shanghai Tongxin will acquire, and the Vendor will sell, the Huahe Sale Interest, representing the 50% equity interest in Shanghai Huahe and (ii) Shanghai Suzuan will acquire, and the Vendor will sell, the Huayan Sale Interest, representing the 50% equity interest in Shanghai Huayan, in each case, for a consideration of RMB2,228 million and RMB2,484.25 million, respectively. Prior to the completion of the Acquisitions, each of Shanghai Huahe and Shanghai Huayan is owned as to 50% by the Vendor and 50% by CR Land, and they are principally engaged in the development of the Sites. As at the Latest Practicable Date, the Huahe Acquisition and the Huayan Acquisition have been completed, and Shanghai Huahe is owned as to 50% by Shanghai Tongxin and 50% by CR Land; and Shanghai Huayan is owned as to 50% by Shanghai Suzuan and 50% by CR Land.

The purpose of this circular is to provide you with, among other things, further information in relation to the Acquisitions and such other information as required under the Listing Rules.

THE ACQUISITIONS

The principal terms of the Acquisitions are set out as follows:

The Agreements

The Huahe Agreement

Date: 18 December 2019

Parties:
(1) Shanghai Tongxin (an 80%-owned joint venture company of the Company) as purchaser;

(2) Shenzhen OCT as vendor

To the best of Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s), are third parties independent of the Company and its connected persons. As at the Latest Practicable Date, Shanghai Huahe is owned as to 50% by Shanghai Tongxin and 50% by CR Land.

Subject matter: Shanghai Tongxin will acquire, and Shenzhen OCT will sell, the Huahe Sale Interest, representing the 50% equity interest in Shanghai Huahe. The major asset owned by Shanghai Huahe is the Huahe Site.

The Huayan Agreement

Date: 18 December 2019

Parties:
(1) Shanghai Suzuan (an 80%-owned joint venture company of the Company) as purchaser;

(2) Shenzhen OCT as vendor

To the best of Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor and its ultimate beneficial owner(s), are third parties independent of the Company and its connected persons. As at the Latest Practicable Date, Shanghai Huayan is owned as to 50% by Shanghai Suzuan and 50% by CR Land.

Subject matter: Shanghai Suzuan will acquire, and Shenzhen OCT will sell, the Huayan Sale Interest, representing the 50% equity interest in Shanghai Huayan. The major asset owned by Shanghai Huayan is the Huayan Site.

Please refer to the paragraph headed "Information on the Project Companies and the Sites" for background information of Shanghai Huahe and Shanghai Huayan.

Considerations and Payment Terms

The considerations for the Huahe Acquisition and the Huayan Acquisition were RMB2,228 million and RMB2,484.25 million, respectively, being the final bid prices for the tenders for the Huahe Sale Interest and the Huayan Sale Interest, respectively. Pursuant to the terms of the Agreements, after deducting the Bid Bonds which have been previously paid by Shanghai Tongxin and Shanghai Suzuan, the remaining balance of the Huahe Consideration and the Huayan Consideration was paid to the China Beijing Equity Exchange within five (5) business days after the date of the respective agreements. The Huahe Consideration and the Huayan Consideration which are attributable to the Group, being RMB3,769.8 million in aggregate, were satisfied by using the Group's internal resources.

The Board considered that the Huahe Consideration and the Huayan Consideration were fair and reasonable after taking into account the location and potential development prospects of the Sites and the preliminary valuation of the property interests held by the Project Companies as assessed by an independent valuer based on market comparables.

As at 31 December 2019, the market value of Huahe Site and Huayan Site were RMB5,096.0 million and RMB5,649.0 million, respectively, with reference to the property valuation report set out in Appendix VI. After taking into account the market values of the Sites as at 31 December 2019 and other assets and liabilities (other than the Sites) of the Project Companies based on their respective unaudited management accounts as at 31 December 2019, the adjusted net asset values of Shanghai Huahe and Shanghai Huayan, as at 31 December 2019, were approximately RMB4,621.5 million and RMB4,892.5 million respectively. As such, the adjusted net asset values attributable to the 50% interest of Shanghai Huahe and Shanghai Huayan as at 31 December 2019, were approximately RMB2,310.8 million and RMB2,446.3 million, respectively.

The portion of the Huahe Consideration and the Huayan Consideration which are attributable to the Group, being RMB3,769.8 million in aggregate, has reflected the Group's current equity investment towards the Sites. As the Project Companies have already obtained project financing to finance the outstanding development costs for the Sites prior to the completion of the Acquisitions, it is expected that no further capital injection or investment will be required from the Group.

Completion

As at the Latest Practicable Date, Completion has taken place after satisfaction of, among others, (i) the settlement of the Huahe Consideration and the Huayan Consideration; and (ii) conditions precedents pursuant to the relevant Agreements.

In addition, a shareholders' agreement (the "**Shareholders Agreement**") has been entered into between Shanghai Tongxin, Shanghai Suzuan, CR Land and the Project Companies to govern in relation to, among other matters, the affairs, business and management of the Project Companies, the relationship, the rights and obligations among the shareholders of the Project Companies.

The principal terms of the Shareholders Agreement are set out as follows:

Board composition

Each of the board of the Project Companies shall consist of six directors. Each of Shanghai Tongxin or Shanghai Suzuan (as applicable) and CR Land shall have the right to nominate three directors for election at the shareholders' meeting of the respective Project Companies.

A quorum for a meeting of the board of the Project Companies shall comprise four directors, including one director appointed by each of Shanghai Tongxin or Shanghai Suzuan (as applicable) and CR Land.

Upon completion of the Acquisitions, the Project Companies shall appoint CR Land to be the project manager for the overall management of the development of the Sites, and each of CR Land and Shanghai Tongxin or Shanghai Suzuan (as applicable) shall assign their own representatives as senior management to co-manage the Project Companies.

Shareholders Reserved Matters

The following are matters which require the unanimous consents from shareholders of each of the Project Companies, including but not limited to, (a) the change of the business purpose or investment plan, (b) the election or changes in directors, supervisors or determination of their remuneration, (c) the distribution of profit, (d) changes in constitution or share capital, (e) the approval of any financing or guarantee provided to shareholders of the respective Project Companies or other connected parties or third parties, and (f) the approval of the annual operational plan and annual budget.

Transfer Restrictions

Pursuant to the relevant terms in the Shareholders Agreement, unless agreed otherwise, the shareholders of the Project Companies may not dispose of or create any encumbrance over any of the equity interests in the Project Companies within the lock-up period, as determined by the parties. Subsequent to the expiration of the aforesaid lock-up period, each of the shareholders of the Project Companies shall be subject to customary transfer restrictions provided under the Shareholders Agreement (including pre-emptive right and tag-along right) in a proposed sale of its equity interests held in the Project Companies.

Distribution of profits

Net profits after taxation of the Project Companies may be distributed to their respective shareholders in proportion to their shareholding interest in the Project Companies.

INFORMATION ON THE PROJECT COMPANIES AND THE SITES

The Project Companies

Shanghai Huahe and Shanghai Huayan are companies incorporated under the laws of the PRC with limited liability and are principally engaged in property development. Shanghai Huahe and Shanghai Huayan own the land use rights of the Huahe Site and the Huayan Site, respectively, both of which are located in Suhe Bay Area, Jingan District, Shanghai City in the PRC. The Sites are two adjoining sites currently under development which will mainly comprise office, commercial and residential components with a total gross floor area of approximately 329,000 sq. m upon completion of the development. The development projects on the Huahe Site and the Huayan Site are expected to complete by 1st quarter of 2022 and 3rd quarter of 2022, respectively. The pre-sale of the development projects on the Huahe Site is currently expected to commence in late 2020 to 2021, subject to the prevailing market conditions. Please refer to the paragraph headed "The Sites" below for further details of the Sites.

Financial Information of the Project Companies

Set out below is the summary of financial information of the Project Companies for the two years ended 31 December 2017 and 2018 prepared in accordance with the accounting principles generally accepted in the PRC.

Shanghai Huahe

	For the financial year ended 31 December 2018 *RMB'000* *(audited)*	**For the financial year ended 31 December 2017** *RMB'000* *(audited)*
Net loss before taxation	387.1	5,744.5
Net loss after taxation	387.1	5,744.5

Shanghai Huayan

	For the financial year ended 31 December 2018 *RMB'000* *(audited)*	**For the financial year ended 31 December 2017** *RMB'000* *(audited)*
Net loss before taxation	37,379.3	2,669.3
Net loss after taxation	28,441.9	2,011.9

As at 31 December 2018, the audited net assets of Shanghai Huahe and Shanghai Huayan were approximately RMB1,493.9 million and RMB1,967.6 million, respectively.

The Sites

	The Huahe Site	The Huayan Site		
Plot No.	Plot 33-02	Plot 44-01	Plot 46-01	Plot 46-02
Site code:	滬(2018)靜字不動產權第019845號	滬(2019)靜字不動產權第010629號	滬(2019)靜字不動產權第010630號	滬(2018)靜字不動產權第015145號
Site location:	北站街道6街坊5/1丘	北站街道3街坊1/920丘	北站街道4街坊1/918丘	北站街道4街坊17/1丘
Total land area[Note 1] (Approximate sq. m):	14,845 sq. m	26,443 sq. m (underground)	14,336 sq. m (underground)	10,068 sq. m
Gross floor area[Note 1] (Approximate sq. m):	82,950 sq. m (aboveground)	N/A	N/A	103,620 sq. m[Note 2] (aboveground)
	29,000 sq. m (underground)	54,781 sq. m (underground)	30,776 sq. m (underground)	27,856 sq. m (underground)
Land use:	Residential, office and commercial use	Commercial, street and alley use	Commercial, street and alley use	Commercial and office use
Intended use upon completion of development projects:	Residential, office and commercial properties for sale	Office and commercial properties for lease		

Notes:

1. Gross floor area as per Construction Planning Permit and relevant documents.

2. Gross floor area is updated as per the updated Construction Planning Permit.

FINANCIAL EFFECT OF THE ACQUISITIONS

Upon completion of the Acquisitions, the Company, through Shanghai Tongxin and Shanghai Suzuan (each an 80%-owned joint venture company of the Company), holds 50% equity interest in the Project Companies, and the Company's interests in Shanghai Huahe and Shanghai Huayan will be accounted for using the equity method of accounting in the consolidated financial statements of the Group. For details of the unaudited pro forma financial information of the Enlarged Group, please refer to Appendix V to this circular.

Assets and liabilities

Based on the unaudited pro forma financial information as set out in Appendix V to this circular, assuming that the Completion had taken place on 30 June 2019, the total assets of the Group would have decreased from approximately HK$66,307.5 million to approximately HK$66,294.0 million on a pro forma basis, the total liabilities of the Group would remain the same on a pro forma basis.

Earnings

As set out in the Accountant's Report on historical financial information of Shanghai Huahe in Appendix II to this circular, prepared in accordance with the Hong Kong Financial Reporting Standards, for the year ended 31 December 2018, the revenue and net loss after taxation for Shanghai Huahe were nil and RMB0.1 million, respectively; and for the ten months ended 31 October 2019, the revenue and net profit after taxation for Shanghai Huahe were nil and RMB2.5 million, respectively.

As set out in the Accountant's Report on historical financial information of Shanghai Huayan in Appendix III to this circular, prepared in accordance with the Hong Kong Financial Reporting Standards, for the year ended 31 December 2018, the revenue and net loss after taxation for Shanghai Huayan were nil and RMB27.4 million, respectively; and for the ten months ended 31 October 2019, the revenue and net profit after taxation for Shanghai Huayan were nil and RMB29.3 million, respectively.

Taking into account the Group's 50% equity interest in each of Shanghai Huahe and Shanghai Huayan, the Company considers that there will not be a material effect on the profit or loss of the Enlarged Group immediately upon completion of the Acquisitions.

REASONS FOR AND BENEFITS OF THE ACQUISITIONS

The Company is an investment holding company and its subsidiaries are engaged in a number of business activities including property development, investment and management, hospitality, transportation and investment. With respect to its property development and investment business, the Group has been identifying and exploring investment opportunities in different regions within the Greater China with a view to generating revenue and achieving better return for the Shareholders. The Acquisitions provide an excellent investment opportunity for the Group to strengthen its presence in Shanghai and in the Greater China.

The Project Companies are primarily engaged in the development of the Sites situated at Suhe Bay Area, Jingan District of Shanghai City in the PRC, which are located within the core business districts of Shanghai and in close proximity to established core business districts such as Nanjing West Road and Lujiazui. The Sites also enjoy a short travelling distance from major tourist attractions such as the Bund and the People's Square. It is intended that the Sites will mainly comprise office, commercial and residential components, directly connected to Tiantong Road Subway Station. Based on the intended use of the properties of the Sites upon completion, the sale of properties on the Huahe Site would bring in sales revenue to the Group in the short run, while the leasing of properties on the Huayan Site would generate a recurring rental income for the Group in the long-run.

Furthermore, CR Land, the other shareholder of the Project Companies, is one of the leading property developers focusing on the PRC market. The Company believes that the cooperation with CR Land would create synergies that will allow the Company to remain competitive and would also enhance the financial return of the Project Companies. Therefore, the Directors believe that the Acquisitions represent a good opportunity for the Group which is in line with the Group's business growth and strategies.

Taking into consideration the reasons for and benefits of the Acquisitions to the Company, the Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisitions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more than one of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) exceed 25% but are all less than 100% when aggregating the Huahe Acquisition and the Huayan Acquisition, the Acquisitions, together, constitute a major transaction for the Company, and are therefore subject to the reporting, announcement, circular and shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, written shareholders' approval may be accepted in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisitions; and (b) a written approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the issued share capital of the Company giving the right to attend and vote at general meetings to approve the Acquisitions.

As at the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Shareholders has any material interest in the Acquisitions, and therefore no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisitions.

The Company has obtained the Written Approval from a closely allied group of Shareholders, set out in the following table, who together hold a total of 1,632,901,912 Shares (representing approximately 54.0% of the total number of shares in issue in the Company as at the Latest Practicable Date):

Name of Shareholder	**Number of Shares held as at the Latest Practicable Date**	**Approximate percentage of shareholding**
Ms. Pansy Ho	534,664,564	17.7%
Oakmount Holdings Limited ("**Oakmount**")[(1)]	396,522,735	13.1%
Shun Tak Shipping Company, Limited ("**ST Shipping**") and its subsidiaries[(2)]	373,578,668	12.4%
Ms. Daisy Ho	223,999,816	7.4%
Renita Investments Limited ("**Renita**")[(1)]	104,136,129	3.4%
Total	**1,632,901,912**	**54.0%**

Notes:

(1) Oakmount is a company wholly-owned by Renita. Ms. Pansy Ho and Ms. Daisy Ho, both being Directors, are directors of Renita and Oakmount and they both have beneficial interests in Renita and Oakmount.

(2) Ms. Pansy Ho and Ms. Daisy Ho are both directors of ST Shipping and they both have beneficial interests in ST Shipping and its subsidiaries.

GENERAL INFORMATION ON THE GROUP, SHANGHAI TONGXIN AND SHANGHAI SUZUAN

The Company is an investment holding company and its subsidiaries are engaged in a number of business activities including property development, investment and management, hospitality, transportation and investment.

Shanghai Tongxin was established in the PRC with limited liability and is owned as to 80% by a wholly-owned subsidiary of the Company and 20% by Shanghai Zhonghong. It was formed for the sole purpose of the Tender for the Huahe Sale Interest and is classified as a joint venture company of the Company.

Shanghai Suzuan was established in the PRC with limited liability and is owned as to 80% by a wholly-owned subsidiary of the Company and 20% by Shanghai Zhonghong. It was formed for the sole purpose of the Tender for the Huayan Sale Interest and is classified as a joint venture company of the Company.

INFORMATION ON THE VENDOR

Shenzhen OCT is a company established in the PRC with limited liability and wholly-owned by Shenzhen Overseas Chinese Town Co., Ltd.* (深圳華僑城股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 000069). Shenzhen OCT is principally engaged in property development in the PRC.

RECOMMENDATION

The Directors are of the opinion that the terms of the Agreements are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as whole. If a general meeting were to be convened for the approval of the Acquisitions, the Board would recommend the Shareholders to vote in favour of the resolution to approve the Acquisitions at such general meeting.

ADDITIONAL INFORMATION

Your attention is drawn to the further information contained in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Shun Tak Holdings Limited
Pansy Ho
Group Executive Chairman and Managing Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for (i) each of the three years ended 31 December 2018 are disclosed in the annual reports of the Company for each of the three years ended 31 December 2018 and (ii) the six months ended 30 June 2019 is disclosed in the interim report of the Company for the six months ended 30 June 2019; together with the relevant notes thereto are disclosed in the following documents which have been published and are available on the website of the Stock Exchange (http://www.hkex.com.hk) and the website of the Company (http://www.shuntakgroup.com):

The audited consolidated financial statements of the Group for the year ended 31 December 2016 are set out on pages 89 to 183 in the Annual Report 2016 of the Company, which was published on 26 April 2017 (available on: https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0426/ltn20170426359.pdf).

The audited consolidated financial statements of the Group for the year ended 31 December 2017 are set out on pages 88 to 185 in the Annual Report 2017 of the Company, which was published on 25 April 2018 (available on: https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0425/ltn20180425297.pdf).

The audited consolidated financial statements of the Group for the year ended 31 December 2018 are set out on pages 100 to 197 in the Annual Report 2018 of the Company, which was published on 25 April 2019 (available on: https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn20190425533.pdf).

The unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2019 are set out on pages 23 to 71 in the Interim Report 2019 of the Company, which was published on 12 September 2019 (available on: https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0912/ltn20190912131.pdf).

2. INDEBTEDNESS OF THE GROUP

As at 31 January 2020, being the latest practicable date for the purpose of the statement of indebtedness prior to the printing of this circular, the Group had outstanding (i) medium term notes of approximately HK$3,177.9 million; (ii) bank borrowings of approximately HK$14,663.4 million comprising secured bank loans of approximately HK$9,128.4 million and unsecured bank loans of approximately HK$5,535.0 million; and (iii) loans from non-controlling interests of approximately HK$898.4 million, comprising secured loans from non-controlling interests of approximately HK$391.8 million and unsecured loans from non-controlling interests of approximately HK$506.6 million. The secured bank loans and secured loans from non-controlling interests were secured by charges on certain assets of the Group and shares of certain subsidiaries of the Group. The Group had not provided any guarantees in favour of the unsecured loans from non-controlling interests.

As at 31 January 2020, the Group had lease liabilities of approximately HK$115.9 million, of which approximately HK$46.6 million was due within one year and approximately HK$69.3 million was due after one year.

The Group has provided guarantee to a third party in respect of the sum owing by a joint venture to the third party under a license agreement. As at 31 January 2020, the Group's share of such contingent liability amounted to approximately HK$2.7 million.

Saved as aforesaid, and apart from intra-group liabilities, the Group did not have any loan capital and/or debt securities issued and outstanding or agreed to be issued or otherwise created but unissued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills, if any) or acceptable credits, debentures, mortgage, charges, hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31 January 2020.

3. WORKING CAPITAL OF THE GROUP

The Directors are of the opinion that, after taking into account the effects of the Acquisitions, the internal financial resources and present banking facilities available to the Group, the Group will have sufficient working capital in the absence of unforeseen circumstances for its present requirements and for at least the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is principally engaged in a number of business activities including property development, investment and management, hospitality, transportation and investment. With respect to its property development and investment business, the Group has been identifying and exploring investment opportunities in different regions with a view to generating revenue and achieving better return for the Shareholders. Apart from Hong Kong and Macau, the Group has also expanded its property development and investment business in the PRC and Singapore during the past years. The Acquisitions are in line with the Group's business strategies and represent an attractive investment opportunity of the Group to enhance its property portfolio in the PRC. The Group also envisages that the Acquisitions will provide more growth opportunities and synergies in respect of the property development operations in the PRC.

The Group is committed to delivering value to the Shareholders, maximizing business growth opportunities through efficient capital and asset allocations. The Directors are of the opinion that the Group is in a healthy financial position, allowing it to readily capture potential opportunities with long term value potentials which may arise in the future. Meanwhile, the Group will continue to optimize its existing business portfolio and realise value through asset acquisitions and realizations while enhancing its corporate value.

In the year of 2019, the Group faced multiple challenges due to various social conditions in Greater China, such as the political unrest in Hong Kong since June 2019 and the COVID-19 epidemic originated in the PRC towards the end of 2019 and have continued to affect globally as of the date of this circular. Due to the COVID-19 epidemic, ferry services between Hong Kong and Macau have been temporarily suspended since February 2020 and up to the date of this circular subsequent to Hong Kong Government's announcement on the temporary closure of its immigration checkpoints including the Hong Kong-Macau Ferry Terminal. As the majority of the Group's operations are based in Greater China and Asia, our business operations may be affected by these unfavorable social conditions.

Despite the challenging social environment, the Group shall continue to stay vigilant and adopt a pragmatic approach in our core businesses, while executing new projects along the pipeline to build new impetus for growth into the future. The Group remains cautiously optimistic about its business performance, it will continue to focus on exploring opportunities with long term value potentials in generating optimal returns for the Shareholders.

On 6 March 2020, the Company and China Travel International Investment Hong Kong Limited ("**CTII**")(through their respective subsidiaries) entered into three agreements for transforming Shun Tak — China Travel Shipping Investments Limited into a new transportation platform for the provision of cross boundary transportation services in the Greater Pearl River Delta Region (including the Greater Bay Area) by combining the respective existing ferry and coach businesses of the Company and CTII (the "**Proposed Restructuring**"), details of which were set out in the announcement of the Company dated 6 March 2020. For the expected financial impact to the Group arising from the Proposed Restructuring, the Group expects to record a gain attributable to the Group of approximately HK$190 million (subject to audit), which is calculated based on its proportionate share resulting from the consideration received (before adjustment) and fair value of retained interest less the carrying amount of net assets disposed and taking into account the corresponding share of the non-controlling interest and professional fees.

It is expected that the Proposed Restructuring will create synergy and further enhance the Group's development for the provision of cross boundary transportation services to the Greater Pearl River Delta Region, realizing the strategic goals of the Outline Development Plan for the Guangdong-Hong Kong-Macau Greater Bay Area which was promulgated by the Central Government of the PRC in February 2019.

The following is the text of a report set out on pages II-1 to II-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION OF SHANGHAI HUAHE TO THE DIRECTORS OF SHUN TAK HOLDINGS LIMITED

Introduction

We report on the historical financial information of Shanghai Huahe Real Estate Development Company Limited ("**Shanghai Huahe**") set out on pages II-4 to II-27, which comprises the balance sheets as at 31 December 2016, 2017 and 2018 and 31 October 2019 and the statements of comprehensive income, the statements of changes in equity and the cash flow statements from 26 July 2016 (date of incorporation) to 31 December 2016, for each of the years ended 31 December 2017 and 2018 and the ten months ended 31 October 2019 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information of Shanghai Huahe**"). The Historical Financial Information of Shanghai Huahe set out on pages II-4 to II-27 forms an integral part of this report, which has been prepared for inclusion in the circular of Shun Tak Holdings Limited (the "**Company**") dated 26 March 2020 (the "**Circular**") in connection with the acquisition of 50% equity interest in Shanghai Huahe by the 80%-owned joint venture of the Company.

Directors' responsibility for the Historical Financial Information of Shanghai Huahe

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

The financial statements of Shanghai Huahe for the Track Record Period ("**Underlying Financial Statements of Shanghai Huahe**"), on which the Historical Financial Information of Shanghai Huahe is based, were prepared by the directors of the Company based on the previously issued financial statements and management accounts of Shanghai Huahe for the Track Record Period. The directors of Shanghai Huahe are responsible for the preparation and fair presentation of the previously issued financial statements and management accounts of Shanghai Huahe in accordance with the Accounting Standards for Business Enterprises of the People's Republic of China issued by the China Ministry of Finance, and for such internal control as the directors determine is necessary to enable the preparation of Shanghai Huahe's financial statements that are free from material misstatement, whether due to fraud or error.

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Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information of Shanghai Huahe 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 of Shanghai Huahe is free from material misstatement.

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

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 of Shanghai Huahe gives, for the purposes of the accountant's report, a true and fair view of the financial position of Shanghai Huahe as at 31 December 2016, 2017 and 2018 and 31 October 2019 and of its financial performance and its cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information of Shanghai Huahe.

Review of stub period comparative financial information of Shanghai Huahe

We have reviewed the stub period comparative financial information of Shanghai Huahe which comprises the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the ten months ended 31 October 2018 and other explanatory information (the "**Stub Period Comparative Financial Information of Shanghai Huahe**"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information of Shanghai Huahe in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information of Shanghai Huahe. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information of Shanghai Huahe based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information of Shanghai Huahe, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information of Shanghai Huahe.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information of Shanghai Huahe, no adjustments to the Underlying Financial Statements of Shanghai Huahe have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
26 March 2020

I HISTORICAL FINANCIAL INFORMATION OF SHANGHAI HUAHE

Preparation of Historical Financial Information of Shanghai Huahe

Set out below is the Historical Financial Information of Shanghai Huahe which forms an integral part of this accountant's report.

The Underlying Financial Statements of Shanghai Huahe, on which the Historical Financial Information of Shanghai Huahe is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 26 JULY 2016 (DATE OF INCORPORATION) TO 31 DECEMBER 2016 AND FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2018 AND THE TEN MONTHS ENDED 31 OCTOBER 2019

	Note	For the period from 26 July 2016 (date of incorporation) to 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Ten months ended 31 October 2018	Ten months ended 31 October 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest income		5	107	1,002	685	130
Administrative and other expenses		(2,429)	(4,116)	(1,116)	(957)	2,388
Operating (loss)/profit	*4*	(2,424)	(4,009)	(114)	(272)	2,518
Finance costs	*5*	—	—	—	—	—
(Loss)/profit before taxation		(2,424)	(4,009)	(114)	(272)	2,518
Taxation	*6*	—	—	—	—	—
(Loss)/profit and total comprehensive (loss)/profit for the period/year		(2,424)	(4,009)	(114)	(272)	2,518

BALANCE SHEETS

AS AT 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND 31 OCTOBER 2019

		As at 31 December			As at 31 October
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current asset					
Property, plant and equipment	7	—	—	23	255
Current assets					
Properties under development	8	—	3,321,604	3,861,360	4,069,557
Other receivables and prepayments	9	3,357	266	5,625	25,003
Cash and cash equivalents	10	28,030	24,227	17,227	12,177
		31,387	3,346,097	3,884,212	4,106,737
Current liabilities					
Trade and other payables	11	71	98,306	446,558	35,513
Amounts due to shareholders	12	10,000	3,225,000	967,500	—
Amount due to a related party	12	10,000	10,000	967,500	—
Amount due to a fellow subsidiary	12	3,740	9,224	9,224	—
		23,811	3,342,530	2,390,782	35,513
Net current assets		7,576	3,567	1,493,430	4,071,224
Total assets less current liabilities		7,576	3,567	1,493,453	4,071,479
Non-current liability					
Bank borrowing	13	—	—	—	150,000
Net assets		7,576	3,567	1,493,453	3,921,479
Equity					
Share capital	14	10,000	10,000	1,500,000	3,925,508
Accumulated losses		(2,424)	(6,433)	(6,547)	(4,029)
Total equity		7,576	3,567	1,493,453	3,921,479

STATEMENTS OF CHANGES IN EQUITY

FOR THE PERIOD FROM 26 JULY 2016 (DATE OF INCORPORATION) TO 31 DECEMBER 2016 AND FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2018 AND THE TEN MONTHS ENDED 31 OCTOBER 2019

	Share capital *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
As at 26 July 2016 (date of incorporation)	—	—	—
Capital injection *(note 14)*	10,000	—	10,000
Loss and total comprehensive loss for the period	—	(2,424)	(2,424)
As at 31 December 2016 and 1 January 2017	10,000	(2,424)	7,576
Loss and total comprehensive loss for the year	—	(4,009)	(4,009)
As at 31 December 2017 and 1 January 2018	10,000	(6,433)	3,567
Capital injection *(note 14)*	1,490,000	—	1,490,000
Loss and total comprehensive loss for the year	—	(114)	(114)
As at 31 December 2018 and 1 January 2019	1,500,000	(6,547)	1,493,453
Capital injection *(note 14)*	2,425,508	—	2,425,508
Profit and total comprehensive profit for the period	—	2,518	2,518
As at 31 October 2019	3,925,508	(4,029)	3,921,479
As at 1 January 2018	10,000	(6,433)	3,567
Capital injection (unaudited) *(note 14)*	1,490,000	—	1,490,000
Loss and total comprehensive loss for the period (unaudited)	—	(272)	(272)
As at 31 October 2018 (unaudited)	1,500,000	(6,705)	1,493,295

CASH FLOW STATEMENTS

FOR THE PERIOD FROM 26 JULY 2016 (DATE OF INCORPORATION) TO 31 DECEMBER 2016 AND FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2018 AND THE TEN MONTHS ENDED 31 OCTOBER 2019

	For the period from 26 July 2016 (date of incorporation) to 31 December	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Operating activities					
(Loss)/profit before taxation	(2,424)	(4,009)	(114)	(272)	2,518
Adjustments for:					
Depreciation	—	—	26	1	110
Interest income	(5)	(107)	(1,002)	(685)	(130)
Operating (loss)/profit before working capital changes	(2,429)	(4,116)	(1,090)	(956)	2,498
Increase in properties under development	—	(2,616)	(122,495)	(67,027)	(125,729)
Increase in other receivables and prepayments	(3,251)	(1,876)	(5,359)	(4,171)	(19,378)
Increase/(decrease) in trade and other payables	5	—	(64,703)	(54,503)	—
Increase/(decrease) in amount due to a fellow subsidiary	3,740	5,484	—	—	(9,224)
Net cash used in operating activities	(1,935)	(3,124)	(193,647)	(126,657)	(151,833)
Investing activities					
Purchase of property, plant and equipment	—	—	(49)	(25)	(342)
Interest received	5	107	1,002	685	130
Net cash generated from/(used in) investing activities	5	107	953	660	(212)
Financing activities					
Capital injection	10,000	—	1,490,000	1,490,000	—
Increase/(decrease) in amounts due to shareholders	10,000	—	(1,300,000)	(1,300,000)	—
Increase in amount due to a fellow subsidiary	10,000	—	—	—	—
Drawdowns of bank borrowing	—	—	—	—	160,000
Repayments of bank borrowing	—	—	—	—	(10,000)
Finance costs paid	(40)	(786)	(4,306)	(4,155)	(3,005)
Net cash generated from/(used in) financing activities	29,960	(786)	185,694	185,845	146,995

	For the period from 26 July 2016 (date of incorporation) to 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Ten months ended 31 October 2018	Ten months ended 31 October 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net increase/(decrease) in cash and cash equivalents	28,030	(3,803)	(7,000)	59,848	(5,050)
Cash and cash equivalents at the beginning of period/year	—	28,030	24,227	24,227	17,227
Cash and cash equivalents at the end of period/year	28,030	24,227	17,227	84,075	12,177

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF SHANGHAI HUAHE

1 General information

Shanghai Huahe Real Estate Development Company Limited ("**Shanghai Huahe**") was incorporated in the People's Republic of China (the "**PRC**") on 26 July 2016 with limited liability. The address of its registered office is Room 117, 2/F, No. 169 Gonghe Road, Shanghai, China.

Shanghai Huahe is principally engaged in development of properties in the PRC. At the date of incorporation, Shanghai Huahe was jointly held by Shenzhen OCT Properties Co., Ltd, i.e. 深圳華僑城房地產有限公司 ("**OCT**" or "**the Seller**") and 華潤置地(上海)有限公司 ("**CR Land**").

The immediate holding company was OCT, a company incorporated in the PRC. The ultimate holding company was Overseas Chinese Town Group Company Limited, a company incorporated in the PRC.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information of Shanghai Huahe are set out below. These policies have been consistently applied to all the periods/years presented, unless otherwise stated.

(a) Basis of preparation

The Historical Financial Information of Shanghai Huahe have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong. HKFRSs 9, 15 and 16 have been consistently adopted throughout the Track Record Period. The Historical Financial Information of Shanghai Huahe has been prepared under the historical cost convention.

The preparation of Historical Financial Information of Shanghai Huahe in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information of Shanghai Huahe are disclosed in note 3.

New standards, amendments to standards and interpretation not yet adopted

The HKICPA has issued new standards, amendments to standards and interpretation which are relevant to Shanghai Huahe's operations but are not yet effective for Shanghai Huahe's financial period beginning on 1 January 2019 and have not been early adopted:

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

(1) Effective for annual periods beginning 1 January 2020

(2) Effective date to be determined

Shanghai Huahe has already commenced an assessment of the impact of these new standards, amendments to standards and interpretations. These are not expected to result in substantial impact to Shanghai Huahe.

(b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Shanghai Huahe and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided to write off the cost of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following annual rates:

Computer equipments 20% — 100%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

(c) Impairment of non-financial assets

Assets that have an indefinite useful life − for example, goodwill or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

(d) Financial assets

(i) Classification

Shanghai Huahe classifies its financial assets as those to be measured at amortised cost. The classification of debt financial assets depends on Shanghai Huahe's business model for managing the financial assets and the contractual terms of the cash flows. Shanghai Huahe reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) *Measurement*

At initial recognition, Shanghai Huahe measures a financial asset at its fair value plus, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of debt instruments depends on Shanghai Huahe's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

(iii) *Impairment*

Shanghai Huahe assesses on a forward looking basis the ECL associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition.

(iv) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(e) Properties under development

Properties under development are classified under current assets and stated at the lower of cost and net realisable value. Costs include the acquisition cost of land, aggregate cost of development, other direct expenses and where applicable borrowing costs. Net realisable value represents the estimated selling price less estimated costs of completion and estimated selling expenses.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments with original maturities of three months or less.

(g) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(h) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognised in the profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless Shanghai Huahe has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(i) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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 eligible for capitalisation.

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

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(k) Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where Shanghai Huahe generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable profit will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to income taxes levied by the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(l) Foreign currency translation

(i) Functional and presentation currency

Items included in the Historical Financial Information of Shanghai Huahe are measured using the currency of the primary economic environment in which Shanghai Huahe operates (the "**functional currency**"). The Historical Financial Information of Shanghai Huahe are presented in Renminbi ("**RMB**"), which is Shanghai Huahe's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3 Critical accounting estimates and judgements

Shanghai Huahe makes estimates, assumptions and judgements as appropriate in the preparation of the Historical Financial Information of Shanghai Huahe. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

Estimated net realisable value of properties under development

Shanghai Huahe's properties under development for sale are stated at lower of cost and net realisable value. In determining whether allowances should be made, Shanghai Huahe takes into consideration the current market environment and the estimated market value (i.e. the estimated selling price) less estimated costs to completion of the properties. An allowance is made if the recoverable amount is less than the carrying amount.

4 Operating (loss)/profit

	For the period from 26 July 2016 (date of incorporation) to 31 December 2016	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
After charging/(crediting):					
Interest income	(5)	(107)	(1,002)	(685)	(130)
Auditor's remuneration					
— Audit fee	—	—	19	16	17
Depreciation *(note 7)*	—	—	26	1	110
Staff costs recharged from a fellow subsidiary	3,740	5,484	—	—	—
Less: Amount capitalised in prepayments/properties under development	(1,317)	(1,610)	—	—	—
Reversal of staff costs charged by a fellow subsidiary *(note)*	—	—	—	—	(6,297)

Note:

Staff costs recharged from a fellow subsidiary were RMB3,740,000 and RMB5,484,000 (including RMB1,317,000 and RMB1,610,000 capitalised in prepayments and properties under development respectively) for the period from 26 July 2016 (date of incorporation) to 31 December 2016 and for the year ended 31 December 2017 respectively.

In 2019, pursuant to a waiver memo signed by the fellow subsidiary of Shanghai Huahe, all the staff costs recharged from the fellow subsidiary for project development and administrative purpose since incorporation of Shanghai Huahe were waived. Consequently, staff costs recharged from a fellow subsidiary of RMB6,297,000 were reversed in the statement of comprehensive income for the ten months ended 31 October 2019 and RMB2,927,000 were adjusted from the properties under development as at 31 October 2019.

5 Finance costs

	For the period from 26 July 2016 (date of incorporation) to 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Ten months ended 31 October 2018	Ten months ended 31 October 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest expenses on amounts due to shareholders and a related party	106	964	417,261	397,589	78,368
Interest expenses on bank borrowing	—	—	—	—	2,803
Less: Amount capitalised in prepayments /properties under development	(106)	(964)	(417,261)	(397,589)	(81,171)
	—	—	—	—	—

6 Taxation

No provision for China corporate income tax was made in the Historical Financial Information of Shanghai Huahe as Shanghai Huahe had no estimated assessable profit for the Track Record Period.

Reconciliation between tax expenses and accounting (loss)/profit at applicable tax rates:

	For the period from 26 July 2016 (date of incorporation) to 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Ten months ended 31 October 2018	Ten months ended 31 October 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
(Loss)/profit before taxation	(2,424)	(4,009)	(114)	(272)	2,518
Tax at the applicable tax rate of 25%	(606)	(1,002)	(29)	(68)	630
Utilisation of tax losses	—	—	—	—	(630)
Tax losses not recognised	606	1,002	29	68	—
	—	—	—	—	—

Unrecognised deferred tax assets:

	As at 31 December			As at 31 October
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Tax losses	2,424	6,433	6,547	4,029

As at 31 December 2016, 2017 and 2018 and 31 October 2019, unrecognised tax losses of Shanghai Huahe will expire on various dates through 5 years, 4 to 5 years, 3 to 5 years and 2 to 4 years, respectively. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

7 Property, plant and equipment

	As at 31 December			As at 31 October
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the period/year	—	—	—	23
Additions	—	—	49	342
Depreciation *(note 4)*	—	—	(26)	(110)
At the end of the period/year	—	—	23	255
Cost	—	—	49	391
Accumulated depreciation	—	—	(26)	(136)
Net book value	—	—	23	255

8 Properties under development

	As at 31 December			As at 31 October
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties under development	—	3,321,604	3,861,360	4,069,557

Notes:

(i) In 2017, the shareholders of Shanghai Huahe transferred the land to Shanghai Huahe with carrying amount of RMB3,215,000,000 through amounts due to shareholders.

(ii) The property under development is held under a medium term lease in the PRC.

(iii) The amount of properties under development expected to be recovered after more than one year is nil, RMB3,321,604,000, RMB3,861,360,000 and RMB4,069,557,000 as at 31 December 2016, 2017 and 2018 and 31 October 2019 respectively.

(iv) As at 31 October 2019, properties under development of RMB4,069,557,000 were pledged to bank as securities for bank borrowing granted to Shanghai Huahe (note 13).

9 Other receivables and prepayments

		As at 31 December		**As at 31 October**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Value-added tax receivables	—	266	5,479	18,237
Other receivables and prepayments	3,357	—	146	6,766
	3,357	266	5,625	25,003

10 Cash and cash equivalents

The balances are denominated in Renminbi. The carrying amounts of cash and cash equivalents approximate their fair values because of their immediate or short term maturities.

11 Trade and other payables

		As at 31 December		**As at 31 October**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	—	—	32,091	18,511
Other payables and accruals	5	98,062	1,268	16,145
Interest payable for amounts due to shareholders and a related party	66	244	413,199	—
Interest payable for bank borrowing	—	—	—	857
	71	98,306	446,558	35,513

The ageing analysis of trade payables by invoice date is as follows:

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 — 30 days	—	—	—	18,511
31 — 60 days	—	—	32,091	—
61 — 90 days	—	—	—	—
over 90 days	—	—	—	—
	—	—	32,091	18,511

12 Amounts due to shareholders/a related party/a fellow subsidiary

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to shareholders	10,000	3,225,000	967,500	—
Amount due to a related party	10,000	10,000	967,500	—
Amount due to a fellow subsidiary	3,740	9,224	9,224	—
	23,740	3,244,224	1,944,224	—

As at 31 December 2016, 2017 and 2018, amount due to a shareholder of RMB10,000,000, RMB10,000,000 and RMB967,500,000 respectively and amount due to a related party of RMB10,000,000, RMB10,000,000 and RMB967,500,000 respectively are unsecured and repayable on demand. These balances bear interest at Renminbi benchmark lending rate as at 31 December 2016 and 2017 and fixed interest at 6.00% as at 31 December 2018. The remaining balances of amounts due to shareholders and a fellow subsidiary are unsecured, non-interest bearing and repayable on demand. The carrying values approximate their fair value and are denominated in Renminbi.

On 12 March 2018, amount due to a shareholder of RMB957,500,000 were settled through amount due to a related party.

13 Bank borrowing

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowing repayable as follows:				
— More than 2 years but not exceeding 5 years *(note)*	—	—	—	150,000

Note:

As at 31 October 2019, bank borrowing is secured by properties under development (note 8) and repayable on 1 April 2024 and bears interest at Renminbi benchmark lending rate. The carrying values of the borrowing approximate their fair value and are denominated in Renminbi.

14 Share capital

	RMB'000
As at 26 July 2016 (date of incorporation)	—
Capital injection	10,000
As at 31 December 2016, 1 January 2017 and 31 December 2017	10,000
Capital injection *(note (i))*	1,490,000
As at 31 December 2018 and 1 January 2019	1,500,000
Capital injection *(note (ii))*	2,425,508
As at 31 October 2019	3,925,508

Notes:

(i) On 12 March 2018, the shareholders of Shanghai Huahe injected share capital of RMB1,490,000,000 and the total share capital had increased to RMB1,500,000,000 in equal proportion between the existing shareholders .

(ii) On 31 August 2019, amount due to a shareholder of RMB967,500,000, amount due to a related party of RMB967,500,000 and interest payable for the amounts due to shareholders and a related party of RMB490,508,000 were capitalised to share capital for RMB2,425,508,000 and the total share capital had increased to RMB3,925,508,000 in equal proportion between the existing shareholders.

15 **Reconciliation of liabilities arising from financing activities**

	Amounts due to shareholders *RMB'000*	Amount due to a related party *RMB'000*	Bank borrowing *RMB'000*	Interest payable *RMB'000*	Total *RMB'000*
As at 26 July 2016 (date of incorporation)	—	—	—	—	—
Financing cash flows					
Increase in amounts due to shareholders/a related party	10,000	10,000	—	—	20,000
Finance costs paid	—	—	—	(40)	(40)
Finance costs *(note 5)*	—	—	—	106	106
As at 31 December 2016 and 1 January 2017	10,000	10,000	—	66	20,066
Financing cash flows					
Finance costs paid	—	—	—	(786)	(786)
Finance costs *(note 5)*	—	—	—	964	964
Other non-cash items *(note (i))*	3,215,000	—	—	—	3,215,000
As at 31 December 2017 and 1 January 2018	3,225,000	10,000	—	244	3,235,244
Financing cash flows					
Decrease in amounts due to shareholders	(1,300,000)	—	—	—	(1,300,000)
Finance costs paid	—	—	—	(4,306)	(4,306)
Finance costs *(note 5)*	—	—	—	417,261	417,261
Other non-cash items *(note (ii))*	(957,500)	957,500	—	—	—
As at 31 December 2018 and 1 January 2019	967,500	967,500	—	413,199	2,348,199
Financing cash flows					
Drawdown of bank borrowing	—	—	160,000	—	160,000
Repayment of bank borrowing	—	—	(10,000)	—	(10,000)
Finance costs paid	—	—	—	(3,005)	(3,005)
Finance costs *(note 5)*	—	—	—	81,171	81,171
Other non-cash items *(note (iii))*	(967,500)	(967,500)	—	(490,508)	(2,425,508)
As at 31 October 2019	—	—	150,000	857	150,857
As at 1 January 2018	3,225,000	10,000	—	244	3,235,244
Financing cash flows					
Decrease in amounts due to shareholders	(1,300,000)	—	—	—	(1,300,000)
Finance costs paid	—	—	—	(4,155)	(4,155)
Finance costs *(note 5)*	—	—	—	397,589	397,589
Other non-cash items *(note (ii))*	(957,500)	957,500	—	—	—
As at 31 October 2018 (unaudited)	967,500	967,500	—	393,678	2,328,678

Notes:

(i) The amount represented the land transfer from the shareholders of Shanghai Huahe settled through amounts due to shareholders. Detailed information is disclosed in note 8.

(ii) The amount represented the settlement of amounts due to a shareholder through amount due to a related party. Detailed information is disclosed in note 12.

(iii) The amount represented the capital injection through capitalisation of amounts due to shareholders and amount due to a related party. Detailed information is disclosed in note 14.

16 Significant related party transactions

Other than those disclosed elsewhere in the Historical Financial Information of Shanghai Huahe, significant related party transactions which were carried in the normal course of Shanghai Huahe's business during the periods/years were as follows:

		For the period from 26 July 2016 (date of incorporation) to 31 December	Year ended 31 December		Ten months ended 31 October	
		2016	2017	2018	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Shareholders						
Interest expenses	*(i)*	53	482	369,906	360,070	39,184
A related party						
Interest expenses	*(i)*	53	482	47,355	37,519	39,184
A fellow subsidiary						
Management fee	*(ii)*	—	—	47,520	39,210	6,425

At the balance sheet date, Shanghai Huahe had the following balances with related parties:

		As at 31 December			As at 31 October
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Shareholders					
Amounts due to shareholders	*(iii)*	10,000	3,215,000	967,500	—
Interest payable		53	243	368,019	—
A related party					
Amount due from a related party	*(iii)*	10,000	10,000	967,500	—
Interest payable		13	—	45,179	—
A fellow subsidiary					
Amount due to a fellow subsidiary	*(iii)*	3,740	9,224	9,224	—

Notes:

(i) Interest expenses were charged by shareholders and a related party. The terms were agreed between both parties.

(ii) Management fee to a fellow subsidiary provided was determined and agreed between Shanghai Huahe and the fellow subsidiary.

(iii) Detailed information of amounts due to shareholders, a related party and a fellow subsidiary are disclosed in note 12 to the Historical Financial Information of Shanghai Huahe.

17 Capital commitments

Shanghai Huahe's capital commitments for properties under development are as follows:

	As at 31 December			As at 31 October
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for	1,017	6,008	630,568	726,194

18 Contingent liabilities

As at 31 December 2016, 2017 and 2018 and 31 October 2019, there are no contingent liabilities.

19 Segment reporting

No segmental information for the period from 26 July 2016 (date of incorporation) to 31 December 2016, for the years ended 31 December 2017 and 2018 and for the ten months ended 31 October 2018 and 2019 is presented as Shanghai Huahe's revenue and operating results for the periods/years were generated solely from its property development operation in the PRC.

20 Benefits and interests of directors

Directors' emoluments

For the period from 26 July 2016 (date of incorporation) to 31 December 2016, for the years ended 31 December 2017 and 2018, the ten months ended 31 October 2018 and 2019, no emoluments were paid to or receivable by directors in respect of their services to Shanghai Huahe.

(i) Directors' retirement benefits

No retirement benefits were paid to or receivable by the directors in respect of their services as directors of Shanghai Huahe or other services in connection with the management of the affairs of Shanghai Huahe undertaking.

(ii) Directors' termination benefits

During the periods/years, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(iii) Consideration provided to third parties for making available directors' services

During the periods/years, no consideration was provided to or receivable by third parties for making available directors' services.

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

During the periods/years, there were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

(v) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to Shanghai Huahe's business to which Shanghai Huahe was a party and in which a director of Shanghai Huahe had a material interest, whether directly or indirectly, subsisted at the end of the periods/years or at any time during the periods/years.

21 Financial Risk Management

(a) Financial risk factors

Shanghai Huahe's activities expose it to a variety of financial risks: credit risk, liquidity risk and interest rate risk. Shanghai Huahe's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Shanghai Huahe's financial performance.

Risk management is carried out by the senior management. The management manages and monitors these risk exposures to ensure appropriate measures are implemented on timely and effective manners.

(i) *Credit risk*

Shanghai Huahe is exposed to credit risk on financial assets, that a loss may incur if the counterparties fail to discharge their obligation, mainly including cash and cash equivalents.

Credit risk arises from cash and cash equivalents. For banks and financial institutions, only independently rated parties with a sound credit rating are accepted.

As at 31 December 2016, 2017 and 2018 and 31 October 2019, the maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The Directors of Shanghai Huahe consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the year. To assess whether there is a significant increase in credit risk Shanghai Huahe compares risk of a default occurring on the assets as at the balance sheet date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the company's ability to meet its obligations;
- actual or expected significant changes in the operating results of the company;
- significant changes in the expected performance and behaviour of the company, including changes in the payment status of the third party.

As at 31 December 2016, 2017 and 2018 and 31 October 2019, management consider cash and cash equivalents as low credit risk as counterparties have a strong capacity to meet its contractual cash flow obligations in the near term. Shanghai Huahe has assessed that the ECL for these receivables are immaterial under 12 months expected losses method. Thus, the loss allowance provision recognised during the year for these balances is close to zero.

(ii) *Liquidity risk*

Due to the capital-intensive nature of Shanghai Huahe's business, Shanghai Huahe ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. Shanghai Huahe's financial liabilities mainly represent trade and other payables, amounts due to shareholders, a related party and a fellow subsidiary and bank borrowing.

The table below analyses Shanghai Huahe's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Later than 1 year and not later than 5 years	Total undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016				
Other payables and accruals	5	—	5	5
Interest payable for amounts due to shareholders and a related party	66	—	66	66
Amount due to a shareholder	10,000	—	10,000	10,000
Amount due to a related party	10,000	—	10,000	10,000
Amount due to a fellow subsidiary	3,740	—	3,740	3,740
	23,811	—	23,811	23,811
As at 31 December 2017				
Other payables and accruals	98,062	—	98,062	98,062
Interest payable for amounts due to shareholders and a related party	244	—	244	244
Amounts due to shareholders	3,225,000	—	3,225,000	3,225,000
Amount due to a related party	10,000	—	10,000	10,000
Amount due to a fellow subsidiary	9,224	—	9,224	9,224
	3,342,530	—	3,342,530	3,342,530
As at 31 December 2018				
Trade payables	32,091	—	32,091	32,091
Other payables and accruals	1,268	—	1,268	1,268
Interest payable for amounts due to shareholders and a related party	413,199	—	413,199	413,199
Amount due to a shareholder	967,500	—	967,500	967,500
Amount due to a related party	967,500	—	967,500	967,500
Amount due to a fellow subsidiary	9,224	—	9,224	9,224
	2,390,782	—	2,390,782	2,390,782
As at 31 October 2019				
Trade payables	18,511	—	18,511	18,511
Other payables and accruals	16,145	—	16,145	16,145
Interest payable for bank borrowing	857	—	857	857
Bank borrowing	7,244	174,700	181,944	150,000
	42,757	174,700	217,457	185,513

(iii) Interest rate risk

Shanghai Huahe is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. It is Shanghai Huahe's policy to regularly monitor and manage its interest rate risk exposure, by maintaining an appropriate and comfortable level of mix between fixed and variable-rate financial assets and liabilities and by repaying and/or selling the relevant fixed and variable-rate financial assets and liabilities in case of significant unfavourable market interest rate movement.

Sensitivity analysis

If interest rates had been 50 basis points higher/lower with all other variables held constant, Shanghai Huahe's loss after taxation for the period from 26 July 2016 (date of incorporation) to 31 December 2016 and for the years ended 31 December 2017 and 2018 and profit after taxation for the ten months ended 31 October 2019, before taking into account the impact of interest capitalisation, would decrease by RMB30,100, RMB15,900, RMB65,000 and RMB516,800 respectively/increase by RMB30,100, RMB15,900, RMB65,000 and RMB516,800 respectively arising mainly as a result of change in interest income/expenses on variable-rate financial assets/liabilities.

The sensitivity analysis has been prepared with the assumption that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the relevant financial instruments in existence at that date. The changes in interest rates represent management's assessment of a reasonably possible change at that date over the period until the next annual balance sheet date.

(b) Capital management

Shanghai Huahe's objectives when managing capital are to safeguard Shanghai Huahe's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Shanghai Huahe actively and regularly reviews and manages its capital structure. Shanghai Huahe manages its capital structure and makes adjustments to it taking into account current and expected debt and equity capital market conditions, Shanghai Huahe's investment strategy and opportunities, projected operating cash flows and capital expenditures, and general market conditions. To maintain or adjust the capital structure, Shanghai Huahe may adjust the level of borrowings.

Shanghai Huahe monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. Net debt/cash is calculated as total debt, which includes current and non-current borrowings, less cash and bank balances. Adjusted capital comprises all components of equity attributable to owners of Shanghai Huahe.

The net debt-to-adjusted capital ratio as at 31 December 2016, 2017 and 2018 and 31 October 2019 was as follows:

	As at 31 December			As at 31 October
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to shareholders *(note 12)*	10,000	3,225,000	967,500	—
Amount due to a related party *(note 12)*	10,000	10,000	967,500	—
Bank borrowing *(note 13)*	—	—	—	150,000
Less: Cash and cash equivalents *(note 10)*	(28,030)	(24,227)	(17,227)	(12,177)
Net debt	(8,030)	3,210,773	1,917,773	137,823
Total equity	7,576	3,567	1,493,453	3,921,479
Net debt-to-adjusted capital ratio	N/A	90,013.3%	128.4%	3.5%

Note:

The decrease of net debt as at 31 October 2019 was primarily resulted from the capital injection. Detailed information is disclosed in note 14.

(c) Fair value estimation

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Shanghai Huahe for similar financial instruments.

The carrying amounts of other receivables, cash and cash equivalents, trade and other payables and amounts due to shareholders, a related party and a fellow subsidiary are assumed to approximate their fair values due to the short-term maturities of these assets and liabilities.

22 Subsequent event

After the outbreak of COVID-19 in early 2020, a series of precautionary and control measures have been and continued to be implemented by the Government across the country/region. Shanghai Huahe will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of Shanghai Huahe.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Shanghai Huahe in respect of any period subsequent to 31 October 2019 and up to the date of this report. No dividend or distribution has been declared or made by Shanghai Huahe in respect of any period subsequent to 31 October 2019.

The following is the text of a report set out on pages III-1 to III-3, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION OF SHANGHAI HUAYAN TO THE DIRECTORS OF SHUN TAK HOLDINGS LIMITED

Introduction

We report on the historical financial information of Shanghai Huayan Real Estate Development Company Limited ("**Shanghai Huayan**") set out on pages III-4 to III-34, which comprises the balance sheets as at 31 December 2016, 2017 and 2018 and 31 October 2019 and the statements of comprehensive income, the statements of changes in equity and the cash flow statements from 26 July 2016 (date of incorporation) to 31 December 2016, for each of the years ended 31 December 2017 and 2018 and the ten months ended 31 October 2019 (the "**Track Record Period**") and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information of Shanghai Huayan**"). The Historical Financial Information of Shanghai Huayan set out on pages III-4 to III-34 forms an integral part of this report, which has been prepared for inclusion in the circular of Shun Tak Holdings Limited (the "**Company**") dated 26 March 2020 (the "**Circular**") in connection with the acquisition of 50% equity interest in Shanghai Huayan by the 80%-owned joint venture of the Company.

Directors' responsibility for the Historical Financial Information of Shanghai Huayan

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

The financial statements of Shanghai Huayan for the Track Record Period ("**Underlying Financial Statements of Shanghai Huayan**"), on which the Historical Financial Information of Shanghai Huayan is based, were prepared by the directors of the Company based on the previously issued financial statements and management accounts of Shanghai Huayan for the Track Record Period. The directors of Shanghai Huayan are responsible for the preparation and fair presentation of the previously issued financial statements and management accounts of Shanghai Huayan in accordance with the Accounting Standards for Business Enterprises of the People's Republic of China issued by the China Ministry of Finance, and for such internal control as the directors determine is necessary to enable the preparation of Shanghai Huayan's financial statements that are free from material misstatement, whether due to fraud or error.

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Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information of Shanghai Huayan 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 of Shanghai Huayan is free from material misstatement.

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

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 of Shanghai Huayan gives, for the purposes of the accountant's report, a true and fair view of the financial position of Shanghai Huayan as at 31 December 2016, 2017 and 2018 and 31 October 2019 and of its financial performance and its cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information of Shanghai Huayan.

Review of stub period comparative financial information of Shanghai Huayan

We have reviewed the stub period comparative financial information of Shanghai Huayan which comprises the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the ten months ended 31 October 2018 and other explanatory information (the "**Stub Period Comparative Financial Information of Shanghai Huayan**"). The directors of the Company are responsible for the preparation of the Stub Period Comparative Financial Information of Shanghai Huayan in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information of Shanghai Huayan. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information of Shanghai Huayan based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information of Shanghai Huayan, for the purposes of the accountant's report, is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2(a) to the Historical Financial Information of Shanghai Huayan.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information of Shanghai Huayan, no adjustments to the Underlying Financial Statements of Shanghai Huayan have been made.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
26 March 2020

I HISTORICAL FINANCIAL INFORMATION OF SHANGHAI HUAYAN

Preparation of Historical Financial Information of Shanghai Huayan

Set out below is the Historical Financial Information of Shanghai Huayan which forms an integral part of this accountant's report.

The Underlying Financial Statements of Shanghai Huayan, on which the Historical Financial Information of Shanghai Huayan is based, were audited by PricewaterhouseCoopers in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE PERIOD FROM 26 JULY 2016 (DATE OF INCORPORATION) TO 31 DECEMBER 2016 AND FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2018 AND THE TEN MONTHS ENDED 31 OCTOBER 2019

	Note	For the period from 26 July 2016 (date of incorporation) to 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Ten months ended 31 October 2018	Ten months ended 31 October 2019
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest and other income		36	175	959	917	42
Fair value changes on investment properties		—	—	754	2,526	47,596
Administrative and other expenses		(1,960)	(2,859)	(37,869)	(31,299)	(6,884)
Operating (loss)/profit	*4*	(1,924)	(2,684)	(36,156)	(27,856)	40,754
Finance costs	*5*	—	—	—	—	—
(Loss)/profit before taxation		(1,924)	(2,684)	(36,156)	(27,856)	40,754
Taxation	*6*	—	657	8,750	6,885	(11,413)
(Loss)/profit and total comprehensive (loss)/profit for the period/year		(1,924)	(2,027)	(27,406)	(20,971)	29,341

BALANCE SHEETS

AS AT 31 DECEMBER 2016, 31 DECEMBER 2017, 31 DECEMBER 2018 AND 31 OCTOBER 2019

		As at 31 December			As at 31 October
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*7*	28	23	40	62
Investment properties	*8*	—	—	847,000	1,031,000
Deferred income tax assets	*12*	—	657	9,407	—
		28	680	856,447	1,031,062
Current assets					
Properties under development	*9*	—	3,918,167	3,755,847	4,138,493
Other receivables and prepayments	*11*	30,045	2,491	23,168	60,125
Cash and cash equivalents	*10*	17,461	8,304	4,731	32,120
		47,506	3,928,962	3,783,746	4,230,738
Current liabilities					
Trade and other payables	*13*	1,837	119,592	519,560	348,711
Amounts due to shareholders	*14*	10,006	3,727,006	1,058,500	—
Amounts due to fellow subsidiaries	*14*	27,615	46,995	493,490	10,995
		39,458	3,893,593	2,071,550	359,706
Net current assets		8,048	35,369	1,712,196	3,871,032
Total assets less current liabilities		8,076	36,049	2,568,643	4,902,094

		As at 31 December			As at 31 October
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities					
Amount due to a fellow subsidiary	*14*	—	—	600,000	—
Bank borrowings	*15*	—	—	—	328,243
Deferred income tax liabilities	*12*	—	—	—	2,006
		—	—	600,000	330,249
Net assets		8,076	36,049	1,968,643	4,571,845
Equity					
Share capital	*16*	10,000	40,000	2,000,000	4,573,861
Accumulated losses		(1,924)	(3,951)	(31,357)	(2,016)
Total equity		8,076	36,049	1,968,643	4,571,845

STATEMENTS OF CHANGES IN EQUITY

FOR THE PERIOD FROM 26 JULY 2016 (DATE OF INCORPORATION) TO 31 DECEMBER 2016 AND FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2018 AND THE TEN MONTHS ENDED 31 OCTOBER 2019

	Share capital	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 26 July 2016 (date of incorporation)	—	—	—
Capital injection *(note 16)*	10,000	—	10,000
Loss and total comprehensive loss for the period	—	(1,924)	(1,924)
As at 31 December 2016 and 1 January 2017	10,000	(1,924)	8,076
Capital injection *(note 16)*	30,000	—	30,000
Loss and total comprehensive loss for the year	—	(2,027)	(2,027)
As at 31 December 2017 and 1 January 2018	40,000	(3,951)	36,049
Capital injection *(note 16)*	1,960,000	—	1,960,000
Loss and total comprehensive loss for the year	—	(27,406)	(27,406)
As at 31 December 2018 and 1 January 2019	2,000,000	(31,357)	1,968,643
Capital injection *(note 16)*	2,573,861	—	2,573,861
Profit and total comprehensive profit for the period	—	29,341	29,341
As at 31 October 2019	4,573,861	(2,016)	4,571,845
As at 1 January 2018	40,000	(3,951)	36,049
Capital injection (unaudited) *(note 16)*	1,960,000	—	1,960,000
Loss and total comprehensive loss for the period (unaudited)	—	(20,971)	(20,971)
As at 31 October 2018 (unaudited)	2,000,000	(24,922)	1,975,078

CASH FLOW STATEMENTS

FOR THE PERIOD FROM 26 JULY 2016 (DATE OF INCORPORATION) TO 31 DECEMBER 2016 AND FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2018 AND THE TEN MONTHS ENDED 31 OCTOBER 2019

	For the period from 26 July 2016 (date of incorporation) to 31 December	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Operating activities					
(Loss)/profit before taxation	(1,924)	(2,684)	(36,156)	(27,856)	40,754
Adjustments for:					
Depreciation	2	10	28	13	10
Fair value change of investment properties	—	—	(754)	(2,526)	(47,596)
Interest income	(36)	(175)	(942)	(900)	(18)
Operating loss before working capital changes	(1,958)	(2,849)	(37,824)	(31,269)	(6,850)
Increase in properties under development	—	(56,763)	(188,590)	(78,433)	(311,087)
Increase in other receivables and prepayments	(29,853)	(2,491)	(20,677)	(8,875)	(36,957)
Increase/(decrease) in trade and other payables	1,645	4,069	29,346	(51,283)	198,517
Increase/(decrease) in amounts due to fellow subsidiaries	17,615	19,380	(2,005)	(36,995)	(23,995)
Increase/(decrease) in amount due to a shareholder	6	—	(6)	(6)	—
Net cash used in operating activities	(12,545)	(38,654)	(219,756)	(206,861)	(180,372)
Investing activities					
Interest received	36	175	942	900	18
Purchase of property, plant and equipment	(30)	(5)	(45)	(25)	(32)
Addition in investment properties	—	—	(20,562)	(3,791)	(116,110)
Net cash generated from/(used in) investing activities	6	170	(19,665)	(2,916)	(116,124)
Financing activities					
Capital injection	10,000	30,000	1,960,000	1,960,000	—
Increase/(decrease) in amounts due to shareholders	10,000	—	(2,220,000)	(2,220,000)	—
Increase in amounts due to fellow subsidiaries	10,000	—	600,000	580,000	—
Drawdown of bank borrowings	—	—	—	—	328,243
Finance costs paid	—	(673)	(104,152)	(104,152)	(4,358)
Net cash generated from financing activities	30,000	29,327	235,848	215,848	323,885

	For the period from 26 July 2016 (date of incorporation) to 31 December	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net increase/(decrease) in cash and cash equivalents	17,461	(9,157)	(3,573)	6,071	27,389
Cash and cash equivalents as at beginning of the period/year	—	17,461	8,304	8,304	4,731
Cash and cash equivalents as at period/ year end	17,461	8,304	4,731	14,375	32,120

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF SHANGHAI HUAYAN

1 General information

Shanghai Huayan Real Estate Development Company Limited ("**Shanghai Huayan**") was incorporated in the People's Republic of China (the "**PRC**") on 26 July 2016 with limited liability. The address of its registered office is Room 118, 2/F, No. 169 Gonghe Road, Shanghai, China.

Shanghai Huayan is principally engaged in development of properties in the PRC. At the date of incorporation, Shanghai Huayan was jointly held by Shenzhen OCT Properties Co., Ltd, i.e. 深圳華僑城房地產有限公司 ("**OCT**" or "**the Seller**") and 華潤置地(上海)有限公司 ("**CR Land**").

The immediate holding company was CR Land, a company incorporated in the PRC. The ultimate holding company was China Resources National Corporation, a company incorporated in the PRC.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Historical Financial Information of Shanghai Huayan are set out below. These policies have been consistently applied to all the periods/years presented, unless otherwise stated.

(a) Basis of preparation

The Historical Financial Information of Shanghai Huayan have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**"), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong. HKFRSs 9, 15 and 16 have been consistently adopted throughout the Track Record Period. The Historical Financial Information of Shanghai Huayan has been prepared under the historical cost convention, as modified by the revaluation of investment properties.

The preparation of Historical Financial Information of Shanghai Huayan in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information of Shanghai Huayan are disclosed in note 3.

New standards, amendments to standards and interpretation not yet adopted

The HKICPA has issued new standards, amendments to standards and interpretation which are relevant to Shanghai Huayan's operations but are not yet effective for Shanghai Huayan's financial period beginning on 1 January 2019 and have not been early adopted:

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

(1) Effective for annual periods beginning 1 January 2020
(2) Effective date to be determined

Shanghai Huayan has already commenced an assessment of the impact of these new standards, amendments to standards and interpretations. These are not expected to result in substantial impact to Shanghai Huayan.

(b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Shanghai Huayan and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided to write off the cost of property, plant and equipment, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following annual rates:

Office equipment	20% — 33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

(c) Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and is not occupied by Shanghai Huayan or for sale in the ordinary course of business. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment properties are measured initially at cost, including related transaction costs and where applicable borrowing costs. Subsequent to initial recognition, investment properties are stated at fair value, representing open market value determined at each balance sheet date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, Shanghai Huayan uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair value are recognised in the statement of comprehensive income.

(d) Impairment of non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

(e) Financial assets

(i) Classification

Shanghai Huayan classifies its financial assets as those to be measured at amortised cost. The classification of debt financial assets depends on Shanghai Huayan's business model for managing the financial assets and the contractual terms of the cash flows. Shanghai Huayan reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, Shanghai Huayan measures a financial asset at its fair value plus, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of debt instruments depends on Shanghai Huayan's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in profit or loss using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of comprehensive income.

(iii) Impairment

Shanghai Huayan assesses on a forward looking basis the ECL associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(f) Properties under development

Properties under development are classified under current assets and stated at the lower of cost and net realisable value. Costs include the acquisition cost of land, aggregate cost of development, other direct expenses and where applicable borrowing costs. Net realisable value represents the estimated selling price less estimated costs of completion and estimated selling expenses.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments with original maturities of three months or less.

(h) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and others payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(i) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognised in the profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless Shanghai Huayan has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(j) Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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 eligible for capitalisation.

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

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where Shanghai Huayan generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable profit will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to income taxes levied by the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(m) Foreign currency translation

(i) Functional and presentation currency

Items included in the Historical Financial Information of Shanghai Huayan are measured using the currency of the primary economic environment in which Shanghai Huayan operates (the "**functional currency**"). The Historical Financial Information of Shanghai Huayan are presented in Renminbi ("**RMB**"), which is Shanghai Huayan's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transaction or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

3 Critical accounting estimates and judgements

Shanghai Huayan makes estimates, assumptions and judgements as appropriate in the preparation of the Historical Financial Information of Shanghai Huayan. These estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances and will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Valuation of investment properties

The fair value of investment properties is individually determined at each balance sheet date by independent professional valuer based on a market value assessment. The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the amount is determined within a range of reasonable fair value estimates. The valuer has applied income approach for the valuation of the investment properties under development, by making reference to comparable rental evidence as available in the relevant market and considering the cost matter by taken into account the accrued construction cost and professional fees to the stage of construction as at the date of valuation. Further details of the judgements and assumptions made were disclosed in note 8.

(b) Estimated net realisable value of properties under development

Shanghai Huayan's properties under development for sale are stated at lower of cost and net realisable value. In determining whether allowances should be made, Shanghai Huayan takes into consideration the current market environment and the estimated market value (i.e. the estimated selling price) less estimated costs to completion of the properties. An allowance is made if the recoverable amount is less than the carrying amount.

(c) Current income tax and deferred income tax

Shanghai Huayan is subject to income tax in the PRC. Significant judgement is required in determining the amount of the provision for and the timing of payment of the related income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and income tax in the periods in which such estimate is changed.

4 Operating (loss)/profit

	For the period from 26 July 2016 (date of incorporation) to 31 December	Year ended 31 December		Ten months ended 31 October	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
After charging/(crediting):					
Interest income	(36)	(175)	(942)	(900)	(18)
Auditor's remuneration					
— Audit fee	10	40	22	—	—
Depreciation *(note 7)*	2	10	28	13	10
Management fee	—	—	34,990	29,158	—
Staff costs recharged from a fellow subsidiary	17,615	19,387	5,493	3,223	23,132
Less: Amount capitalised in prepayments/properties under development/investment properties	(15,673)	(17,255)	(4,806)	(3,223)	(17,960)

5 Finance costs

	For the period from 26 July 2016 (date of incorporation) to 31 December	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest expenses on amounts due to shareholders and fellow subsidiaries	192	990	474,774	443,083	85,904
Interest expenses on bank borrowings	—	—	—	—	5,949
Less: Amount capitalised in prepayments/properties under development	(192)	(990)	(460,646)	(435,956)	(71,559)
Less: Amount capitalised in investment properties	—	—	(14,128)	(7,127)	(20,294)
	—	—	—	—	—

6 Taxation

Taxation in the statement of comprehensive income represents:

	For the period from 26 July 2016 (date of incorporation) to 31 December	Year ended 31 December		Ten months ended 31 October	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Deferred income tax credit/(expenses) *(note 12)*	—	657	8,750	6,885	(11,413)

No provision for China corporate income tax was made in the Historical Financial Information of Shanghai Huayan as Shanghai Huayan had no estimated assessable profit for the Track Record Period.

Reconciliation between tax (credit)/expenses and accounting (loss)/profit at applicable tax rates:

	For the period from 26 July 2016 (date of incorporation) to 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018	Ten months ended 31 October 2018	Ten months ended 31 October 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
(Loss)/profit before taxation	(1,924)	(2,684)	(36,156)	(27,856)	40,754
Tax at the applicable tax rate of 25%	(481)	(671)	(9,039)	(6,964)	10,189
Expenses not deductible for tax purpose	—	14	289	79	1,224
Tax losses not recognised	481	—	—	—	—
	—	(657)	(8,750)	(6,885)	11,413

Unrecognised tax losses of Shanghai Huayan for the period ended 31 December 2016 were RMB1,924,000 that would expire on various dates through 5 years as at 31 December 2016. Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

7 Property, plant and equipment

	As at 31 December 2016	As at 31 December 2017	As at 31 December 2018	As at 31 October 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the period/year	—	28	23	40
Additions	30	5	45	32
Depreciation *(note 4)*	(2)	(10)	(28)	(10)
At the end of the period/year	28	23	40	62
Cost	30	35	80	112
Accumulated depreciation	(2)	(12)	(40)	(50)
Net book amount	28	23	40	62

8 Investment properties

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Investment properties under development in the PRC				
At beginning of the period/year	—	—	—	847,000
Additions in development costs	—	—	20,562	116,110
Interest expenses capitalised	—	—	14,128	20,294
Transfer from properties under development *(note 9)*	—	—	811,556	—
Fair value changes	—	—	754	47,596
At the end of the period/year	—	—	847,000	1,031,000

All investment properties under development were held for earning rental income.

Investment properties of fair value of RMB1,031,000,000 was pledged to banks as securities for bank borrowings granted to Shanghai Huayan (note 15).

Shanghai Huayan measures its investment properties at fair value. An independent valuation of Shanghai Huayan's investment properties was performed by the valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**") who hold a recognised relevant professional qualification and have recent experience in the locations of the investment properties being valued, to determine the fair value of the investment properties at 31 October 2018, 31 December 2018 and 31 October 2019.

Shanghai Huayan's investment properties were carried at fair value of RMB825,000,000, RMB847,000,000 and RMB1,031,000,000 as at 31 October 2018, 31 December 2018 and 31 October 2019 respectively and are valued by fair value measurements using significant unobservable inputs (level 3).

Fair value measurements using significant unobservable inputs

Fair value of the investment properties under development is derived using the income approach by making reference to comparable rental evidence as available in the relevant market and considering the cost matter by taken into account the accrued construction cost and professional fees to the stage of construction as at the date of valuation.

Shanghai Huayan's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels 1, 2 and 3 during the periods/years.

Information about fair value measurements using significant unobservable inputs

31 October 2018

Description	Fair value at 31 October 2018 *RMB'000*	Valuation method	Range of significant unobservable inputs: Prevailing market rent per month/sq.m.	Range of significant unobservable inputs: Capitalisation rate
Underground retail situated in Suhewan, Jingan District, Shanghai	825,000	Income approach	RMB456 to RMB608	4.5%

31 December 2018

Description	Fair value at 31 December 2018 *RMB'000*	Valuation method	Range of significant unobservable inputs: Prevailing market rent per month/sq.m.	Range of significant unobservable inputs: Capitalisation rate
Underground retail situated in Suhewan, Jingan District, Shanghai	847,000	Income approach	RMB456 to RMB608	4.5%

31 October 2019

Description	Fair value at 31 October 2019 *RMB'000*	Valuation method	Range of significant unobservable inputs: Prevailing market rent per month/sq.m.	Range of significant unobservable inputs: Capitalisation rate
Underground retail situated in Suhewan, Jingan District, Shanghai	1,031,000	Income approach	RMB456 to RMB608	4.5%

Prevailing market rents are estimated based on valuer's view of recent lettings of comparable properties. The lower the rents, the lower the fair value.

Capitalisation rate are estimated by valuer based on the risk profile of the properties being valued. The higher the rates, the lower the fair value.

9 Properties under development

		As at 31 December		As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties under development	—	3,918,167	3,755,847	4,138,493

Notes:

(i) In 2017, the shareholders of Shanghai Huayan transferred the land to Shanghai Huayan with carrying amount of RMB3,717,000,000 through amounts due to shareholders.

(ii) The property under development is held under a medium term lease in the PRC.

(iii) The amount of properties for or under development expected to be recovered after more than one year is nil, RMB3,918,167,000, RMB3,755,847,000 and RMB4,138,493,000 as at 31 December 2016, 2017 and 2018 and 31 October 2019 respectively.

(iv) As at 31 October 2019, properties under development of RMB4,138,493,000 were pledged to banks as securities for bank borrowings granted to Shanghai Huayan (note 15).

10 Cash and cash equivalents

The balances are denominated in Renminbi. The carrying amounts of cash and cash equivalents approximate their fair values because of their immediate or short term maturities.

11 Other receivables and prepayments

		As at 31 December		As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Value-added tax receivables	767	2,453	21,374	56,225
Other receivables and prepayments	29,278	38	1,794	3,900
	30,045	2,491	23,168	60,125

12 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using a tax rate of 25% as at 31 December 2016, 2017 and 2018 and 31 October 2019.

The movement in deferred income tax assets and liabilities are as follows:

Deferred income tax assets

	Tax loss
	RMB'000
As at 26 July 2016 (date of incorporation), 31 December 2016 and 1 January 2017	—
Credited to statement of comprehensive income *(note 6)*	657
As at 31 December 2017 and 1 January 2018	657
Credited to statement of comprehensive income *(note 6)*	8,938
As at 31 December 2018 and 1 January 2019	9,595
Credited to statement of comprehensive income *(note 6)*	486
As at 31 October 2019	10,081

Deferred income tax liabilities

	Revaluation of investment properties
	RMB'000
As at 26 July 2016 (date of incorporation), 31 December 2016 and 2017 and 1 January 2018	—
Charged to statement of comprehensive income *(note 6)*	(188)
As at 31 December 2018 and 1 January 2019	(188)
Charged to statement of comprehensive income *(note 6)*	(11,899)
As at 31 October 2019	(12,087)

Deferred tax assets and liabilities are netted off when the taxes related to the same taxation authority and where the offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the balance sheet.

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred income tax assets	—	657	9,595	10,081
Deferred income tax liabilities	—	—	(188)	(12,087)
	—	657	9,407	(2,006)

13 Trade and other payables

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	1,490	2,187	29,927	82,767
Other payables and accruals	155	116,896	118,502	264,179
Interest payable for amounts due to shareholders and fellow subsidiaries	192	509	371,131	85
Interest payable for bank borrowings	—	—	—	1,680
	1,837	119,592	519,560	348,711

The ageing analysis of trade payables by invoice date is as follows:

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 — 30 days	1,490	—	26,723	59,216
31 — 60 days	—		3,204	23,551
61 — 90 days	—	—	—	—
over 90 days	—	2,187	—	—
	1,490	2,187	29,927	82,767

14 Amounts due to shareholders/fellow subsidiaries

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to shareholders	10,006	3,727,006	1,058,500	—
Amounts due to fellow subsidiaries	27,615	46,995	1,093,490	10,995
Less: Current portion	(37,621)	(3,774,001)	(1,551,990)	(10,995)
Non-current portion	—	—	600,000	—

As at 31 December 2016 and 2017, amounts due to shareholders of RMB10,000,000 and RMB10,000,000 respectively and amount due to fellow subsidiaries of RMB10,000,000 and RMB10,000,000 respectively were unsecured, repayable on demand and bear interest at Renminbi benchmark lending rate.

As at 31 December 2018, amounts due to shareholders of RMB1,058,500,000 and amounts due to fellow subsidiaries of RMB1,058,000,000 were unsecured and bear fixed interest at 6.00%. Except for amount due to a fellow subsidiary of RMB600,000,000 being repayable on 30 October 2023, the remaining balances were repayable on demand as at 31 December 2018.

The remaining balances as at 31 December 2016, 2017 and 2018 and 31 October 2019 were unsecured, non-interest bearing and repayable on demand. The carrying values approximated their fair values and were denominated in Renminbi.

During the year ended 31 December 2018, the amount due to a shareholder of RMB448,500,000 was settled through amount due to a fellow subsidiary.

15 Bank borrowings

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings repayable as follows:				
— More than 2 years but not exceeding 5 years	—	—	—	65,000
— More than 5 years	—	—	—	263,243
	—	—	—	328,243

As at 31 October 2019, bank borrowings was secured by investment properties (note 8) of RMB1,031,000,000 and properties under development (note 9) of RMB4,138,493,000, repayable after one year and bear interest at 95% of Renminbi benchmark lending rate. The carrying values of the borrowings approximated their fair values and were denominated in Renminbi.

16 Share capital

	Share capital
	RMB'000
As at 26 July 2016 (date of incorporation)	—
Capital injection	10,000
As at 31 December 2016 and 1 January 2017	10,000
Capital injection *(note (i))*	30,000
As at 31 December 2017 and 1 January 2018	40,000
Capital injection *(note (ii))*	1,960,000
As at 31 December 2018 and 1 January 2019	2,000,000
Capital injection *(note (iii))*	2,573,861
As at 31 October 2019	4,573,861

Notes:

(i) On 31 May 2017, the shareholders of Shanghai Huayan injected share capital of RMB30,000,000 and the total share capital had increased to RMB40,000,000 in an equal proportion between the existing shareholders.

(ii) On 31 January 2018 and 20 February 2018, the shareholders of Shanghai Huayan injected share capital of RMB60,000,000 and RMB1,900,000,000 respectively and the total share capital had increased to RMB2,000,000,000 in an equal proportion between the existing shareholders.

(iii) On 31 August 2019, amounts due to shareholders of RMB1,058,500,000 and amounts due to fellow subsidiaries of RMB1,058,500,000 and interest payable for the amounts due to shareholders and fellow subsidiaries of RMB456,861,000 were capitalised to share capital of RMB2,573,861,000 and the total share capital had increased to RMB4,573,861,000 in equal proportion between the existing shareholders.

17 Reconciliation of liabilities arising from financing activities

	Amounts due to shareholders *RMB'000*	Amounts due to fellow subsidiaries *RMB'000*	Bank borrowings *RMB'000*	Interest payable *RMB'000*	Total *RMB'000*
As at 26 July 2016 (date of incorporation)	—	—	—	—	—
Financing cash flows					
Increase in amounts due to shareholders/fellow subsidiaries	10,000	10,000	—	—	20,000
Finance costs *(note 5)*	—	—	—	192	192
Operating cash flows	6	17,615	—	—	17,621
As at 31 December 2016 and 1 January 2017	10,006	27,615	—	192	37,813
Financing cash flows					
Finance costs paid	—	—	—	(673)	(673)
Finance costs *(note 5)*	—	—	—	990	990
Operating cash flows	—	19,380	—	—	19,380
Other non-cash items *(note (i))*	3,717,000	—	—	—	3,717,000
As at 31 December 2017 and 1 January 2018	3,727,006	46,995	—	509	3,774,510
Financing cash flows					
(Decrease)/increase in amounts due to shareholders/fellow subsidiaries	(2,220,000)	600,000	—	—	(1,620,000)
Finance costs paid	—	—	—	(104,152)	(104,152)
Finance costs *(note 5)*	—	—	—	474,774	474,774
Operating cash flows	(6)	(2,005)	—	—	(2,011)
Other non-cash items *(note (ii))*	(448,500)	448,500	—	—	—
As at 31 December 2018 and 1 January 2019	1,058,500	1,093,490	—	371,131	2,523,121
Financing cash flows					
Drawdown of bank borrowings	—	—	328,243	—	328,243
Finance costs paid	—	—	—	(4,358)	(4,358)
Finance costs *(note 5)*	—	—	—	91,853	91,853
Operating cash flows	—	(23,995)	—	—	(23,995)
Other non-cash items *(note (iii))*	(1,058,500)	(1,058,500)	—	(456,861)	(2,573,861)
As at 31 October 2019	—	10,995	328,243	1,765	341,003

	Amounts due to shareholders	Amounts due to fellow subsidiaries	Bank borrowings	Interest payable	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018	3,727,006	46,995	—	509	3,774,510
Financing cash flows					
(Decrease)/increase in amounts due to shareholders/fellow subsidiaries	(2,220,000)	580,000	—	—	(1,640,000)
Finance costs paid	—	—	—	(104,152)	(104,152)
Finance costs *(note 5)*	—	—	—	443,083	443,083
Operating cash flows	(6)	(36,995)	—	—	(37,001)
Other non-cash items *(note (ii))*	(448,500)	448,500	—	—	—
As at 31 October 2018 (unaudited)	1,058,500	1,038,500	—	339,440	2,436,440

Notes:

(i) The amount of RMB3,717,000,000 represented the land transfer from the shareholders of Shanghai Huayan settled through amounts due to shareholders. Detailed information is disclosed in note 9.

(ii) The amount of RMB448,500,000 represented the settlement of amount due to a shareholder through amount due to a fellow subsidiary. Detailed information is disclosed in note 14.

(iii) The amount represented the capital injection through capitalisaton of amounts due to shareholders and amounts due to fellow subsidiaries. Detailed information is disclosed in note 16.

18 Significant related party transactions

Other than those disclosed elsewhere in the Historical Financial Information of Shanghai Huayan, significant related party transactions which were carried in the normal course of Shanghai Huayan's business during the periods/years were as follows:

		For the period from 26 July 2016 (date of incorporation) to 31 December	Year ended 31 December		Ten months ended 31 October	
		2016	**2017**	**2018**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fellow subsidiaries						
Interest expenses	*(i)*	96	495	50,848	35,633	42,952
Management fee	*(ii)*	—	203	34,990	29,158	10,995
Shareholder						
Interest expenses	*(i)*	96	495	423,926	407,450	42,952

At the balance sheet date, Shanghai Huayan had the following balances with related parties:

		As at 31 December			As at 31 October
		2016	**2017**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fellow subsidiaries					
Amounts due to fellow subsidiaries	*(iii)*	27,615	46,995	1,093,490	10,995
Interest payable		96	255	49,027	—
Shareholders					
Amounts due to shareholders	*(iii)*	10,006	3,727,006	1,058,500	—
Interest payable		96	254	322,104	85

Notes:

(i) Interest expenses were charged by shareholders and fellow subsidiaries. The terms were agreed between both parties.

(ii) Management fee to fellow subsidiaries provided was determined and agreed between Shanghai Huayan and the fellow subsidiaries.

(iii) Detailed information of amounts due to fellow subsidiaries and amounts due to shareholders are disclosed in note 14 to the Historical Financial Information of Shanghai Huayan.

19 Capital commitments

Shanghai Huayan's capital commitments for properties under development and investment properties were as follows:

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for	1,806	1,664	1,309,186	1,972,496

20 Contingent liabilities

As at 31 December 2016, 2017 and 2018 and 31 October 2019, there were no contingent liabilities.

21 Segment reporting

No segmental information for the period from 26 July 2016 (date of incorporation) to 31 December 2016, for the years ended 31 December 2017 and 31 December 2018 and for the ten months ended 31 October 2018 and 31 October 2019 is presented as Shanghai Huayan's revenue and operating results for the years/periods were generated solely from its property development operation in the PRC.

22 Benefits and interests of directors

Directors' emoluments

For the period from 26 July 2016 (date of incorporation) to 31 December 2016, for the years ended 31 December 2017 and 2018, the ten months ended 31 October 2018 and 2019, no emoluments were paid to or receivable by directors in respect of their services to Shanghai Huayan.

(i) Directors' retirement benefits

No retirement benefits were paid to or receivable by the directors in respect of their services as directors of Shanghai Huayan or other services in connection with the management of the affairs of Shanghai Huayan undertaking.

(ii) Directors' termination benefits

During the periods/years, no payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable.

(iii) Consideration provided to third parties for making available directors' services

During the periods/years, no consideration was provided to or receivable by third parties for making available directors' services.

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

During the periods/years, there were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

(v) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to Shanghai Huayan's business to which Shanghai Huayan was a party and in which a director of Shanghai Huayan had a material interest, whether directly or indirectly, subsisted at the end of the periods/years or at any time during the periods/years.

23 Financial Risk Management

(a) Financial risk factors

Shanghai Huayan's activities expose it to a variety of financial risks: credit risk, liquidity risk and interest rate risk. Shanghai Huayan's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Shanghai Huayan's financial performance.

Risk management is carried out by the senior management. The management manages and monitors these risk exposures to ensure appropriate measures are implemented on timely and effective manners.

(i) Credit risk

Shanghai Huayan is exposed to credit risk on financial assets, that a loss may incur if the counterparties fail to discharge their obligation, mainly including other receivables and cash and cash equivalents.

Credit risk arises from cash and cash equivalents. For banks and financial institutions, only independently rated parties with a sound credit rating are accepted.

As at 31 December 2016, 2017 and 2018 and 31 October 2019, the maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The Directors of Shanghai Huayan consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the year. To assess whether there is a significant increase in credit risk Shanghai Huayan compares risk of a default occurring on the assets as at the balance sheet date with the risk of default as at the date of initial recognition. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial economic conditions that are expected to cause a significant change to the company's ability to meet its obligations;
- actual or expected significant changes in the operating results of the company;
- significant changes in the expected performance and behaviour of the company, including changes in the payment status of the third party.

As at 31 December 2016, 2017 and 2018 and 31 October 2019, management consider cash and cash equivalents as low credit risk as counterparties have a strong capacity to meet its contractual cash flow obligations in the near term. Shanghai Huayan has assessed that the ECL for these receivables are immaterial under 12 months expected losses method. Thus, the loss allowance provision recognised during the year for these balances is close to zero.

(ii) *Liquidity risk*

Due to the capital-intensive nature of Shanghai Huayan's business, Shanghai Huayan ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. Shanghai Huayan's financial liabilities mainly represent trade and other payables, amounts due to shareholders and fellow subsidiaries and bank borrowings.

The table below analyses Shanghai Huayan's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	**Later than 1 year and not later than 5 years**	**Over 5 years**	**Total undiscounted cash flow**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016					
Trade payables	1,490	—	—	1,490	1,490
Other payables and accruals	155	—	—	155	155
Interest payable for amounts due to shareholders and fellow subsidiaries	192	—	—	192	192
Amounts due to shareholders	10,006	—	—	10,006	10,006
Amounts due to fellow subsidiaries	27,615	—	—	27,615	27,615
	39,458	—	—	39,458	39,458
As at 31 December 2017					
Trade payables	2,187	—	—	2,187	2,187
Other payables and accruals	116,896	—	—	116,896	116,896
Interest payable for amounts due to shareholders and fellow subsidiaries	509	—	—	509	509
Amounts due to shareholders	3,727,006	—	—	3,727,006	3,727,006
Amounts due to fellow subsidiaries	46,995	—	—	46,995	46,995
	3,893,593	—	—	3,893,593	3,893,593

	Less than 1 year	Later than 1 year and not later than 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018					
Trade payables	29,927	—	—	29,927	29,927
Other payables and accruals	118,502	—	—	118,502	118,502
Interest payable for amounts due to shareholders and fellow subsidiaries	371,131	—	—	371,131	371,131
Amounts due to shareholders	1,058,500	—	—	1,058,500	1,058,500
Amounts due to fellow subsidiaries	529,490	708,000	—	1,237,490	1,093,490
	2,071,550	708,000	—	2,815,550	2,671,550
As at 31 October 2019					
Trade payables	82,767	—	—	82,767	82,767
Other payables and accruals	264,179	—	—	264,179	264,179
Interest payable for amounts due to shareholders and fellow subsidiaries	85	—	—	85	85
Interest payable for bank borrowings	1,680	—	—	1,680	1,680
Amount due to a fellow subsidiary	10,995	—	—	10,995	10,995
Bank borrowings	15,296	122,847	273,928	412,071	328,243
	375,002	122,847	273,928	771,777	687,949

(iii) Interest rate risk

Shanghai Huayan is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. It is Shanghai Huayan's policy to regularly monitor and manage its interest rate risk exposure, by maintaining an appropriate and comfortable level of mix between fixed and variable-rate financial assets and liabilities and by repaying and/or selling the relevant fixed and variable-rate financial assets and liabilities in case of significant unfavourable market interest rate movement.

Sensitivity analysis

If interest rates had been 50 basis points higher/lower with all other variables held constant, Shanghai Huayan's loss after taxation for the period from 26 July 2016 (date of incorporation) to 31 December 2016 and for the years ended 31 December 2017 and 2018 and profit after taxation for the ten months ended 31 October 2019, before taking into account the impact of interest capitalisation, would increase by RMB9,500, RMB43,900, decrease by RMB18,000 and RMB1,110,500 respectively/decrease by RMB9,500, RMB43,900, increase by RMB18,000 and RMB1,110,500 respectively arising mainly as a result of change in interest income/expenses on variable-rate financial assets/liabilities.

The sensitivity analysis has been prepared with the assumption that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the relevant financial instruments in existence at that date. The changes in interest rates represent management's assessment of a reasonably possible change at that date over the period until the next annual balance sheet date.

(b) Capital management

Shanghai Huayan's objectives when managing capital are to safeguard Shanghai Huayan's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Shanghai Huayan actively and regularly reviews and manages its capital structure. Shanghai Huayan manages its capital structure and makes adjustments to it taking into account current and expected debt and equity capital market conditions, Shanghai Huayan's investment strategy and opportunities, projected operating cash flows and capital expenditures, and general market conditions. To maintain or adjust the capital structure, Shanghai Huayan may adjust the level of borrowings.

Shanghai Huayan monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. Net debt/cash is calculated as total debt, which includes current and non-current borrowings, less cash and bank balances. Adjusted capital comprises all components of equity attributable to owners of Shanghai Huayan.

The net debt-to-adjusted capital ratio as at 31 December 2016, 2017 and 2018 and 31 October 2019 was as follows:

	As at 31 December			As at 31 October
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to shareholders *(note 14)*	10,006	3,727,006	1,058,500	—
Amounts due to fellow subsidiaries *(note 14)*	27,615	46,995	1,093,490	10,995
Bank borrowings *(note 15)*	—	—	—	328,243
Less: Cash and cash equivalents *(note 10)*	(17,461)	(8,304)	(4,731)	(32,120)
Net debt	20,160	3,765,697	2,147,259	307,118
Total equity	8,076	36,049	1,968,643	4,571,845
Net debt-to-adjusted capital ratio	249.6%	10,446.1%	109.1%	6.7%

Note:

The decrease of net debt as at 31 October 2019 was primarily resulted from a capital injection Detailed information is disclosed in note 16.

(c) ***Fair value estimation***

The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Shanghai Huayan for similar financial instruments.

The carrying amounts of other receivables, cash and cash equivalents, trade and other payables and amounts due to shareholders and fellow subsidiaries are assumed to approximate their fair values due to the short-term maturities of these assets and liabilities.

24 Subsequent event

After the outbreak of COVID-19 in early 2020, a series of precautionary and control measures have been and continued to be implemented by the Government across the country/region. Shanghai Huayan will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of Shanghai Huayan.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Shanghai Huayan in respect of any period subsequent to 31 October 2019 and up to the date of this report. No dividend or distribution has been declared or made by Shanghai Huayan in respect of any period subsequent to 31 October 2019.

The following management discussion and analysis is based on the financial information for the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019 included in the accountant's report of each of Shanghai Huahe and Shanghai Huayan as set out in Appendix II and Appendix III to this circular, respectively.

Business review

Shanghai Huahe and Shanghai Huayan were both established in July 2016 for the purpose of the acquisition and development of the Sites, and they are principally engaged in property development and operation of the Sites. The Huahe Site and the Huayan Site were acquired on 21 July 2017 by Shanghai Huahe and Shanghai Huayan, respectively, and located within the core business districts of Shanghai and in close proximity to established core business districts such as Nanjing West Road and Lujiazui. The Sites also enjoy a short travelling distance from major tourist attractions such as the Bund and the People's Square. The Sites are planned for the development of commercial properties, offices, shopping malls and other facilities above ground level as well as car parks and commercial properties underground, while Shanghai Huahe has an additional development for residential use.

Financial review

Shanghai Huahe

(a) Financial performance

For the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, Shanghai Huahe had only one reportable business segment, which was the development of properties in the PRC. Shanghai Huahe did not record any revenue for period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, as Shanghai Huahe has not yet commenced sales of properties whilst having only commenced the development of the Huahe Site as at the Latest Practicable Date.

Shanghai Huahe recorded an interest income of approximately RMB5,000, RMB0.1 million, RMB1.0 million and RMB0.1 million for the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, respectively, which were arisen from bank deposits. For the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018, the administrative and other expenses of Shanghai Huahe were approximately RMB2.4 million, RMB4.1 million and RMB1.1 million, respectively. For the ten months ended 31 October 2019, the administrative and other expenses of Shanghai Huahe were approximately credit of RMB2.4 million. The administrative and other expenses mainly comprise staff costs recharged from a fellow subsidiary, service fee, stamp duty and marketing expenses. For the ten months ended 31 October 2019, pursuant to a waiver memo signed by the fellow subsidiary of Shanghai Huahe, all the staff costs recharged from the fellow subsidiary for project development and administrative purpose since incorporation of Shanghai Huahe were waived. Consequently, staff costs recharged from a fellow subsidiary of RMB6.3 million were reversed in the statement of comprehensive income for the ten months ended 31 October 2019.

Based on the analysis above, Shanghai Huahe recorded net losses for the period from 26 July 2016 (date of incorporation) to 31 December 2016 and the two years ended 31 December 2018 of approximately RMB2.4 million, RMB4.0 million and RMB0.1 million, respectively, and a net profit for the ten months ended 31 October 2019 of approximately RMB2.5 million.

(b) Liquidity and financial resources

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019, Shanghai Huahe had net current assets of approximately RMB7.6 million, RMB3.6 million, RMB1,493.4 million and RMB4,071.2 million, respectively. Shanghai Huahe recorded a net cash inflow of approximately RMB28.0 million for the period from 26 July 2016 (date of incorporation) to 31 December 2016 due to capital injection and financing from shareholders and related party, and net cash outflow of approximately RMB3.8 million, RMB7.0 million and RMB5.1 million for the two years ended 31 December 2018 and the ten months ended 31 October 2019, respectively, mainly contributed by the net cash flows used in operating activities in 2017 and 2018 and the ten months ended 31 October 2019.

As at 31 October 2019, Shanghai Huahe had long term borrowings of RMB150 million. The long term borrowings as at 31 October 2019 is borrowings secured by the properties held by Shanghai Huahe. Save as disclosed above, Shanghai Huahe did not have any other mortgages and charges as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019, respectively. The total equity of Shanghai Huahe as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019 was RMB7.6 million, RMB3.6 million, RMB1,493.5 million and RMB3,921.5 million, respectively.

(c) Gearing ratio

The asset-liability ratio of Shanghai Huahe, which is equal to total liabilities over total assets, as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019 was approximately 75.9%, 99.9%, 61.6% and 4.5%, respectively.

(d) Contingent liabilities

Shanghai Huahe did not have any other contingent liabilities as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019.

(e) Financial risk management

For the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, Shanghai Huahe was mainly exposed to credit, liquidity and interest rate risks arising in the normal course of business. For details of the exposure to such risks and the relevant risk management policies and practices adopted by Shanghai Huahe, please refer to note 21 of the Accountant's Report of Shanghai Huahe as set out in Appendix II to this circular.

As the operations of Shanghai Huahe were principally based in the PRC for the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, the principal assets and liabilities of Shanghai Huahe were denominated in Renminbi and therefore Shanghai Huahe considered that it did not have any material exposure to fluctuations in exchange rate and no hedging measures were taken.

(f) Significant investments

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019, save and except for the Huahe Site, Shanghai Huahe did not have any material investments. The development of the Huahe Site in the coming year is expected to be funded by external loans and borrowings of Shanghai Huahe.

Shanghai Huayan

(a) Financial performance

For the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, Shanghai Huayan had only one reportable business segment, which was the development of properties in the PRC. Shanghai Huayan did not record any revenue for the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, as Shanghai Huayan has not yet commenced sales or lease of properties whilst having only commenced the development of the Huayan Site as at the Latest Practicable Date.

The fair value changes on investment properties for Shanghai Huayan were approximately nil, nil, 0.8 million and RMB47.6 million for the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, respectively. For the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, the administrative and other expenses of Shanghai Huayan were approximately RMB2.0 million, RMB2.9 million, RMB37.9 million and RMB6.9 million, respectively. The administrative and other expenses mainly comprise staff costs recharged, service fee, stamp duty and marketing expenses.

Based on the analysis above, Shanghai Huayan recorded net losses for the period from 26 July 2016 (date of incorporation) to 31 December 2016 and the two years ended 31 December 2018 of approximately RMB1.9 million, RMB2.0 million and RMB27.4 million, respectively, and a net profit for the ten months ended 31 October 2019 of approximately RMB29.3 million.

(b) Liquidity and financial resources

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019, Shanghai Huayan had net current assets of approximately RMB8.0 million, RMB35.4 million, RMB1,712.2 million and RMB3,871.0 million, respectively. Shanghai Huayan recorded a net cash inflow/(outflow) of approximately RMB17.5 million, RMB(9.2 million), RMB(3.6 million) and RMB27.4 million for the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, respectively. The net cash inflow for the period from 26 July 2016 (date of incorporation) to 31 December 2016 was mainly contributed by the net cash flow generated from financing activities; the net cash outflow in 2017 and 2018 was mainly contributed by the net cash flows used in operating activities in 2017 and 2018; and the net cash inflow for the ten months ended 31 October 2019 was mainly contributed by the drawdown of bank borrowings of RMB328.2 million.

As at 31 October 2019, Shanghai Huayan had long term borrowings of RMB328.2 million. The borrowings are secured by the properties held by Shanghai Huayan. Save as disclosed above, Shanghai Huayan did not have any other mortgages and charges as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019, respectively. The total equity of Shanghai Huayan as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019 was RMB8.1 million, RMB36.0 million, RMB1,968.6 and RMB4,571.8 million, respectively.

(c) Gearing ratio

The asset-liability ratio of Shanghai Huayan, which is equal to total liabilities over total assets, as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019 was approximately 83.0%, 99.1%, 57.6% and 13.1%, respectively.

(d) Contingent liabilities

Shanghai Huayan did not have any other contingent liabilities as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019.

(e) Financial risk management

For the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, Shanghai Huayan was mainly exposed to market (interest rate) credit and liquidity risks arising in the normal course of business. For details of the exposure to such risks and the relevant risk management policies and practices adopted by Shanghai Huayan, please refer to note 23 of the Accountant's Report of Shanghai Huayan as set out in Appendix III to this circular.

As the operations of Shanghai Huayan were principally based in the PRC for the period from 26 July 2016 (date of incorporation) to 31 December 2016, the two years ended 31 December 2018 and the ten months ended 31 October 2019, the principal assets and liabilities of Shanghai Huayan were denominated in Renminbi and therefore Shanghai Huayan considered that it did not have any material exposure to fluctuations in exchange rate and no hedging measures were taken.

(f) *Significant investments*

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 October 2019, save and except for the Huayan Site, Shanghai Huayan did not have any material investments. The development of the Huayan Site in the coming year is expected to be funded by external loans and borrowings of Shanghai Huayan.

A. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The information set out in this appendix does not form part of the accountant's reports prepared by the reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendices II and III to this circular, and is included herein for illustrative purpose only.

The following is the illustrative unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group ("**Unaudited Pro Forma Financial Information**"), which have been prepared on the basis of notes set out below and in accordance with Rule 4.29(1) of the Listing Rules, for the purpose of illustrating the effects of the Acquisition on the Group for the inclusion in this circular.

The Unaudited Pro Forma Financial Information has been prepared to illustrate the effects of the Acquisition on the Group's financial position as at 30 June 2019 as if the Acquisition had taken place at 30 June 2019.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2019 or any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group as set out in the published annual report of the Company for the year ended 31 December 2018 and the published interim report of the Company for the period ended 30 June 2019 and other financial information included elsewhere in this circular.

	Statement of assets and liabilities of the Group as at 30 June 2019	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 2)*	*(note 3)*	
Non-current assets				
Property, plant and equipment	3,801,733	—	—	3,801,733
Right-of-use assets	858,181	—	—	858,181
Investment properties	8,358,863	—	—	8,358,863
Joint ventures	8,573,849	4,287,205	—	12,861,054
Associates	3,001,178	—	—	3,001,178
Intangible assets	2,400	—	—	2,400
Financial assets at fair value through other comprehensive income	3,547,831	—	—	3,547,831
Mortgage loans receivable	1,653	—	—	1,653
Deferred tax assets	18,488	—	—	18,488
Other non-current assets	1,450,195	—	—	1,450,195
	29,614,371	4,287,205	—	33,901,576
Current assets				
Properties for or under development	6,045,705	—	—	6,045,705
Inventories	12,410,710	—	—	12,410,710
Trade and other receivables, deposits paid and prepayments	1,074,158	—	—	1,074,158
Derivative financial instruments	17,895	—	—	17,895
Taxation recoverable	9,759	—	—	9,759
Cash and bank balances	17,111,127	(4,287,205)	(13,483)	12,810,439
	36,669,354	(4,287,205)	(13,483)	32,368,666
Assets held for sale	23,757	—	—	23,757
	36,693,111	(4,287,205)	(13,483)	32,392,423

	Statement of assets and liabilities of the Group as at 30 June 2019	Pro forma adjustments		Unaudited pro forma statement of assets and liabilities of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note 1)	*(note 2)*	*(note 3)*	
Current liabilities				
Trade and other payables, and deposits received	1,963,631	—	—	1,963,631
Contract liabilities	884,666	—	—	884,666
Lease liabilities	37,936	—	—	37,936
Bank borrowings	6,632,141	—	—	6,632,141
Medium term notes	3,178,347	—	—	3,178,347
Provision for employee benefits	12,424	—	—	12,424
Derivative financial instruments	1,538	—	—	1,538
Taxation payable	1,199,524	—	—	1,199,524
Loans from non-controlling interests	873,121	—	—	873,121
	14,783,328	—	—	14,783,328
Net current assets	21,909,783	(4,287,205)	(13,483)	17,609,095
Total assets less current liabilities	51,524,154	—	(13,483)	51,510,671
Non-current liabilities				
Contract liabilities	20,272	—	—	20,272
Lease liabilities	52,913	—	—	52,913
Bank borrowings	8,198,151	—	—	8,198,151
Deferred tax liabilities	931,087	—	—	931,087
	9,202,423	—	—	9,202,423
Net assets	42,321,731	—	(13,483)	42,308,248

Notes:

1. The unaudited consolidated statement of assets and liabilities of the Group as at 30 June 2019 is extracted, without adjustments, from the interim report of the Company for the six months ended 30 June 2019.

2. On 18 December 2019, Shanghai Tongxin and Shanghai Suzuan (each an 80%-owned joint venture company of the Company) entered into the Huahe Agreement and the Huayan Agreement respectively, pursuant to which (i) Shanghai Tongxin will acquire, and the Vendor will sell, the Huahe Sale Interest, representing the 50% equity interest in Shanghai Huahe and (ii) Shanghai Suzuan will acquire, and the Vendor will sell, the Huayan Sale Interest, representing the 50% equity interest in Shanghai Huayan, in each case, for a consideration of RMB2,228 million and RMB2,484.25 million, respectively. The consideration which are attributable to the Group, being RMB3,769.8 million (approximately HK$4,287.2 million) in aggregate, was satisfied by using the Group's internal resources.

   Upon completion of the Acquisition, the Group will hold 50% equity interest in Shanghai Huahe and Shanghai Huayan through the 80%-owned joint ventures, Shanghai Tongxin and Shanghai Suzuan. This interest in joint ventures will be accounted for in the consolidated financial statement of the Enlarged Group by using equity method of accounting in accordance with the Hong Kong Accounting Standard 28 "Investments in Associates and Joint Ventures" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

   The pro forma fair values of the identifiable assets and liabilities of Shanghai Huahe and Shanghai Huayan in relation to the Acquisition are subject to change upon the completion of purchase price allocation at the completion date of the Acquisition, which may be substantially different from their estimated amounts used in the preparation of the Unaudited Pro Forma Financial Information. The entire investment cost in each of Shanghai Huahe and Shanghai Huayan is subject to impairment assessment in accordance with the Hong Kong Accounting Standard 36 "Impairment of Assets" issued by the HKICPA as a single asset, by comparing its recoverable amount with its carrying amount, whenever there are indicators that the investment may be impaired. In the opinion of directors of the Company, there is no impairment on the investment in Shanghai Huahe and Shanghai Huayan as no impairment indicators are identified.

3. The adjustment represents estimated legal and professional fees and other expenses of approximately HK$13,483,000 directly attributable to the Acquisition.

4. For the purpose of this Unaudited Pro Forma Financial Information, the balance stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.8793. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

5. No other adjustments have been made to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 30 June 2019, including the Group's major and connected transaction in relation to a cross boundary transportation joint venture company as disclosed in the Company's announcement dated 6 March 2020. The Group, China Travel International Investment Hong Kong Limited ("**CTII**") and Shun Tak — China Travel Shipping Investments Limited ("**STCTSI**") entered into a series of agreements on 6 March 2020 whereby (i) the Group conditionally agreed to sell 21% equity interest in STCTSI to CTII for a cash consideration of HK$437 million (subject to adjustment); (ii) CTII conditionally agreed to sell China Travel Tours Transportation Development (HK) Limited ("**CTTT**") and CTTT's shareholder loan to STCTSI for a cash consideration of HK$508 million (subject to adjustment); and (iii) the Group conditionally agreed to sell Jointmight Investments Limited ("**Jointmight**") to STCTSI for a cash consideration of HK$55 million (subject to adjustment) (together, the "**STCTSI Transactions**"). Please refer to the Company's announcement dated 6 March 2020 and the section headed "Financial Information of the Group — 4. Financial and Trading Prospect of the Group" of Appendix I to this circular for more details on the STCTSI Transactions including the expected financial impact arising from the STCTSI Transactions.

B. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Shun Tak Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Shun Tak Holdings Limited (the "**Company**") and its subsidiaries (collectively the "**Group**"), together with Shanghai Huahe Real Estate Development Company Limited and Shanghai Huayan Real Estate Development Company Limited (the "**Project Companies**") (collectively the "**Enlarged Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2019 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages V-1 to V-4 of the Company's circular dated 26 March 2020 in connection with the acquisition of 50% equity interest in the Project Companies (the "**Acquisition**") by the two 80%-owned joint ventures of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages V-1 to V-4.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Acquisition on the Group's financial position as at 30 June 2019 as if the Acquisition had taken place at 30 June 2019. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's unaudited condensed consolidated interim financial statements for the period ended 30 June 2019, on which a review report has been issued.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

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

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Our Independence and Quality Control

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

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

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

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

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

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition at 30 June 2019 would have been as presented.

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

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

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

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

Opinion

In our opinion:

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

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

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 26 March 2020

The following is the text of a letter and two valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer and consultant, in connection with its valuation as at 31 December 2019 of the Properties held by Shanghai Huahe Real Estate Development Company Limited (上海華合房地產開發有限公司) and Shanghai Huayan Real Estate Development Company Limited* (上海華筵房地產開發有限公司).*

JLL 仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F One Taikoo Place 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

26 March 2020

The Board of Directors
Shun Tak Holdings Limited (the "Company")
Penthouse 39/F, West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

Dear Sirs,

On 4 December 2019, Shanghai Tongxin Investment Company Limited ("**Shanghai Tongxin**" and Shanghai Suzuan Investment Company Limited ("**Shanghai Suzuan**"), each an 80%-owned joint venture company of the Company, submitted the final bid prices of RMB2,228 million and RMB2,484.25 million for the public tenders of the Huahe Sale Interest and the Huayan Sale Interest respectively, following the receipt of the notifications from the China Beijing Equity Exchange that Shanghai Tongxin and Shanghai Suzuan were the only bidders for the public tenders of the Huahe Sale Interest and the Huayan Sale Interest respectively. Following the winning of the Tenders and obtaining the CRL Waivers, Shanghai Tongxin and Shanghai Suzuan entered into the Huahe Agreement and the Huayan Agreement respectively, pursuant to which (i) Shanghai Tongxin will acquire, and Shenzhen OCT Properties Co., Ltd (the "**Vendor**") will sell, the Huahe Sale Interest, representing the 50% equity interest in Shanghai Huahe Real Estate Development Co., Limited ("**Shanghai Huahe**") and (ii) Shanghai Suzuan will acquire, and the Vendor will sell, the Huayan Sale Interest, representing the 50% equity interest in Shanghai Huayan Real Estate Development Co., Limited ("**Shanghai Huayan**"), in each case, for a consideration equal to their respective final bid prices. Prior to the completion of the above acquisitions, each of Shanghai Huahe and Shanghai Huayan is owned as to 50% by the Vendor and 50% by China Resources Land (Shanghai) Limited, and they are principally engaged in the development of the properties.

In accordance with the Company's instructions to value the property interests held by Shanghai Huahe and Shanghai Huayan in People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 December 2019 (the "**Valuation Date**").

Our valuation is carried out on a market value basis. Market value is defined as "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".

In valuing the properties which were under development as at the Valuation Date by Shanghai Huahe and Shanghai Huayan, we have assumed that they will be developed and completed in accordance with the latest development proposals provided to us by the Company. In arriving at our opinion of values, we have adopted the comparison approach for Property No. 1 and the income approach for Property No. 2 by making reference to comparable sales/rental evidence as available in the relevant market and have also taken into account the accrued construction cost and professional fees relevant to the stage of construction as at the Valuation Date and the remainder of the cost and fees expected to be incurred for completing the development. We have relied on the accrued construction cost and professional fees information provided by the Company according to the different stages of construction of the properties as at the Valuation Date, and we did not find any material inconsistency from those of other similar developments.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interests.

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

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Global Standards 2017 published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, and particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of State-owned Land Use Rights Grant Contract, Construction Land Planning Permits, Real Estate Title Certificates, Construction Work Planning Permits, Construction Work Commencement Permits and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal adviser — King & Wood Mallesons, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

The site inspection was carried out in February 2020 by Ms. Joan Zhu who is China Qualified Land Valuer and has 8 years' valuation experience in the real estate industry of the PRC and Ms. Cynthia Su who has 2 years' valuation experience in the real estate industry of the PRC. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

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

We are instructed to provide our opinion of value as per the Valuation Date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the Valuation Date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, it has come to our attention that since the Valuation Date, the outbreak of Novel Coronavirus (COVID-19) has caused significant disruption to economic activities around the world. This disruption has increased the risk of the rental/income assumptions, which were prepared by us in our valuation without the assumptions of a pandemic, not being achieved. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the date of this report, it is uncertain how long the disruption will last and to what extent it will affect the economy. As a result it causes volatility and uncertainty that values may change significantly and unexpectedly even over short periods. The period required to negotiate a sale may also extend considerably beyond the normally expected period, which would also reflect the nature and size of the property. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this report.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our summary of values and valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Gilbert C. H. Chan
MRICS MHKIS RPS (GP)
Senior Director

Note: Gilbert C. H. Chan is a Chartered Surveyor who has 27 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Property interests held by Shanghai Huahe and Shanghai Huayan in the PRC

No.	Property	Market value in existing state as at 31 December 2019 *RMB*
1.	The property under construction on North Land (Lot No. 33-02) — Project Suhe Bay located at the junction of Shanxi North Road and Tiantong Road, Jing'An District, Shanghai, The PRC	5,096,000,000
2.	The property under construction on South Land (Lot Nos. 44-01, 46-01 and 46-02) — Project Suhe Bay located at the junction of Shanxi North Road & Zhejiang North Road and Tiantong Road, Jing'An District, Shanghai, The PRC	5,649,000,000
	Total:	**10,745,000,000**

VALUATION SUMMARY

Property held under development and for sale upon completion by Shanghai Huahe in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2019 *RMB*
1.	The property under construction on North Land (Lot No. 33-02) — Project Suhe Bay located at the junction of Shanxi North Road and Tiantong Road Jing'An District Shanghai The PRC	The property is located between east of Fujian North Road, west of Shanxi North Road, and north of Tiantong Road, Jing'An District, Shanghai. The locality of the property is a well-developed residential and commercial area that is served by adequate public facilities and transportations on the main road, Tiantong Road. North Land (Lot No. 33-02) of Project Suhe Bay occupies a parcel of land with a site area of approximately 14,845.05 sq.m., which is being developed into a mixed-use development, mainly in residential buildings and office tower, equipped with commercial facilities. The property upon completion comprises two residential buildings (which are 33 stories and 31 stories respectively), one 8-storey resettlement housing, one 23-storey office tower, two 5-storey commercial buildings, a single storey commercial facility, and plus 2-storey basement area. The property was under construction as at the valuation date and is scheduled to be completed in January 2022.	As at the valuation date, the property was under construction.	5,096,000,000

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2019 *RMB*
		As advised by the Company, upon completion, the property will have a total planned gross floor area of approximately 111,949.77 sq.m., and the details are set out as following:		

Usage	Planned Gross Floor Area *(sq.m.)*
Residential (inclusive of resettlement housing)	25,662.28
Office	45,700.78
Commercial	11,586.71
Basement (inclusive of car parking spaces)	29,000.00
Total:	**111,949.77**

As advised by the Company, the development cost (including the land cost) of the property is estimated to be approximately RMB4,594,000,000, of which approximately RMB3,675,000,000 had been incurred up to the valuation date.

The land use rights of the property have been granted for terms expiring on 30 March 2056 for commercial use, 30 March 2066 for office use and 30 March 2086 for residential use.

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hu Zha Gui Tu (2016) Chu Rang He Tong Di No. 1 and a supplementary contract, the land use rights of a parcel of land with a site area of approximately 24,912.90 sq.m. (including the land use rights of the property) were contracted to be granted to Shanghai Huahe and Shanghai Huayan for terms of 40 years for commercial use, 50 years for office, street and alley uses and 70 years for residential use from the land delivery date. The land premium was RMB6,932,000,000.

2. Pursuant to a Construction Land Planning Permit — Hu Jing Di (2018) EA31010620185639, permission towards the planning of a land parcel with a site area of approximately 14,845.1 sq.m. has been granted to Shanghai Huahe and Shanghai Huayan.

3. Pursuant to a Real Estate Title Certificate — Hu (2018) Jing Zi Bu Dong Chan Quan Di No. 019845, the land use rights of a parcel of land with a site area of approximately 14,845.05 sq.m. have been granted to Shanghai Huahe for terms expiring on 30 March 2056 for commercial use, 30 March 2066 for office use and 30 March 2086 for residential use.

4. Pursuant to 3 Construction Work Planning Permits — Hu Jing Jian (2018) FA31010620188058, Hu Jing Jian (2019) FA31010620196633 and Hu Jing Jian (2019) FA31010620196973, in favour of Shanghai Huahe and Shanghai Huayan, the construction work with a total gross floor area of approximately 111,949.77 sq.m. has been approved for construction.

5. Pursuant to 3 Construction Work Commencement Permits — Nos. 1702JA0212D01, 1702JA0212D02 and 1702JA0212D03, in favour of Shanghai Huahe, permissions by the relevant local authority were given to commence the construction work with a total gross floor area of approximately 111,949.77 sq.m.

6. The market value of the property as if completed as at the valuation date according to the development proposal as described above and which can be freely transferred in the market, would be RMB7,467,000,000.

7. Our valuation has been made on the following basis and analysis:

   In undertaking our valuation, we have identified and analyzed various relevant sales evidences in the locality which have similar characteristics as the subject property such as nature, use, layout and accessibility of the property. The selected comparables are residential units, office, commercial units and car parking spaces within newly completed or to be completed buildings located in the area close to the subject property with similary building conditions and facilities and which the transactions were completed in 2019. The unit price of these comparable properties ranges from RMB109,000 to RMB136,000 per sq.m. for residential units, RMB66,000 to RMB75,000 per sq.m. for en-bloc office transactions, RMB82,000 to RMB100,000 per sq.m. for commercial units on the first floor basis and RMB400,000 to RMB500,000 per space for car parking spaces. Appropriate adjustments and analysis are considered to the differences in several aspects including time, location, and physical characteristics between the comparable properties and the subject property to arrive at an assumed unit rate. The general basis of adjustment of physical characteristics like size and layout, and Runall., and the location is that if the comparable property is better than the subject property, a downward adjustment is made. Alternatively, if the comparable property is inferior or less desirable than the subject property, an upward adjustment is made. Regarding to the time adjustment, the market condition between the transaction date of these comparables and the valuation date is considered.

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

   a. Shanghai Tongxin and Shanghai Suzuan (each an 80%-owned joint venture company of the Company) were incorporated under the laws of the PRC with limited liability, and;

   b. Shanghai Tongxin and Shanghai Suzuan are entitled to the qualifications of independent legal entities, and have the right to conduct operational activities;

   c. Upon completion of the Acquisitions, the Company will hold 50% equity interest in Shanghai Huahe and Shanghai Huayan through the 80%-owned joint ventures, Shanghai Tongxin and Shanghai Suzuan, respectively;

   d. Pursuant to a Mortgage Contract, the land use rights of the property are subject to a mortgage in favour of a third party;

   e. Shanghai Huahe is legally and validly in possession of the land use rights of the property. Shanghai Huahe has the rights to occupy, use, lease, transfer or otherwise dispose of the land use rights of the property and upon consent from the mortgagee to transfer, lease, re-mortgage or otherwise dispose of the land use rights of the mortgaged portion of the property;

   f. Shanghai Huahe has obtained related requisite approvals for the construction work of the property from the relevant government authorities.

9. A summary of major certificates/approvals is shown as follows:

a.	State-owned Land Use Rights Grant Contracts	Yes
b.	Real Estate Title Certificate (land part)	Yes
c.	Building Ownership Certificate	N/A
d.	Construction Land Planning Permit	Yes
e.	Construction Work Planning Permits	Yes
f.	Construction Work Commencement Permits	Yes
g.	Pre-sale Permit	N/A
h.	Construction Work Completion and Inspection Certificate/Table	N/A

* *The property was under construction as at the valuation date. The "N/A" mentioned in c, g and h in note 9 stands for not available in current development stage of the property.*

VALUATION SUMMARY

Property held under development and for investment upon completion by Shanghai Huayan in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2019 *RMB*
2.	The property under construction on South Land (Lot Nos. 44-01, 46-01 and 46-02) — Project Suhe Bay located at the junction of Shanxi North Road & Zhejiang North Road and Tiantong Road Jing'An District Shanghai The PRC	The property is located between east of Zhejiang North Road & Fujian North Road, west of Shanxi North Road, south of Tiantong Road, and north of North Suzhou Road, Jing'An District, Shanghai. The locality of the property is a well-developed residential and commercial area that is served by adequate public facilities and transportations on the main road, Tiantong Road. South Land (Lot Nos. 44-01, 46-01 and 46-02) of Project Suhe Bay occupies 3 parcels of land with a total site area of approximately 50,847.27 sq.m., which is being developed into a diversified development, mainly in office tower and underground commercial developments, equipped with historically significant buildings and vast area of public green space. The property upon completion comprises one 42-storey office tower, one 4-storey commercial podium, 3 blocks of underground commercial (which are 4 stories and 3 stories respectively) and vast area of public green space. The property was under construction as at the valuation date and is scheduled to be completed in July 2022.	As at the valuation date, the property was under construction.	5,649,000,000

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2019 *RMB*
		As advised by the Company, upon completion, the property will have a total planned gross floor area of approximately 217,032.95 sq.m., and the details are set out as following:		

Usage	Planned Gross Floor Area *(sq.m.)*
Office	97,259.74
Aboveground Commercial	6,360.28
Underground Commercial	46,988.55
Basement (inclusive of car parking spaces)	66,424.38
Total:	**217,032.95**

As advised by the Company, the development cost (including the land cost) of the property is estimated to be approximately RMB6,622,000,000, of which approximately RMB4,685,000,000 had been incurred up to the valuation date.

The land use rights of the property have been granted for terms expiring on 30 March 2066 for office, street and alley uses and 30 March 2056 for commercial use.

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Hu Zha Gui Tu (2016) Chu Rang He Tong Di No. 1 and a supplementary contract, the land use rights of a parcel of land with a site area of approximately 24,912.90 sq.m. (including the land use rights of the property) were contracted to be granted to Shanghai Huahe and Shanghai Huayan for terms of 40 years for commercial use, 50 years for office, street and alley uses and 70 years for residential use from the land delivery date. The land premium was RMB6,932,000,000.

2. Pursuant to a Construction Land Planning Permit — Hu Gui Di (2018) EA31000020185573, permission towards the planning of 3 land parcels with total site area of approximately 50,847.3, has been granted to Shanghai Huahe and Shanghai Huayan.

3. Pursuant to a Real Estate Title Certificate — Hu (2018) Jing Zi Bu Dong Chan Quan Di No. 015145, the land use rights of a parcel of land (Lot No. 46-02 of the property) with a site area of approximately 10,067.76 sq.m. have been granted to Shanghai Huayan for terms expiring on 30 March 2056 for commercial use and 30 March 2066 for office use.

4. Pursuant to a Real Estate Title Certificate — Hu (2019) Jing Zi Bu Dong Chan Quan Di No. 010629, the land use rights of a parcel of land (Lot No. 44-01 of the property) with a site area of approximately 26,443.34 sq.m. have been granted to Shanghai Huayan for terms expiring on 30 March 2056 for commercial use and 30 March 2066 for street and alley use.

5. Pursuant to a Real Estate Title Certificate — Hu (2019) Jing Zi Bu Dong Chan Quan Di No. 010630, the land use rights of a parcel of land (Lot No. 46-01 of the property) with a site area of approximately 14,336.17 sq.m. have been granted to Shanghai Huayan for terms expiring on 30 March 2056 for commercial use and 30 March 2066 for street and alley use.

6. Pursuant to 6 Construction Work Planning Permits — Hu Gui Jian (2018) FA31000020187199, Hu Gui Jian (2018) FA31000020187368, Hu Gui Jian (2018) FA31000020187473, Hu Gui Jian (2019) FA31000020196928, Hu Gui Jian (2019) FA31000020196929 and Hu Gui Jian (2019) FA31000020197413, in favour of Shanghai Huahe and Shanghai Huayan, the construction work with a total gross floor area of approximately 217,032.95 sq.m. has been approved for construction.

7. Pursuant to 6 Construction Work Commencement Permits — Nos. 1702JA0217D01, 1702JA0217D02, 1702JA0217D03, 1702JA0217D04, 1702JA0217D05 and 1702JA0217D06, in favour of Shanghai Huayan, permissions by the relevant local authority were given to commence the construction work with a total gross floor area of approximately 217,032.95 sq.m.

8. The market value of the property as if completed as at the valuation date according to the development proposal as described above and which can be freely transferred in the market, would be RMB8,769,000,000.

9. Our valuation has been made on the following basis and analysis:

   a. In undertaking our valuation, we have compared with similar developments which are located close to the subject property, for the calculation of market rent in considering the rental income of vacant area;

   b. The unit rent of the comparable office units ranges from RMB8.80 to RMB11.00 per sq.m. per day and the commercial units on the first floor basis ranges from RMB15.00 to RMB20.00 per sq.m. per day; and

c. Based on our research on retail and office property market in the surrounding area of the property, the stabilized retail market yield ranged from 4.0% to 5.0%, and the stabilized office market yield ranged from 3.5% to 4.5% as at the valuation date. Considering the location, risks and characteristics of the property, we have applied a market yield of 4.5% for the commercial developments and a market yield of 3.75% for the office tower as the capitalization rates in the valuation.

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

    a. Shanghai Tongxin and Shanghai Suzuan (each an 80%-owned joint venture company of the Company) were incorporated under the laws of the PRC with limited liability, and;

    b. Shanghai Tongxin and Shanghai Suzuan are entitled to the qualifications of independent legal entities, and have the right to conduct operational activities;

    c. Upon completion of the Acquisitions, the Company will hold 50% equity interest in Shanghai Huahe and Shanghai Huayan through the 80%-owned joint ventures, Shanghai Tongxin and Shanghai Suzuan, respectively;

    d. Pursuant to a Mortgage Contract, the land use rights of Lot No. 46-02 of the property are subject to a mortgage in favour of a third party;

    e. Shanghai Huayan is legally and validly in possession of the land use rights of the property. Shanghai Huayan has the rights to occupy, use, lease, transfer or otherwise dispose of the land use rights of the property and upon consent from the mortgagee to transfer, lease, re-mortgage or otherwise dispose of the land use rights of the mortgaged portion of the property;

    f. Shanghai Huayan has obtained related requisite approvals for the construction work of the property from the relevant government authorities.

11. A summary of major certificates/approvals is shown as follows:

a.	State-owned Land Use Rights Grant Contracts	Yes
b.	Real Estate Title Certificates (land part)	Yes
c.	Building Ownership Certificate	N/A
d.	Construction Land Planning Permit	Yes
e.	Construction Work Planning Permits	Yes
f.	Construction Work Commencement Permits	Yes
g.	Pre-sale Permit	N/A
h.	Construction Work Completion and Inspection Certificate/Table	N/A

* *The property was under construction as at the valuation date. The "N/A" mentioned in c, g and h in note 11 stands for not available in current development stage of the property.*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(1) Directors' Interests

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange were as follows:

(a) Interests of the Directors in Shares and Underlying Shares of the Company

		Number of shares held				
Name of Director	**Nature of Interests**	**Personal interests**	*Note*	**Corporate interests**	*Note*	**Approximate percentage of total issued shares** *Note (i)*
Mr. Norman Ho	Interests in underlying shares	1,132,124	*(ii)*	—		0.04%
Mr. Charles Ho	Interests in underlying shares	1,132,124	*(ii)*	—		0.04%
Ms. Pansy Ho	Interests in issued shares	166,043,937		368,620,627	*(iv)*	17.70%
	Interests in issued shares	—		65,040,000	*(vi)*	2.15%
	Interests in unissued shares	—		148,883,374	*(iii)*	4.93%
Ms. Daisy Ho	Interests in issued shares	89,496,345		134,503,471	*(v)*	7.41%
	Interests in issued shares	—		65,040,000	*(vi)*	2.15%
	Interests in unissued shares	—		148,883,374	*(iii)*	4.93%
Ms. Maisy Ho	Interests in issued shares	38,901,203		31,717,012	*(vii)*	2.34%
Mr. David Shum	Interests in issued shares	5,660,377		—		0.19%

Notes:

(i) As at the Latest Practicable Date, the total number of issued shares of the Company was 3,021,479,785.

(ii) These represented the interests in underlying shares in respect of share options granted by the Company, details of which are disclosed in the 2019 interim report of the Company dated 26 August 2019.

(iii) The 148,883,374 unissued shares in which Ms. Pansy Ho and Ms. Daisy Ho were deemed to hold interests under the SFO, are the same parcel of shares, and represents the maximum amount of consideration shares to be issued to Alpha Davis Investments Limited ("**ADIL**") pursuant to the agreement dated 1 November 2016 in relation to the extension of the long stop date of the sale and purchase agreement dated 11 November 2004 (and the supplemental agreements thereto) regarding the acquisition of sites in Nam Van District, Macau by the Group and the proposed transfer as described in the Company's circular dated 29 November 2016 (the "**Sai Wu Agreement**"). ADIL is owned as to 53% by Megaprosper Investments Limited ("**MIL**") which in turn is owned as to 51% by Ms. Pansy Ho and 39% by Ms. Daisy Ho.

(iv) The 368,620,627 shares in which Ms. Pansy Ho was deemed to hold interests under the SFO, comprised 184,396,066 shares held by Beeston Profits Limited ("**BPL**") and 184,224,561 shares held by Classic Time Developments Limited ("**CTDL**"). Both BPL and CTDL are wholly-owned by Ms. Pansy Ho.

(v) The 134,503,471 shares in which Ms. Daisy Ho was deemed to hold interests under the SFO, were held by St. Lukes Investments Limited, which is wholly-owned by Ms. Daisy Ho.

(vi) The 65,040,000 shares in which Ms. Pansy Ho and Ms. Daisy Ho were deemed to hold interests under the SFO, were the same parcel of shares, held by MIL through its wholly-owned subsidiary, Business Dragon Limited (see note (iii) above).

(vii) The 31,717,012 shares in which Ms. Maisy Ho was deemed to hold interests under the SFO, were held by LionKing Offshore Limited, which is wholly-owned by Ms. Maisy Ho.

(b) Interests of the Directors in Shares and Underlying Shares of Other Associated Corporations of the Company

Name of Director	Name of company	Corporate interests	Percentage of total issued shares *Note (i)*
Ms. Pansy Ho	Shun Tak & CITS Coach (Macao) Limited	1,500 shares	15.00%

Note:

(i) As at the Latest Practicable Date, there was a total of 10,000 shares of Shun Tak & CITS Coach (Macao) Limited in issue.

All the interests disclosed in paragraphs (a) and (b) above represented long position interests in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO). Save as disclosed in the above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company or any of their associates had, or were deemed to hold, any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(2) Interests of substantial Shareholders and Other Persons in the Company

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who were or were expected, directly or indirectly, interested in 5% or more of the issued share capital of the Company were as follows:

Name of shareholder	*Note*	Nature of interests	Capacity	Long position/ short position	Number of shares/ underlying shares held	Approximate percentage of total issued shares *Note (i)*
Renita Investments Limited ("**Renita**") and its subsidiary	*(ii)*	Interests in issued shares	Beneficial owner and interests of controlled corporation	Long position	500,658,864	16.57%

Name of shareholder	Note	Nature of interests	Capacity	Long position/ short position	Number of shares/ underlying shares held	Approximate percentage of total issued shares *Note (i)*
Oakmount Holdings Limited ("**Oakmount**")	*(ii)*	Interests in issued shares	Beneficial owner	Long position	396,522,735	13.12%
Shun Tak Shipping Company, Limited ("**STS**") and its subsidiaries	*(iii)*	Interests in issued shares	Beneficial owner and interests of controlled corporation	Long position	373,578,668	12.36%
Beeston Profits Limited ("**BPL**")	*(iv)*	Interests in issued shares	Beneficial owner	Long position	184,396,066	6.10%
Classic Time Developments Limited ("**CTDL**")	*(iv)*	Interests in issued shares	Beneficial owner	Long position	184,224,561	6.10%
Megaprosper Investments Limited ("**MIL**")	*(v)*	Interests in issued shares	Interest of controlled corporation	Long position	65,040,000	2.15%
	(vi)	Interests in unissued shares	Interest of controlled corporation	Long position	148,883,374	4.93%

Notes:

(i) As at the Latest Practicable Date, the total number of issued Shares of the Company was 3,021,479,785.

(ii) These 500,658,864 shares comprised 396,522,735 shares held by Oakmount, which is wholly-owned by Renita. Accordingly, part of the interest of Renita in the Company duplicates the interest of Oakmount in the Company. Ms. Pansy Ho, Ms. Daisy Ho and Ms. Maisy Ho hold beneficial interests in Renita and Oakmount. Both Ms. Pansy Ho and Ms. Daisy Ho are directors of Renita and Oakmount.

(iii) Ms. Pansy Ho, Ms. Daisy Ho and Mr. David Shum hold beneficial interests in, and are directors of, STS. Ms. Maisy Ho holds beneficial interests in STS.

(iv) Ms. Pansy Ho has 100% interests in and is a director of BPL and CTDL.

(v) MIL is owned as to 51% by Ms. Pansy Ho and 39% by Ms. Daisy Ho. Ms. Pansy Ho and Ms. Daisy Ho are directors of MIL. These 65,040,000 shares are held by Business Dragon Limited, a wholly-owned subsidiary of MIL.

(vi) The 148,883,374 unissued shares represented the maximum amount of consideration shares to be issued to Alpha Davis Investments Limited ("**ADIL**") pursuant to the Sai Wu Agreement. ADIL is owned as to 53% by MIL.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who were or were expected, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

3. DIRECTORS' INTERESTS IN CONTRACTS AND ARRANGEMENTS

(1) Ms. Pansy Ho, Ms. Daisy Ho, Ms. Maisy Ho and Mr. David Shum hold beneficial interests in Sociedade de Turismo e Diversões de Macau, S.A. ("**STDM**"). Ms. Pansy Ho and Mr. David Shum are directors of STDM. Ms. Daisy Ho is an appointed representative of Lanceford Company Limited, which is a corporate director of STDM. Ms. Maisy Ho is an appointed representative of the Company, which is a corporate director of STDM. On 22 February 2019, the Company entered into a renewed master products and services agreement with STDM for a term of 3 years from 1 January 2019 to 31 December 2021 (the "**Renewed Master Products and Services Agreement**"). The Renewed Master Products and Services Agreement set out a framework for the provision of products and services below by the Group to the STDM Group, and vice versa, from time to time on a non-exclusive basis.

- provision of products and services by the Group to the STDM Group including the following:

  (i) sale of ferry tickets;

  (ii) sale of travel and transportation products and provision of travel agency services, including but not limited to hotel accommodation, cruise, taxi services and ticketing;

  (iii) provision of management and operation services to hotels and other hospitality properties and business owned by the STDM Group including but not limited to the Grand Lapa Hotel, the Grand Coloane Resort and Macau Tower Convention & Entertainment Centre;

  (iv) provision of other property related services including but not limited to property management, sale, leasing, project management, cleaning and other services to various properties owned by the STDM Group; and

  (v) provision of business support services including but not limited to laundry, company secretarial services, promotion and advertising, office administrative services and concierge services.

- provision of the products and services by the STDM Group to the Group including the following:

  (vi) sale of travel products including but not limited to hotel accommodation, tourist spot tickets, local tour and helicopter tickets to the travel agency arm of the Group; and

  (vii) provision of business support services including but not limited to towage and associated marine operation services.

(2) Melco Resorts Services Limited ("**MRSL**") is a subsidiary of Melco International Development Limited ("**MID**"). MID is a majority-controlled company (as defined in the Listing Rules) of Mr. Ho, Lawrence Yau Lung, a family member of Ms. Pansy Ho, Ms. Daisy Ho and Ms. Maisy Ho (all being Directors).

On 14 December 2018, Shun Tak — China Travel Ship Management Limited ("**STCTSML**"), an indirect non wholly-owned subsidiary of the Company and MRSL entered into a renewed ferry ticket sales framework agreement (the "**Renewed Ticketing Agreement**") to set out the principal terms and conditions upon which from time to time STCTSML may sell to MID and its subsidiaries ("**MID Group**") and the MID Group may purchase from STCTSML, the tickets for ferry services to and from Macau operated by STCTS and its subsidiaries for a further 3 years from 1 January 2019 to 31 December 2021.

(3) On 27 December 2019, the Company and MGM Grand Paradise Limited, a company in which Ms. Pansy Ho has indirect beneficial interest ("**MGM**") entered into a renewed master service agreement (the "**Renewed MGM Agreement**") for a term of 3 years from 1 January 2020 to 31 December 2022. The Renewed MGM Agreement governs the terms for the provision of products and services, including but not limited to, ferry tickets, travel products and rental of hotel rooms between the MGM and/or its subsidiaries and the Group.

Save for the contracts disclosed in this section, none of the Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

4. DIRECTORS' INTERESTS IN ASSETS AND OTHER INTERESTS

Since 31 December 2018, being the date to which the latest published audited accounts of the Company have been made up and as at the Latest Practicable Date, the Group entered into:

(i) 15 license or lease agreements with STDM. The Group, as licensee or lessee and STDM, as licensor or lessor entered into various agreements for the use of a certain premises in Macau for a term of not exceeding three years from STDM for an aggregate basic annual rent of approximately HK$28.4 million; and

(ii) 27 license or lease agreements with Shun Tak Centre Limited ("**STC**"). As at the Latest Practicable Date, Ms. Pansy Ho, Ms. Daisy Ho, Ms. Maisy Ho and Mr. David Shum are directors of STC. The Group, as licensee and STC, as licensor entered into various agreements for the use of a certain lightboxes and premises at Shun Tak Centre in Hong Kong for a term of not exceeding three years from STC for an aggregate basic annual rent of approximately HK$20.4 million.

Save as disclosed above and in this circular, as at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

5. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. MATERIAL CONTRACTS

The Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular which are or may be material:

(1) the sale and purchase agreement dated 28 August 2018 entered into between Pleasant Grace Limited (an indirect wholly-owned subsidiary of the Company) as buyer, the Company as guarantor of the buyer and Full Energy Company Limited as seller for the acquisition of 100 class A shares of STC, representing 10.0% of the total issued class A shares of STC, for a base consideration of HK$442 million (subject to adjustments), details of which were set out in the announcement of the Company dated 28 August 2018;

(2) the Huahe Agreement;

(3) the Huayan Agreement;

(4) the sale and purchase agreement dated 6 March 2020 entered into between Interdragon Limited (a non wholly-owned subsidiary of the Company) as seller and Dalmore Investments Limited as buyer for the acquisition of 21% of the issued share capital of STCTS (a non wholly-owned subsidiary of the Company), for a consideration of approximately HK$437 million (subject to adjustment), details of which were set out in the announcement of the Company dated 6 March 2020;

(5) the sale and purchase agreement dated 6 March 2020 entered into between STCTS as buyer and China Travel International Investment Hong Kong Limited as seller for the acquisition of (i) the entire issued share capital of China Travel Tours Transportation Development (HK) Limited and (ii) the shareholder's loan owed by China Travel Tours Transportation Development (HK) Limited owed to its shareholder, for a consideration of approximately HK$508 million (subject to adjustment), details of which were set out in the announcement of the Company dated 6 March 2020; and

(6) the sale and purchase agreement dated 6 March 2020 entered into between STCTS as buyer and Shun Tak Tourism Investment Holdings Limited as seller for the acquisition of the entire issued share capital of Jointmight Investments Limited for a consideration of approximately HK$55 million (subject to adjustment), details of which were set out in the announcement of the Company dated 6 March 2020.

7. SERVICE CONTRACTS

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

8. COMPETING INTERESTS

The Directors named in the paragraphs below hold interests in businesses which are considered to compete or likely to compete, either directly or indirectly, with the Group's businesses as at the Latest Practicable Date.

As at the Latest Practicable Date, Ms. Pansy Ho, Ms. Daisy Ho, Ms. Maisy Ho and Mr. David Shum are directors of STC which is also engaged in the business of property investment. As at the Latest Practicable Date, Ms. Pansy Ho and Mr. David Shum are directors of STDM which is also engaged in the businesses of property investment, property development and/or hospitality. Ms. Daisy Ho is an appointed representative of Lanceford Company Limited, which is a corporate director of STDM. Ms. Maisy Ho is an appointed representative of the Company, which is a corporate director of STDM.

The above-mentioned competing businesses are managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's-length from, the businesses of these entities. When making decisions, the relevant Directors, in performance of their duties as Directors of the Company, have acted and will continue to act in the best interests of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any of their respective close associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

9. MATERIAL ADVERSE CHANGE

The Directors are of the opinion that there are no material adverse changes in the financial or trading position of the Group since the date to which the latest published audited accounts of the Company have been made up.

10. EXPERTS AND CONSENT

The following are the qualifications of the experts who have been named in this circular or have given opinions, letter or advices contained in this circular:

Name	Qualification
PricewaterhouseCoopers ("**PwC**")	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**")	independent property valuer

As at the Latest Practicable Date, each of PwC and JLL does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have been, since 31 December 2018 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Each of PwC and JLL has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter, valuation certificate and/or references to its name in the form and context in which they are included.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's registered office at Penthouse 39th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:30 p.m., Mondays to Fridays (except public holidays), for a period of 14 days from the date of this circular:

(a) the articles of association of the Company;

(b) the annual reports of the Company for the financial years ended 31 December 2017 and 31 December 2018 and the interim report of the Company for the six months ended 30 June 2019;

(c) the audited financial statements of Shanghai Huahe for the financial period from 26 July 2016 to 31 December 2016, for the years ended 2017 and 2018 and for the ten months ended 31 October 2019;

(d) the audited financial statements of Shanghai Huayan for the financial period from 26 July 2016 to 31 December 2016, for the years ended 2017 and 2018 and for the ten months ended 31 October 2019;

(e) the accountant's report on the historical financial information of Shanghai Huahe from PwC, the text of which is set out in Appendix II to this circular;

(f) the accountant's report on the historical financial information of Shanghai Huayan from PwC, the text of which is set out in Appendix III to this circular;

(g) the report from PwC in respect of the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;

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

(i) the property valuation report referred to in Appendix VI to this circular;

(j) the written consent of PwC and JLL referred to in the paragraph headed "Experts and Consent" in this appendix;

(k) the circular in relation to the major and connected transaction in relation to a cross boundary transportation joint venture company dated 26 March 2020; and

(l) this circular.

12. MISCELLANEOUS

(a) The secretary of the Company is Ms. Tsang Mei Chu, Angela. She is a fellow member of The Chartered Governance Institute and The Hong Kong Institute of Chartered Secretaries.

(b) The registered office of the Company is located at Penthouse 39th Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong.

(c) The share registrar of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) This circular has been prepared in both English and Chinese. In the case of any discrepancy, the English language text of this circular shall prevail.